



BANGLADESH

VALUE-ADDED TAX EXPENDITURE REPORT

FY2023-2024



National Board of Revenue
Bangladesh

Contributors

Supervisor

Hossain Ahmed

Member, Value-Added Tax (VAT) Policy, National Board of Revenue (NBR)

Team Leader

Abul Bashar Md. Shafiqur Rahman, Commissioner

Principal Contributor

Md. Tariq Hassan, Joint Commissioner

Team Members

Mohammad Hasmat Ali, Additional Commissioner

Dr. S. M. Zahedul Islam Chowdhury, Research Fellow, Bangladesh Institute of Development Studies (BIDS)

Mohammad Marufur Rahaman, Joint Commissioner

Kazi Rezaul Hasan, Deputy Commissioner

Md. Mahraj-Ul-Alam Samrat, Deputy Commissioner

Barrister Md. Bodruzzaman Munshi, Deputy Commissioner

Nazmun Nahar, Deputy Director, Central Intelligence Cell (CIC), NBR

Md. Iftekhar Alam Bhuiyan, Deputy Commissioner

Tarek Mahmud, Deputy Director, CIC, NBR

Shagufta Mahjabin, Second Secretary, NBR

Muhammad Mijanur Rahman Howlader, Deputy Director, Bangladesh Bureau of Statistics (BBS)

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Abul Hassan Mahmud Ali, MP
Honorable Minister
Ministry of Finance
Government of the People's Republic of Bangladesh

Message

I am delighted to learn that the National Board of Revenue (NBR) has undertaken a comprehensive Tax Expenditure Analysis for its Indirect Tax Wing – Value-Added Tax, which delves into the expenditures forgone due to various policy implications. As the apex authority for tax administration in Bangladesh, the NBR shoulders immense responsibilities in meeting revenue targets and fostering economic growth.

In its unwavering pursuit of revenue collection, the NBR consistently prioritizes supporting industrialization and enhancing social welfare by granting VAT exemptions and reduced rates to taxpayers. These measures serve a multitude of purposes, ranging from promoting industrial growth to supporting locally manufactured goods, aiding marginalized communities, and fostering societal equity. However, despite these noble intentions, there have been challenges, such as ensuring evidence-based exemptions, determining appropriate VAT thresholds, and providing reduced rates effectively.

The fact that the NBR has conducted this tax expenditure analysis marks a significant step toward evidence-based decision-making, which is crucial for effective policy formulation. By quantifying and identifying the areas and amounts of tax exemptions, this analysis lays the groundwork for informed decision-making and strategic planning.

Moving forward, it is my hope that the NBR will utilize the insights gleaned from this study to rationalize the exemptions it provides. However, in doing so, it is imperative to ensure that the process prioritizes societal welfare and equity through a fair and transparent tax system. Any efforts to rationalize exemptions should be approached systematically, with careful consideration given to minimizing the impact on marginalized communities.

I firmly believe that the rationalization of exemptions will not only contribute to improved revenue collection but also foster sustainable development and economic prosperity in Bangladesh. Therefore, I trust that the NBR will wholeheartedly commit to devising a comprehensive plan based on the findings of this study and diligently implement it to ensure its effectiveness.

Joy Bangla, Joy Bangabandhu

May Bangladesh Live Forever


Abul Hassan Mahmud Ali, MP



Waseqa Ayesha Khan, MP
Honorable State Minister
Ministry of Finance
Government of the People's Republic of Bangladesh

Message

I am pleased to learn that the National Board of Revenue (NBR) has undertaken a Tax Expenditure Analysis for its Indirect Tax Wing – Value-Added Tax, examining the expenditure forgone due to various policy implications. As the apex authority for tax administration in Bangladesh, the NBR shoulders significant responsibilities to meet revenue targets. In its persistent pursuit of revenue collection, the NBR consistently prioritizes supporting industrialization and enhancing social welfare by granting VAT exemptions and reduced rates to taxpayers. These exemptions serve several purposes, including promoting industrialization, bolstering locally manufactured products, aiding marginalized communities, and fostering societal equity. However, there have been limitations in extending these supports due to the lack of evidence-based decision-making in providing exemptions, determining VAT thresholds, and providing reduced rates.

It's gratifying to know that the NBR has conducted this tax expenditure analysis, setting the cornerstone toward evidence-based decision-making. I hope that the NBR will use the findings of this study to rationalize the exemptions it provides. Nevertheless, we must ensure that any rationalization efforts prioritize societal welfare and equity through a fair tax system. Following a systematic approach to rationalizing exemptions should minimize the impact on marginalized communities. I firmly believe that rationalizing exemptions will positively affect revenue collection, contributing to the development of Bangladesh.

I trust that the NBR will wholeheartedly strive to devise a plan to rationalize exemptions based on the findings of this study and ensure the effective implementation of the action plan derived from it.

Joy Bangla, Joy Bangabandhu
May Bangladesh Live Forever

Waseqa Ayesha Khan, MP



Abu Hena Md. Rahmatul Muneem
Senior Secretary, Internal Resources Division
and
Chairman, National Board of Revenue

Message

In its relentless pursuit of revenue collection, the NBR consistently emphasizes supporting industrialization and enhancing social welfare by granting VAT exemptions and reduced rates to taxpayers. These measures serve diverse objectives, including fostering industrial growth, bolstering locally produced goods, assisting marginalized communities, and promoting societal equity. Nonetheless, challenges persist, such as ensuring evidence-based exemptions, determining appropriate VAT thresholds, and effectively implementing reduced rates.

It brings me great satisfaction that the National Board of Revenue (NBR) has embarked on a thorough Tax Expenditure Analysis for its Indirect Tax Wing – Value-Added Tax, scrutinizing the expenditures forgone due to various policy implications. As the paramount authority for tax administration in Bangladesh, the NBR shoulders significant responsibilities in meeting revenue targets and facilitating economic progress.

The initiation of this tax expenditure analysis by the NBR marks a pivotal moment in the quest for evidence-based decision-making, essential for informed policy formulation and strategic planning. By quantifying and identifying the areas and magnitudes of tax exemptions, this analysis lays the groundwork for informed decision-making and targeted interventions.

Looking ahead, I am optimistic that the insights garnered from this study will guide the NBR in rationalizing the exemptions it offers. However, it is imperative that this process remains committed to advancing societal welfare and equity through a fair and transparent tax regime. Any endeavors to rationalize exemptions should be undertaken systematically, with careful attention given to minimizing adverse impacts on marginalized groups.

I firmly believe that the rationalization of exemptions will not only enhance revenue collection but also foster sustainable development and economic prosperity in Bangladesh. Therefore, I have full confidence that the NBR will dedicate itself wholeheartedly to formulating a comprehensive plan based on the findings of this study and ensuring its effective implementation for the betterment of the nation.

Abu Hena Md. Rahmatul Muneem

Abbreviations and Acronyms

ADB	Asian Development Bank
AT	Advance Tax
BBS	Bangladesh Bureau of Statistics
BTCL	Bangladesh Telecommunication Company Limited
BTRC	Bangladesh Telecommunication Regulatory Commission
BTS	Benchmark Tax System
CBA	Congressional Budget and Impoundment Control Act of 1974
CHT	Chittagong Hill Tracts
COICOP	Classification of Individual Consumption According to Purpose
DCP	Di-Calcium Phosphate
EEBL	Excelerate Energy Bangladesh Limited
EPZ	Export Processing Zone
FSRU	Floating Storage Re-gasification Unit
GDP	Gross Domestic Product
GO	General Order
GoB	Government of Bangladesh
HBS	Household Budget Survey
HIES	Household Income and Expenditure Survey
ICT	Information and Communication Technology
IIG	International Internet Gateway
ITC	International Terrestrial Cable
IMF	International Monetary Fund
IOT	Input-Output Table
IRD	Internal Resources Division
IT	Information Technology
LPG	Liquefied Petroleum Gas
MoF	Ministry of Finance
MP	Member of Parliament
NBR	National Board of Revenue
NPO	Non-Profit Organization
NTTN	Nationwide Telecommunication Transmission Network
OECD	Organization for Economic Co-operation and Development
RMG	Readymade Garment
SD	Supplementary Duty
SRO	Statutory Regulatory Order
SO	Special Order
TE	Tax Expenditure
USAID	United States Agency for International Development

VAT	Value-Added Tax
VATE	Value-Added Tax Expenditure
VTTL	VAT Theoretical Tax Liability
WASA	Water Supply and Sewerage Authority
WDI	World Development Indicators

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Executive Summary

Bangladesh has positioned itself in a stable macroeconomic state and has seen tremendous growth in recent decades. The Government of Bangladesh (GoB) largely relies on the value-added tax (VAT) for the overall development of the country. In particular, the role of VAT as a source of revenue is increasing over the years, accounting for around 36 percent of the revenue from the NBR, and nominal VAT revenue has been steadily increasing over the past few years. However, the low VAT-to-gross domestic product (GDP) ratio suggests significant potential to mobilize more revenue, as a significant portion of the economy and its sectors are subject to various VAT exemptions in the existing VAT legal framework. However, no studies were conducted to assess VAT expenditures (VATEs) in Bangladesh to date, and against this backdrop, the National Board of Revenue (NBR) has taken the initiative to report and calculate VATEs in a systematic manner for the first time.

Estimation of the cost of tax expenditures (TEs) involves defining the benchmark tax system (BTS). For this report, the BTS has been defined after a careful and critical examination of the provisions in the VAT law as well as standard practices followed by other countries. This report has considered the standard 15 percent VAT rate and zero rate for export in the BTS. Moreover, the report covers both nonstructural and structural VAT expenditures. Structural provisions, including VAT registration thresholds, financial services, imputed house rent, and so on, are considered in VATE calculations. This report includes wages and salary, house rent, financial services, and spending on religious activities as 'structural' VAT expenditures. Nonstructural provisions, serving social objectives like health care and education services, are excluded from the BTS and included under the VATE estimates. In estimating VATEs, the revenue forgone method is used in this report, due to data availability issues, although it disregards other related factors such as changes in taxpayer behavior. The estimation of VATEs utilized the Household Income and Expenditure Survey (HIES) data for 2016 and 2022, national accounts data, input-output table (IOT) data, and macroeconomic data from the World Bank's World Development Indicators (WDI) database. Additionally, actual tax revenue data from the NBR and tax treatment data according to the VAT legislation were incorporated. Results show that VATEs amounted to roughly 3.26 percent of GDP in 2022.

The report focuses on estimating both nonstructural and structural VATEs, detailing their impact on GDP and revenue. The findings emphasize the dominance of exemptions listed in the First Schedule of the VAT and SD Act, 2012, and the need for policy revisions to strengthen VAT revenue. The report further examines the trends, relationships, and fluctuations of VAT revenue and expenditure in Bangladesh before and after the COVID-19 pandemic. It estimates both nonstructural and structural VATEs for 2016, 2021, and 2022 using actual HIES consumption data for 2016 and 2022 and extrapolated 2016–17 HIES data to 2021 to reflect current economic conditions. The findings reveal a steady increase in net VAT revenue from BDT 600,590.32 million in 2016 to BDT 1,042,629.74 million in 2022, albeit with a slight decrease as a percentage of GDP over the same period. Post-COVID-19 structural and total VATEs decreased in 2022, potentially due to more efficient allocation of VATEs, changes in tax policy, or perhaps the COVID-19 pandemic. While net VAT revenue has steadily increased over time, the decrease as a percentage of GDP is concerning and necessitates policy revisions to strengthen VAT revenue.

A detailed VATEs inventory has been prepared and presented here, which provides a comprehensive list of TEs, highlighting all tax provisions that deviate from the BTS. This inventory holds significant importance for several reasons. First, it offers insights into the prevalence and extent of TEs within the tax system. Second, even when TEs cannot be accurately costed, reviewing them is crucial to assess whether they have become outdated or redundant. Third, it facilitates the identification and further economic cost-benefit analysis of TE items intended to achieve specific policy goals and economic objectives.

The distributional impact of eliminating specific VATEs has been calculated in the model and included in the report. The model broke down adjusted HIES data by population-weighted, per capita consumption deciles. Total consumption has been calculated by decile for each of the HIES expenditure items. Based on the consumption distribution for each VATE item, Kuznets-type ratios have been calculated by dividing the average consumption share of the top 20 percent of households by that of the bottom 20 percent. This suggests that eliminating potential VATEs from items with higher consumption-based Kuznets ratios could be progressive from a distributional standpoint, while generating more revenue.

Despite several limitations, the report aims to enhance the transparency and accountability in the VAT system, offering valuable insights for policy makers to make informed decisions in fiscal policy formulation. With this in mind, readers, analysts, and policy makers should consider the associated assumptions, caveats, and limitations mentioned in the report while analyzing and interpreting the results for use in any decision-making process. Results show that total VATEs amount to BDT 1,295,701 million (3.26 percent of GDP) in 2022, which is significantly large when compared to NBR or VAT revenue. Therefore, the country's VATE policy needs to be rationalized in the first place. Additionally, it needs to be rigorously analyzed and integrated with the national vision of the country. In particular, the NBR would need to know the amount of revenue forgone resulting from VATEs, with a view to formulating efficient tax policy to mobilize its domestic resources in light of specific socioeconomic objectives. In addition, rationalization of VATEs will not only contribute to improved revenue collection but also foster sustainable development and economic prosperity in Bangladesh. However, any endeavors to rationalize exemptions should be undertaken systematically, with careful attention given to minimizing adverse distributional impacts on marginalized groups.

Section 1. Introduction

Tax systems are intended to collect revenues to finance public expenditures in the most efficient manner as well as to ensure a fair distribution of the tax burden (Redonda 2016). The majority of developing or growing economies, such as Bangladesh, rely mostly on tax revenue to fund government spending (Heady and Mansur 2019). However, governments frequently use the tax systems to promote specific policies. This practice results in tax expenditures (TEs). TEs are government policy measures used in both high- and low-income economies. The notion of TE was introduced by Stanley Surrey, who highlighted the fact that the government support for specific groups or activities is often granted through tax privileges rather than direct spending (Redonda and Neubig 2018).

The analysis of TEs has drawn a lot of interest in recent years. Such studies are primarily concerned with reduction in tax liabilities that arise from different tax benefits such as preferential tax rates, exemptions, deductions, rebates, deferrals, and credits. However, developing nations now face revenue losses greater than they had projected. Thus, the focus lies on developing and emerging economies, where the use of these accounts is still in its early stages due to limitations in data, inadequate financial and human resources, and weak fiscal institutions. Apart from these, tax incentives are used by countries to achieve certain economic, social, or environmental policy goals. These goals include preserving domestic industry, boosting, or impeding the production or consumption of particular goods and services, promoting savings and investments, creating jobs, and supporting the underprivileged (Khan et al. 2023).

TEs are commonly defined as the reduction in tax liability compared with a 'benchmark tax system' (BTS) (International Monetary Fund 2019). In particular, TEs are alternative policy means by which governments deliver financial support to individuals and companies. According to OECD (2010), TEs are transfer of public resources carried out by reducing the tax liabilities of taxpayers relative to a tax system without the benefits to the taxpayers (the benchmark). This definition entails that TEs may take different forms: exemptions, preferential tax rates, deductions, rebates, allowances, credits, rate relief, deferral, and so forth. The use of such instruments implies a reduction in tax revenues. These forgone tax revenues are, in most cases, TEs.

However, the estimation of the Value-Added Tax (VAT) expenditures (VATEs) in Bangladesh has not been inspected until 2023 when an International Monetary Fund (IMF) commissioned study examined more than 180 different VATEs, with a total estimated cost of 3.013 percent of gross domestic product (GDP). It was further spiraled by a compliance gap of 3.43 percent of GDP reflecting the impact of hundreds of exemptions and the option to charge reduced rates on turnover instead of VAT that undermine the multistage input tax credit framework on which a best practice VAT is built (Baar et al. 2023).

This study attempts to analyze revenue forgone resulting from VATEs in Bangladesh. In particular, this TE costing exercise aims to examine the VATEs in 2022. The study has covered 699 consumption expenditure items from the Household Income and Expenditure Survey (HIES) data of 2022 and has estimated the total VATE to be BDT 1,295,701 million, which is 3.26 percent of GDP. However, there are four categories for TEs, namely structural, nonstructural, technical, and quasi-TEs. The focus of this report is on structural and nonstructural TEs. The study has also addressed, under each expenditure head, the wealthy-to-poor

expenditure ratio and the distributional impact for the removal of the exemption showing the behavioral pattern of the consumers at different income levels. Finally, this paper offers some suggestions for improving Bangladesh's TE policy which are intended to serve as a source of information for parliamentarians, government officials, and others who wish to analyze Bangladesh's VAT system. However, the main findings from the VATEs costing exercise are as follows:

- This report covers both nonstructural and structural VAT expenditures.
- Total estimated VATEs amount to BDT 1,295,701 million (3.26 percent of GDP) in 2022.
- The nonstructural VATEs amount to BDT 1,148,299 million (2.89 percent of GDP). However, the nonstructural VATEs as a percentage of GDP increased from 3.47 percent in 2016 to 3.63 percent in 2021 but then decreased to 2.89 percent in 2022.
- Most of the nonstructural VATEs come from Schedule rather than Statutory Regulatory Orders (SROs).
- The structural VATEs amount to BDT 235,392 million (0.59 percent of GDP). However, the structural VATEs as a percentage of GDP remained relatively stable from 2016 to 2022, with a peak of 0.78 percent in 2021 and a low of 0.37 percent in 2022.

This study is divided into eight main sections. The next section (Section 2) presents a literature review outlining the theoretical background. It also highlights the key dimensions of TE, for example, estimation of TE and steps in the process of TE, and finally, it incorporates VATE reporting in Bangladesh based on extant literature. Section 3 discusses VAT BTS in Bangladesh. Section 4 describes VATE inventory. Section 5 highlights methodology and data. Section 6 discusses estimation model and the associated assumptions and caveats related to the costing of VATE. Section 7 is central to the report and presents the VATE costing estimates. It is also devoted to the discussion of the results. Finally, Section 8 presents the conclusion and recommendations of the study.

Section 2. Review of Literature

2.1. Theoretical Background

Bangladesh adopted VAT in 1991, replacing its age-old excise duty on domestically produced goods and services and sales tax at the importation stage, with the specific goals of broadening the tax base, simplifying the tax collection procedure, and reducing tax evasion (Saleheen 2013). The VAT system under 'The Value Added Tax Act, 1991' was functioning with some excise features and to some extent distorted in contrast to commonplace worldwide VAT practices. More specifically, it was often argued that the VAT system of 1991 was complex due to multiplicity of rates, numerous exemptions and thresholds, complex compliance procedures, evasion, and prevalence of the informal economy. The 15 percent standard VAT with input tax credits accompanied by a 4 percent final tax on turnover for businesses (not registered for VAT) and a series of reduced rate taxes on turnover for certain VAT registrants attribute much to the challenges for the determination of a reasonable estimate in this regard. Hence, the new 'VAT and SD Act, 2012'¹ emerges with vast hope and prospects (Khanam et al. 2021). Therefore, such a country's TE policy will need to be rigorously analyzed and integrated with the national vision.

The United States was the first country to implement TE reporting in 1968, but the wealthier western nations have adopted it widely. The governments of the majority of Organization for Economic Cooperation and Development (OECD) members are required to release yearly reports on their TEs. More specifically, global recognition exists for TE reports in particular as a vital instrument for assessing the accountability and transparency of a nation's financial policies. However, the analysis of TEs has drawn a lot of interest in recent years, particularly in developing and transition economies.

2.2. Tax Expenditure

The definition of tax expenditure may vary due to the difference in policy objectives, baseline assumptions, scope, or analytical approaches. Surrey (1976) defined for the first time TE as "departures from the normal tax structure that are designed to favor a particular industry, activity or class of persons." The Congressional Budget and Impoundment Control Act of 1974 (CBA) defines tax expenditures as "the revenue losses attributable to provisions of the Federal tax laws which allow a special credit, a preferential rate of tax, or a deferral of tax liability." In particular, TEs represent an alternative to direct spending for achieving government policy objectives. They are defined as deviations from a BTS. The magnitude of TEs, therefore, depends on how the BTS is defined. The adoption of different definitions of the BTS and other factors may bias cross-country comparisons of TE levels among countries (Fenochietto et al. 2023). TEs take the form of exemptions, deductions, credits, or deferrals that are available to targeted groups of individuals or businesses.

¹ SD = Supplementary Duty.

2.3. Estimation of Tax Expenditure

A solid quantification of TEs is key to evaluate their effects (Redonda 2016). The three main methodologies to measure TEs are (a) revenue forgone approach, (b) revenue gain approach, (c) outlay equivalent approach. First, the revenue forgone approach estimates the amount by which taxpayers have their tax liabilities reduced as a result of a TE based on their actual current economic behavior. Second, the revenue gain approach estimates the additional revenue that would be collected if a TE was removed. Finally, the outlay equivalent approach estimates the government cash outlay required for an alternative direct spending program replacing the TE that would have the same benefit for the taxpayers.

2.4. Steps in the Process of Tax Expenditure Report

Estimation of the cost of TEs involves several steps: (a) defining the BTS, (b) identifying deviation from the BTS, (c) estimating the cost of TEs, and (d) preparing the TE report (Asian Development Bank 2023). First, the BTS serves as a basis for identifying TEs. BTSs typically include such aspects of the actual rate structure of taxes and the concept of income or spending that is used in the actual law. Second, once the benchmark system has been defined, the next step is to identify deviations from it and to list them according to various dimensions. Finally, the estimation of the TEs requires several steps: choosing the methodology, identifying and collecting data, and estimating revenue forgone. The right approach depends on a country's constraints on data availability, information technology (IT), and human resource competence. Apart from these, reporting on TEs is another crucial stage in the TE policy cycle. A well-designed TE report provides revenue forgone estimates along with information on the legal basis, policy goals, targeted beneficiaries, and the respective BTS for every provision. However, the committee for reporting on TEs must be designed to ensure the integrity of the estimate.

2.5. Effects of Tax Expenditures on the Budget

Similar to direct expenditures, TEs affect fiscal budget balance (Swift 2006). First, TEs reduce tax revenue and reduce the overall budget balance like direct expenditures. Second, TEs affect prioritizing fiscal allocations and have a higher priority than direct expenditures. Third, TEs reduce the effectiveness and efficiency of public resource allocations. Fourth, TEs increase the complexity of the tax system. Finally, TEs that are loosely subject to financial discipline/scrutiny provide an opportunity for abuse by government officials and legislators either for self-enrichment or to provide benefits to favored interests. Apart from these, the evaluation of TEs is a key aspect of the TE policy cycle and includes both ex ante assessments and ex post evaluation (Brixi et al. 2002). Government should estimate the fiscal cost or revenue forgone of all TE provisions they use. This task is highly dependent on data availability and hence requires an active role of the tax administration. However, TEs need to be evaluated regarding their effectiveness and efficiency in reaching their stated policy goals. Ideally, such evaluations would be based on a regulatory framework that requires all TEs to be assessed on a regular basis.

2.6. Tax Administration in Bangladesh

The National Board of Revenue (NBR) is the central authority for tax administration in Bangladesh. Administratively, it is the attached department to the Internal Resources Division (IRD) of the Ministry of

Finance (MoF). The main responsibility of NBR is to mobilize domestic resources through the collection of tax revenues (primarily VAT, customs duty, excise duty, and income tax). Moreover, NBR is also responsible for the formulation and continuous reappraisal of tax policies and tax laws. It works with three tax-type wings: Customs Wing, VAT Wing, and Income Tax Wing.

2.7. Value-Added Tax Expenditure Reporting in Bangladesh

Over the past few decades, Bangladesh, an emerging developing nation, has seen notable growth in the revenue sector. Moreover, in recent years, the Government of Bangladesh (GoB) has initiated some administrative and policy reforms in the tax system to augment tax-GDP ratio. However, the performance is still unsatisfactory. One of the most fundamental reasons for low tax-GDP ratio in Bangladesh are widespread exemptions. The IMF report associated the low VAT revenue collection (3.01 percent of GDP) to the large VAT gap which is significantly correlated to the excessive exemptions (72.7 percent of final consumption) and a high VAT registration threshold. However, the collections on exempt supplies, 18.1 percent of VAT revenues, are low by international standards. Hence, a thorough investigation and analysis regarding VATEs is necessary to enhance domestic resource mobilization of the country.

Previously, the World Bank has reported a VAT gap analysis in Bangladesh that captured the 'Compliance Gap' in VAT as the difference between the theoretical tax revenue payable under the law and actual revenue collected by the taxation agency for a defined fiscal period. It enumerated that the VAT gap (the Compliance Gap) can arise from non-reporting of VAT through failure to register or failure to lodge, underreporting of net VAT, and nonpayment of VAT liability. The Compliance Gap is computed with the total amount of expenditure in the Bangladesh economy using National Accounts Expenditure Data that are theoretically liable for the determination of VAT. From that Expenditure Data Set, the appropriate VAT rate was multiplied to obtain the total VAT liability. Further, the legitimate concession in the VAT base (using TE estimates) was removed to determine VAT Theoretical Tax Liability (VTTL). The 'Compliance Gap' was thereby the VTTL less the actual VAT revenue received. It estimated the Compliance Gap of VAT in Bangladesh to be 62 percent, 59 percent, 57 percent, and 56 percent of the theoretical revenue (VTTL) from 2009–10 to 2012–13, respectively. It also shows the international average VAT gap of selected countries from 2000 to 2011 that ranges from 45 percent (in Sweden) to 42 percent (in Romania) while most of the countries mark the ratio below 22 percent. (Rinaudo 2014).

This study is distinct in a few respects. The report is based on HIES conducted by the Bangladesh Bureau of Statistics (BBS). Moreover, the study was conducted in collaboration with the Value-Added Tax Policy Wing of the NBR, which is the main body for direct and indirect tax policy formulation in Bangladesh. It has also compared VATE scenario for both pre- and post-COVID periods for the first time. Therefore, the scope of the study has covered all significant areas of VATEs, for example, exemptions, reduced rates, SROs, and others.

Section 3. VAT Benchmark Tax System

The literature suggests that the BTS should reflect the ideal characteristics of a Value Added Tax (VAT), encompassing a multistage, broad-based tax on final domestic consumption, both public and private, with a uniform tax rate allowing input tax rebate at different stages of supply. Exceptions like exemptions or reduced rates should generally be avoided in the VAT BTS, except for zero-rating exports, as they are not considered part of domestic consumption. This principle, known as destination-based, also necessitates the application of VAT on imports, particularly when the importer acts as the final consumer. Therefore, the VAT BTS should also encompass services not produced but consumed within Bangladesh. Reduced rates in the VAT system are not typically part of the BTS and should thus be treated as TEs. However, reduced rates in VAT may not always result in revenue loss as input tax credit is not allowed. For instance, if goods or service is taxed at a reduced VAT rate and utilized as an intermediate input in production, eliminating this rate may not cause revenue loss if the final product sold to consumers is subject to VAT. Hence, the removal of reduced rates may not necessarily lead to a positive TE but could result in a negative one. Reduced rates on final consumption, occurring at the last stage of the economic process, generate positive TEs, equivalent to the value added in the exempted stage multiplied by the reduction in the VAT rate. Conversely, reduced rates on intermediate consumption may generate negative TEs as well. Hence, eliminating reduced VAT rates can have mixed effects, with positive TEs on final consumption but potentially negative TEs on intermediate consumption due to reduced input tax credits, affecting efficiency and revenue differently.

As mentioned in Section 15 of the Value Added Tax and SD Act, 2012, there are several VAT rates applicable on different goods and services. The rate of 15 percent is mentioned as the standard rate while the other rates (5 percent, 7.5 percent, 10 percent, and so on) are mentioned as reduced rates, and zero rate is applicable for export. The VAT legislation allows input tax credit only where the standard 15 percent rate is applicable. For this report, only 15 percent VAT rate for domestically consumed goods and services and 0 percent VAT rate for export are considered as the benchmark.

Structural provisions. Almost all countries consider structural provisions while calculating VATE. Structural VATEs include VAT registration threshold, financial services, imputed house rent, and so on. This report considered wages and salary; house rent; financial services; spending on religious activities such as Hajj Pilgrimage, Umrah, Zakat, and Fitra; life insurance; charity; and donation as structural VATEs.

Nonstructural provisions. Nonstructural provisions commonly serve social objectives such as exemptions for health care and education services. These measures are typically excluded from the BTS and appropriately include within TE estimates. This method facilitates effective policy making by enabling comparative analyses with direct spending: nonstructural TEs imply revenue losses that could potentially be substituted by direct expenditures such as cash incentives.

Section 4. Value-Added Tax Expenditure Inventory

The VATE inventory serves as a thorough catalog of VAT TEs, pinpointing all tax provisions that diverge from the BTS. Hence, it is important to showcase all TEs first because it offers insight into the prevalence and the extent of TEs within the tax system. Second, even when TEs cannot be accurately costed, it would be essential to review them to assess whether they have become obsolete or redundant. Third, the VATE inventory can help identify candidates for and further economic cost-benefit analysis of the VATE items aimed at achieving certain policy goals and economic objectives. The category-wise lists of VATE inventory items are provided in Annex 1 of this report.

Section 5. Methodology and Data

The methodology for calculating VATE involves several steps. First, it requires identifying all tax provisions that deviate from the Benchmark Tax System (BTS), including exemptions, reduced rates, and structural/nonstructural measures. Next, data on these provisions, including their costs and impact on revenue, are gathered and analyzed. This process helps determine the extent of TEs within the VAT system.

VATEs can be measured in the following three principal ways:

- **The revenue forgone approach** measures how much tax revenue is reduced (relative to the BTS) because a TE exists. It is an ex post measure of the cost of a particular tax concession that compares the current treatment and the benchmark treatment, assuming taxpayer behavior is unchanged.
- **The revenue gain approach** measures how much revenue could increase if a particular tax concession were removed. Accurate estimation of this cost would include the secondary or behavioral effects associated with such a change.
- **The outlay equivalence approach** estimates how much direct expenditure would be needed to provide a benefit equivalent to the TE. This approach measures the expenditure required, in pretax dollars, to achieve the same after-tax dollar benefit as a TE where the direct expenditure receives the tax treatment appropriate to that type of income in the hands of the recipient.

Among these methods, the most frequently used method of estimation is the revenue forgone method.

Calculating VATE involves several steps. First, it requires identifying all tax provisions that deviate from the BTS, including exemptions, reduced rates, and nonstructural measures. Next, data on these provisions, including their costs and impact on revenue, are gathered and analyzed. VATEs are typically estimated using macroeconomic data such as Household Survey Data supplemented by information from national accounts like input-output tables (IOTs) since household surveys offer more detailed data for estimating the impact of eliminating specific VAT exemptions. On the other hand, VAT return data can be utilized to estimate total VATEs, provided they contain separate information of sales to final consumers and intermediate entities, along with input tax data related to supply of taxable and exempt goods and services and whether the businesses dealing with fully exempt supplies are legally bound to register and file VAT tax returns. However, it should be noted that aggregated VAT return data may not differentiate by type of goods and services, hindering the simulation of revenue mobilization scenarios which can be overcome by using Household Budget Survey (HBS) data as HBS data can lead to producing a comprehensive commodity-wise expenditure catalog. Overly aggregated VAT return data may lead to overestimation of VATEs due to duplication, such as exempt imports by VAT-registered taxpayers, since exempt imports used as inputs for producing VAT-exempt goods and services are prone to double counting along the production and supply chain. HBS data, if used for estimating VATEs, should ideally account for revenue losses due to noncompliance and complement final consumption data with detailed data on capital and intermediate consumption from IOTs.

For this report, the revenue forgone method has been used considering the data availability issues although this method disregards other related factors, such as a change in taxpayers' behavior. The HIES data for 2016 and 2022, the national accounts data, the IOT data, and macroeconomic data from the World Bank's World Development Indicators (WDI) database and the actual revenue data and tax treatment data collected from the NBR and the VAT Act have been used to estimate the VATEs in this report considering the fact that VAT return data are not readily available and also not disaggregated to the required level for this study.

Section 6. Estimation Model for Value-Added Tax Expenditure

6.1. The Model

This report utilized an Excel-based model (the VATE Model) following the steps below to estimate the VATEs from 2016 to 2022:

- VATEs for 2022, presented later in the report, have been estimated based on consumption expenditures data, obtained from HIES 2022 conducted by the BBS, the statistical wing of the government. This analysis relied on 2022 HIES microdata on consumption expenditures at the household level for as granular a set of products as possible. Consumption expenditure data for a sample of nearly 14,000 households were obtained from HIES 2022. In particular, this analysis used data on daily and weekly food consumption expenditure as well as monthly and annual nonfood consumption. These sections disaggregate among 261 food and 438 nonfood expenditure items, for a total of 699 consumption expenditure item categories. This level of detail in the HIES has facilitated commodity-wise calculation of VAT estimation since actually reported consumption expenditure items are aligned with the list of VAT-exempt items in accordance with the existing VAT Act. In terms of data processing, the 2022 HIES expenditure data were annualized. First, the daily and weekly (food) expenditure data were divided by the number of days and weeks over which they were reported in the HIES. Second, the resulting (average) daily and weekly data were multiplied by 365 and 52, respectively, to arrive at annual food expenditure by item, while monthly nonfood expenditure data were multiplied by 12. The same process has been applied to calculate the 2016 VAT expenditure by using the 2016 HIES microdata on consumption expenditures. However, consumption expenditures for a sample of over 46,000 households were sourced from Section 9 of the HIES in 2016, but the consumption data were disaggregated into 149 food and 226 nonfood expenditure items, totaling 375 different categories as compared to 699 items in HIES 2022. Moreover, to compare the pre- and post-COVID-19 VATE estimates, this report processed and aged the 2016 HIES data to 2021 to reflect economic conditions specific to 2022 following the same principle mentioned above by scaling up all consumption expenditures uniformly using the ratio of 2021 to 2016 total private consumption data² in Bangladesh, assuming that the household consumption composition remained constant from 2016 to 2021

Analytically, VATE estimation can be presented by the equations below:

$$V_{Exp(nominal)} = \sum_{i=1}^n Ci \times \left[\frac{V_B}{100+V_B} \right] - \sum_{i=1}^n Ci \left[\frac{V_R}{100+V_R} \right] \text{ and}$$

$$V_{Exp(percent\ of\ GDP)} = \frac{V_{Exp(nominal)}}{GDP(nominal)} \times 100,$$

² <http://data.worldbank.org/indicator/NE.CON.PRVT.PC.KD>.

where

$V_{Exp(nominal)}$ = VAT Expenditure in nominal term (BDT, millions),

$V_{Exp(percent\ of\ GDP)}$ = VAT Expenditure in percent of GDP,

C_i = Annualized consumption expenditure of households on item 'i' reported in the HIES data,

V_B = Benchmark VAT Rate (15%),

V_R = Applicable VAT rate as per the provision of the VAT law (zero if exempt), and

n = Number of consumption expenditure items reported in the HIES.

- To account for VAT paid on inputs for exempt goods and services, relevant national IOT data from the Asian Development Bank (ADB)³ have been used in this report. The data enabled sector-specific analysis of national accounts data and potential VAT estimates from exemptions and zero ratings at the commodity level.
- The estimates have been calibrated with aggregated national accounts data. Specifically, estimates of final aggregated private consumption and corresponding VAT revenue collections aligned with actual net VAT revenues as percent of GDP collected in 2016–17 were 2.73 percent, 2020–2021 were 2.76 percent, 2021–2022 were 2.73 percent, and 2022–2023 were 2.63 percent.⁴ This calibration accounted for VAT on taxable inputs for exempt goods and services, small VAT-exempt taxpayers, and noncompliance.
- Finally, the distributional impact of eliminating specific VAT exemptions has been calculated in the model. The model broke down adjusted HIES data (as previously discussed) by population-weighted, per capita consumption deciles. Total consumption has been calculated by decile for each of the HIES expenditure items. Based on consumption distribution for each item, Kuznets-type ratios have been calculated by dividing the average consumption share of the top 20 percent of households (last two deciles) by that of the bottom 20 percent (first two deciles). A higher consumption-based Kuznets ratio for a VATE item suggests it is more heavily consumed by wealthier households. Eliminating potential VAT exemptions from items with higher consumption-based Kuznets ratios would be progressive while generating additional revenue. To identify such opportunities, the model ranked all consumption expenditure items by their consumption-based Kuznets ratios, in descending order.

6.2. Assumptions and Caveats

The estimation and analysis presented in this report is subject to various assumptions and caveats. A more accurate estimate, even a static one, would require access to detailed data that are not readily available.

³ <https://data.adb.org/dataset/bangladesh-input-output-economic-indicators>.

⁴ Annual Report, National Board of Revenue, Bangladesh.

Ideally, disaggregated household expenditure item data would need to be accurately mapped to a list of exempt consumption items according to the VAT treatment as mentioned in the First Schedule, various SROs, and other legal provisions of the VAT and SD Act, 2012. Additionally, more granular IOT data would be necessary to facilitate a more precise alignment with both the household survey consumption expenditure data and the VAT law provisions. Furthermore, more reliable, accurate, and methodologically sound estimates of VAT noncompliance could have predicted a more realistic estimation and hence enhanced the quality of the VATE estimates in the model used in this report. The calculation and analysis are based on the following assumptions and limitations:

- The IOT does not provide specific information on the VAT treatment of different sectors (the VAT law specifies exemptions for specific goods and services and groups of goods and services).
- While calculating VATE for 2021, the composition of consumption expenditures in 2021 is assumed to be the same as in 2016–17 (as per the 2016–17 HIES data). It is also assumed that relative prices of consumption items remain constant over time.
- Each VATE is estimated separately, assuming all other VATEs remain unchanged.
- The methodology does not consider potential household behavioral responses following the removal of a specific VATE, aligning with the ‘revenue forgone’ approach, and disregarding dynamic tax effects.
- VAT compliance is assumed to remain constant at the level observed from 2016 to 2022 under the existing legal system and is unaffected by the removal of VATEs.
- Estimates are uniformly calibrated to total VAT revenue collections meaning the actual composition of VATEs may practically differ from the model's output.
- In many cases, the VAT law specifies different VAT treatments for a specific good or service depending on the stage of supply such as manufacturing, wholesale, retail, or trading stage, but this model could not capture these dynamic tax treatments. Rather, the model assumed that a particular good or service is subject to either the benchmark VAT rate (that is, 15 percent) or any other single (reduced) VAT rate or is exempt based on the most prominent consumption composition of that particular good as mentioned in the HIES data.
- Since the HBS data have been used to calculate the VATE in the model, ideally, specific data on the value added of taxpayers under the VAT registration threshold (who are VAT-exempt) had to be identified and excluded from the tax base to reach a more accurate estimate which could not be addressed in the model. The model simplistically assumed the entire household private consumption as its tax base disregarding the fact that some portion of the consumption expenditure might have been reported from the VAT-exempt businesses which operate below the VAT threshold.
- Despite the highest levels of efforts given for ensuring the accuracy of the estimation, the results of the estimation should be interpreted with caution, as the data used for analysis are sensitive to changing economic parameters—in practice, behavior of the beneficiaries of the TE measures

remains under the influence of a number of economic factors and regulatory actions of the state, which modify the reality in which the beneficiaries operate.

While the model and analysis are contingent on various assumptions, they offer initial insights into VATEs in Bangladesh. This evidence serves as a foundation for further exploration of VATEs in the nation and subsequent adjustments based on the availability of more comprehensive or current data.

Section 7. Value-Added Tax Expenditure Cost Estimates

The data reveal that the difference between VAT-inclusive and VAT-exclusive consumption is BDT 1,542,199 million, which represents an effective VAT rate of 5.96 percent on private consumption. While the net revenue from VAT is 2.63 percent of GDP, the nonstructural VATEs alone amount to 2.89 percent of GDP. The majority of these expenditures (2.65 percent of GDP) are related to exemptions given by the First Schedule of the VAT and SD Act, 2012, while expenditures related to exemptions given by various SROs contribute only 0.24 percent of GDP. This clearly highlights that most of the nonstructural VAT expenditures come from the Schedule rather than SROs. The estimation also shows that the implied structural VATEs are 0.37 percent of GDP, which, when combined with noncompliance, amount to 0.59 percent of GDP. In terms of gross calculations, net VAT revenue is 2.63 percent of GDP while gross nonstructural and structural VAT expenditures amount to 3.26 percent of GDP. This suggests that there is a larger share of VATEs relative to the net VAT revenue collected indicating the needs and potential areas for VAT policy review and optimization measures by the NBR.

This report estimates the nonstructural and structural VAT expenditures of Bangladesh following the above methodology and using the 2022 HIES data. The estimation summary is shown in Table 1:

Table 1. Estimation Summary

Indicator	Value
General Calculations	
2022 VAT-Inclusive (Gross) Private (Household and NPO) Consumption (BDT, millions)	27,435,269
2022 VAT-Exclusive (Gross) Private (Household and NPO) Consumption (BDT, millions)	25,893,070
Delta Post- versus Pre-VAT (Gross) Private (Household and NPO) Consumption (BDT, millions)	1,542,199
Effective VAT Rate on Private Consumption (%)	5.96
Calculations based on NBR's Tax Data (Net of Structural VATEs)	
2022 Net Revenue (BDT, millions)	1,042,630
2022 Net Revenue (% 2022 GDP)	2.63
2022 Nonstructural VATEs (BDT, millions)	1,148,299
2022 Nonstructural VATEs (% 2022 GDP)	2.89
of which resulted from Schedule (BDT, millions)	1,053,749
of which resulted from Schedule (% 2022 GDP)	2.65
of which resulted from SRO (BDT, millions)	61,027
of which resulted from SRO (% 2022 GDP)	0.24
2022 Structural VATEs (BDT, millions), Implied	147,402
2022 Structural VATEs (% GDP), Implied	0.37
2022 Structural VATEs (BDT, millions) + Noncompliance	235,392
2022 Structural VATEs (% GDP) + Noncompliance	0.59
Calculations based on NBR's Tax Data (Gross)	
2022 Net Revenue (BDT, millions)	1,042,630
2022 Net Revenue (% 2022 GDP)	2.63

Indicator	Value
2022 VATEs (BDT, millions)	1,295,701
2022 VATEs (% 2022 GDP)	3.26

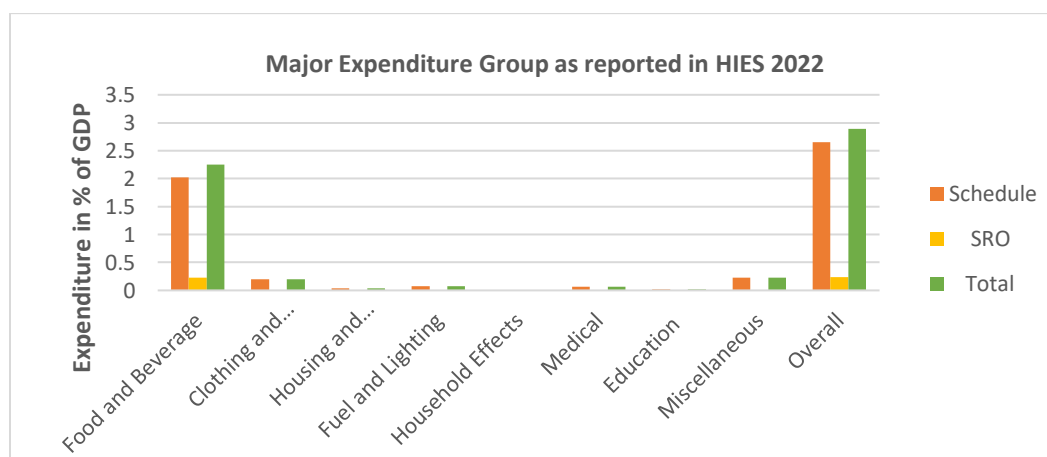
7.1. Estimation of Nonstructural VATE by Major Expenditure Group and Tax Regime

Nonstructural VATEs are oriented toward the achievement of given economic development and/or social policy goals and are relatively easier to rationalize. Hence, this report estimates nonstructural VATEs by major expenditure group of households as presented in the HIES report and also maps the tax legislation (that is, First Schedule and SROs) which relates to the source of VAT expenditure in any given category of the spending group. **Table 2** summarizes the estimation result.

Table 2. Total Nonstructural VATEs by Major Expenditure Group and Regime, 2022 (in percent of GDP)

Group Regime	Schedule	SRO	Total
Food and Beverage	2.02	0.23	2.25
Clothing and Footwear	0.20	0.00	0.20
Housing and Housing Rent	0.04	0.00	0.04
Fuel and Lighting	0.08	0.00	0.08
Household Effects	0.00	0.00	0.00
Medical	0.07	0.00	0.07
Education	0.02	0.00	0.02
Miscellaneous	0.23	0.00	0.23
Overall	2.65	0.24	2.89

Figure 1. Total Nonstructural VATEs by Major Expenditure Group and Regime, 2022 (in percent of GDP)



The data in Table 2 are presented in percent of GDP, with each expenditure group further broken down by the source of VAT exemptions: Schedule (0.65 percent) and SRO (0.24 percent), leading to the total

nonstructural VAT expenditure of 2.89 percent of GDP. A closer examination of each expenditure group is as follows:

- **Food and beverage.** This is the largest category, contributing a total of 2.25 percent of GDP in VATE. Most of this comes from the Schedule (2.02 percent), with a smaller amount from the SRO (0.23 percent). This suggests that a significant portion of food and beverage consumption is either VAT exempt or subject to reduced VAT rates, reflecting the essential nature of these goods. It may be beneficial to further assess in detail and item-wise to check whether the level of TEs in this category is aligned with policy goals.
- **Clothing and footwear.** The expenditure in this category is significantly lower than food and beverage, accounting for 0.20 percent of GDP, all from the Schedule. There are no exemptions from the SRO.
- **Housing and housing rent.** This category represents only 0.04 percent of GDP in VATE, all of which comes from the Schedule.
- **Fuel and lighting.** This accounts for 0.08 percent of GDP in VAT expenditure, again entirely from the Schedule.
- **Household effects.** There is no VATE recorded in this category (0 percent). This could imply that these items are not considered essential, are less subject to tax exemptions, or have different tax treatments.
- **Medical.** Medical expenses account for 0.07 percent of GDP in VATE, all coming from the Schedule. The relatively low percentage in medical expenses might indicate a moderate level of VAT exemption for medical goods and services.
- **Education.** This category shows the lowest VATE of 0.02 percent of GDP, all from the Schedule.
- **Miscellaneous.** This category accounts for 0.23 percent of GDP in VATE, all from the Schedule. The differences in VATEs across categories suggest varying levels of tax exemptions or reductions based on the perceived necessity of different goods and services.

Overall, the total nonstructural VATE across all categories amounts to 2.89 percent of GDP, with the vast majority (2.65 percent) coming from the Schedule and a smaller amount (0.24 percent) from SRO.

7.2. Estimation of Distributional Impact of Given VATEs by Kuznets Ratio

This report calculated the Kuznets-type ratios by dividing each item's average consumption share reported in HIES 2022 data (in economy-wide consumption) of the top 20 percent of households (last two deciles) by that of the bottom 20 percent (first two deciles) to measure the distributional impact of the given VATEs. A higher Kuznets ratio indicates that the item is consumed relatively more by wealthier households (top 20 percent). Since there are different VAT rates in Bangladesh, higher rates might affect different consumption items differently depending on income levels and the consumption patterns of various

income groups. Similarly, as items categorized as ‘Exempt’ are not subject to VAT, these items might have different consumption patterns across income levels compared to items that are subject to different VAT rates. Hence, eliminating potential VATEs from items with higher consumption-based Kuznets ratios would be progressive from a distributional perspective and is likely to mobilize more revenue. This report ranked all 699 consumption expenditure items as reported in HIES by their consumption-based Kuznets ratios, in descending order, but only the top 50 items in terms of Kuznets ratio are presented in Table 3.

Table 3. Ranking of VATEs by Kuznets Ratio, 2022 (BDT, millions and percent of GDP for top 50 items in terms of ratio level)

S. No.	COICOP Code	COICOP Description	Kuznets Ratio	Applicable VAT Rate (%)	VATE (mm BDT)	VATE (% GDP)
1	1111115	Burger/hot dog/sharma	6,105	5.00	1,402	0.00
2	1111121	Pasta/noodles	2,105	5.00	807	0.00
3	56212	Housekeeper's bill (<i>chhuta bua</i>)	2,026	E	0	0.00
4	53112	Washing machine	1,170	15.00	0	0.00
5	1111119	Fried/grilled chicken/ seekh kebab/chap/	990	5.00	1,142	0.00
6	991112	Income tax	955	E	0	0.00
7	56219	Other (specify)	923	15.00	0	0.00
8	11932	Soup	561	15.00	0	0.00
9	81011	Postal service	556	15.00	0	0.00
10	56117	Air freshener	530	15.00	0	0.00
11	96012	Cost of Hajj/pilgrimage	433	E	0	0.00
12	44412	Bills payable to authority/housing	424	15.00	0	0.00
13	71111	Private cars/jeeps/microbuses/ van	411	15.00	0	0.00
14	121211	Electric trimmer	405	15.00	0	0.00
15	11759	Others (for example, processed garlic, sweet)	351	15.00	0	0.00
16	112119	Others (tips, porter costs, and so on)	350	E	18	0.00
17	53118	Floor cleaner	313	15.00	0	0.00
18	61216	Syringe	296	15.00	0	0.00
19	1111120	Pizza	284	5.00	1,025	0.00
20	56211	Household Salary (month based)	274	E	0	0.00
21	111118	Soup	243	5.00	395	0.00
22	44411	Lift (repair/use)/security expenses	239	15.00	0	0.00
23	11921	Hot tomato sauce/Ketchup	228	5.00	132	0.00
24	31311	Tie	204	5.00	36	0.00

S. No.	COICOP Code	COICOP Description	Kuznets Ratio	Applicable VAT Rate (%)	VATE (mm BDT)	VATE (% GDP)
25	92311	Expenditure on repair of equipment used	195	10.00	10	0.00
26	113118	Air	189	5.00	1,155	0.00
27	1111118	Fried chicken	179	5.00	911	0.00
28	11523	Dalda	176	15.00	0	0.00
29	116120	Pears	169	5.00	219	0.00
30	991114	Paying Zakat	165	E	0	0.00
31	72412	Toll fee	162	15.00	0	0.00
32	53212	Blender machine	158	15.00	0	0.00
33	11522	Ghee	155	15.00	0	0.00
34	61215	Bandages	155	15.00	0	0.00
35	11532	Peanut butter	151	15.00	0	0.00
36	55111	Electric drill machine	143	15.00	0	0.00
37	61313	Surgical belt	139	15.00	0	0.00
38	96011	Package vacation/travel expenses	135	15.00	0	0.00
39	51115	Bookshelf	124	15.00	0	0.00
40	93312	Natural trees (garden/ornamental)	121	E	220	0.00
41	11931	Baking powder	120	15.00	0	0.00
42	11321	Shrimp (big)	114	E	3,993	0.01
43	31216	Suit/blazer	112	5.00	854	0.00
44	104112	Private (undergraduate, postgraduate,)	107	15.00	0	0.00
45	1111117	Chicken sandwich	107	5.00	433	0.00
46	56114	Floor cleaning disinfectant powder/	105	15.00	0	0.00
47	94212	Entrance fee for historical places/	104	E	795	0.00
48	12114	Horlicks	93	15.00	0	0.00
49	32129	Others	84	15.00	0	0.00
50	1111110	Biryani/tehri/khichuri/fr ied rice	81	5.00	3,903	0.01

Source: Estimates using 2022 HIES data. Applicable VAT rates are according to the Value Added Tax and SD Act, 2012.

Note: COICOP = Classification of Individual Consumption According to Purpose; E = 'VAT-exempt'.

Kuznets ratios calculated by dividing each 2022 HIES item's average consumption share (in economy-wide consumption) of the top 20 percent of households (last two deciles) by that of the bottom 20 percent (first two deciles). A higher consumption-based Kuznets ratio for a given consumption expenditure item implies that the item is consumed relatively more by wealthier households.

The results presented in Table 3 reveal that the items with high Kuznets ratios, such as 'burger/hot dog/sharma', 'pasta/noodles', and 'fried/grilled chicken' are consumed disproportionately more by the wealthier 20 percent of households whereas they attract a reduced VAT rate at 5 percent. This suggest that the NBR management and the lawmakers can consider adjusting VAT rates for items with high Kuznets ratios to address income (consumption) inequality as well as mobilize additional revenue. Overall, the data

show how Kuznets ratios can reveal income inequality in terms of consumption patterns and how VAT rates and expenditures affect different income groups. Policy makers can use this information to create targeted tax policies that promote economic fairness and address income inequality, especially by adjusting VAT rates and exemptions on specific items based on consumption patterns.

7.3. Comparison and Analysis of Pre- and Post-COVID Expenditure Estimates

To compare and analyze the trends, relationship, and fluctuations of VAT revenue and VATE of Bangladesh in the pre- and post-COVID period, this report has estimated the nonstructural and structural VAT expenditures of Bangladesh for 2016, 2021, and 2022 following the methodology mentioned above. Actual HIES consumption data were used for 2016 and 2022 estimates whereas the 2016 HIES data were processed and extrapolated to 2021 to calculate the 2021 estimates so that they reflect the true economic conditions in Bangladesh. The summary result of the year-wise estimation is shown in Table 4.

Table 4. Pre- and Post-COVID VAT Revenue versus VATE Comparison of Bangladesh

Indicator	2022	2021	2016
Net VAT Revenue (BDT, millions)	1,042,629.74	942,423.60	600,590.32
Net VAT Revenue (% GDP)	2.63	2.67	2.89
Nonstructural VATEs (BDT, millions)	1,148,299.00	1,282,718.00	720,855.24
Nonstructural VATEs (% GDP)	2.89	3.63	3.47
Structural VATEs (BDT, millions), Implied	147,402.38	274,603.93	154,320.44
Structural VATEs (% GDP), Implied	0.37	0.78	0.74
Structural VATEs (BDT, millions) + Noncompliance	235,391.88	438,594.36	246,478.91
Structural VATEs (% GDP) + Noncompliance	0.59	1.24	1.19
Total VATEs (BDT, millions)	1,295,701.35	1,557,322.4	875,175.68
Total VATEs (% GDP)	3.26	4.43	4.22

The result presented in Table 4 shows that the net VAT revenue increased steadily from BDT 600,590.32 million in 2016 to BDT 1,042,629.74 million in 2022. While this shows a general upward trend in nominal VAT revenue collection over the years, it is notable that the net VAT revenue as a percentage of GDP has decreased slightly from 2.89 percent in 2016 to 2.63 percent in 2022 suggesting that although net VAT revenue has increased in absolute terms, its relative contribution to GDP has decreased. Nonstructural VATEs have increased from BDT 720,855.24 million in 2016 to BDT 1,148,299 million in 2022, peaking in 2021 to BDT 1,282,718 million. The increase in 2021 may be due to additional spending for COVID-19-related measures. Nonstructural VATEs as a percentage of GDP increased from 3.47 percent in 2016 to 3.63 percent in 2021 but then decreased to 2.89 percent in 2022. This trend suggests that while nonstructural VATEs increased during the pandemic, they have been slightly curtailed in 2022. Structural VATEs increased from BDT 154,320.44 million in 2016 to BDT 274,603.93 million in 2021 but then decreased to BDT 147,402.38 million in 2022. This indicates efforts to improve VAT compliance and reduce expenditures on structural issues. Structural VATEs as a percentage of GDP remained relatively stable from 2016 to 2022, with a peak of 0.78 percent in 2021 and a low of 0.37 percent in 2022. The 2022 figure

suggests potential improvements in compliance and VAT management. Total VATE increased from BDT 875,175.68 million in 2016 to BDT 1,557,322.4 million in 2021, and then decreased to BDT 1,297,701.35 million in 2022. Total VATE as a percentage of GDP increased from 4.22 percent in 2016 to 4.4 percent in 2021 and then decreased to 3.26 percent in 2022. This could be due to the efforts to improve VAT compliance and reduce expenditures as well as due to the change of the consumption pattern of the households and the economy induced by the COVID-19 pandemic. It needs further detailed study to identify the exact reason for this decrease in VATE in 2022 as compared to 2016 which is beyond the scope of this report.

Figure 2 further breaks down the pre- and post-COVID VAT revenue collection and VATE estimates in terms of percentage of GDP.

Figure 3 further decomposes the pre- and post-COVID VAT revenue collection and VATE estimates in absolute local currency terms.

Figure 2. Pre- and Post-COVID VAT Revenue versus VATE Comparison of Bangladesh in percent of GDP

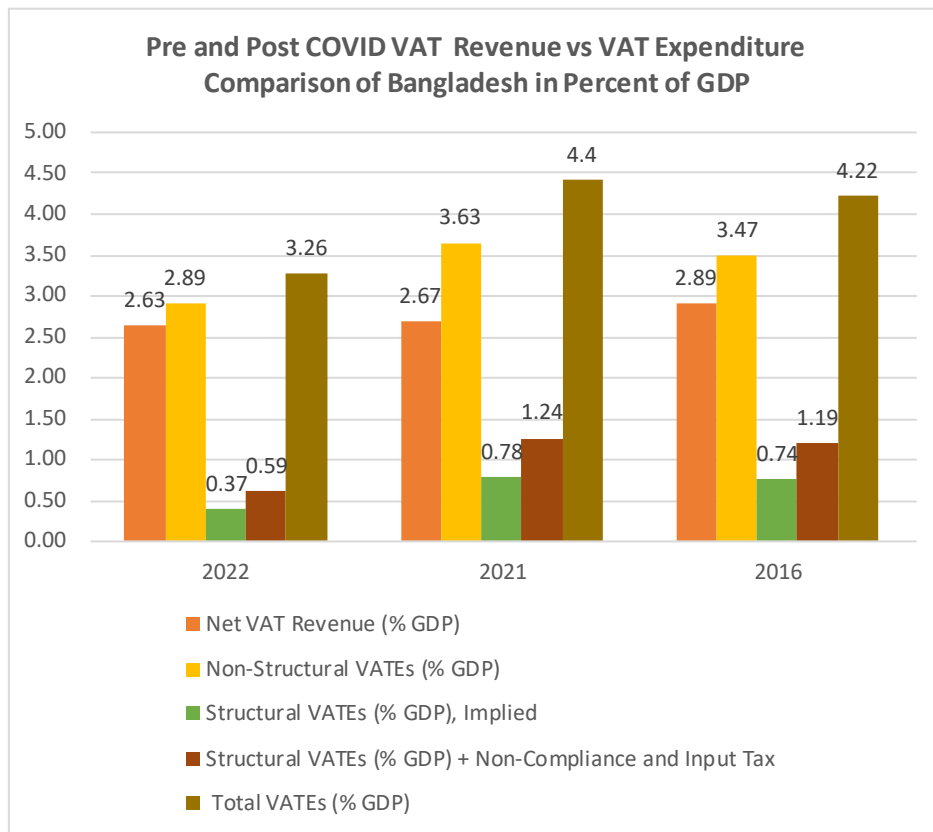


Figure 3. Pre- and Post-COVID VAT Revenue versus VATE Comparison of Bangladesh in nominal value (BDT, millions)

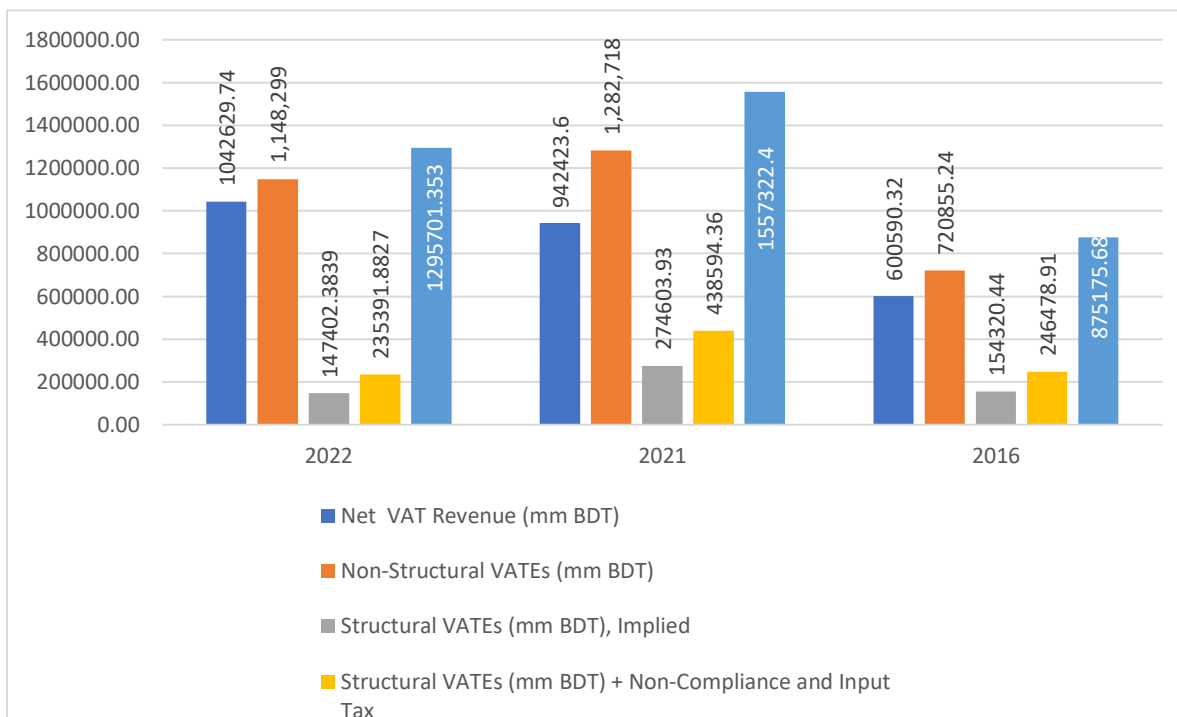


Figure 3 reveals trends in VAT revenue and expenditure in Bangladesh over 2016, 2021, and 2022. Changes in these metrics suggest shifts in economic conditions, VAT management, and policy adjustments in response to events such as the COVID-19 pandemic. Comparing 2021 (post-COVID) to 2016 (pre-COVID), a higher percentage of nonstructural VATEs in 2021 is observed suggesting that the pandemic might have prompted an increase in VAT exemptions or benefits to support the affected sectors such as medical and health care. Nonstructural VATEs saw a substantial increase in 2021, likely due to COVID-19-related support measures, and have since declined in 2022, possibly as these measures are wound down.

Post-COVID, structural VATEs and total VATEs show a decrease in 2022, which could possibly be due to more efficient allocation of VATEs or changes in tax policy to improve the overall efficiency as well as the change in consumption patterns of the people. Net VAT revenue has increased steadily from BDT 600,590.32 million in 2016 to BDT 1,042,629.74 million in 2022. The growth indicates an improvement in VAT collection over the period suggesting improved VAT collection efficiency over the years. Particularly, the increase of net VAT revenue from BDT 942,423.6 million in 2021 to BDT 1,042,629.74 million in 2022 suggests a post-pandemic recovery in VAT collection. However, the consistent decrease in net VAT revenue as a percentage of GDP remains a matter of concern indicating the need for policy revisions to bolster VAT revenue. Structural VATEs have fluctuated, with an increase from BDT 154,320.44 million in 2016 to BDT 274,603.93 million in 2021, followed by a decrease to BDT 147,402.38 million in 2022. Total VATE increased from BDT 875,175.68 million in 2016 to BDT 1,297,701.35 million in 2022. The general upward trend in total VATE indicates an increase in the government's use of VAT revenue for expenditures.

In general, there is evidence of improved VAT revenue collection over the years and changes in expenditure patterns likely in response to the COVID-19 pandemic. The parliamentarians can use this information to direct future fiscal strategies and ensure efficient allocation of VAT revenue and expenditures to support the economic development and recovery of Bangladesh.

Section 8. Conclusion and Recommendations

A TE report plays a crucial role in shaping fiscal policy and managing government finances. It enables thorough scrutiny of tax policies, similar to how public spending is examined. Enhanced transparency in fiscal management is a major benefit of TE reporting. It highlights the significance of TEs in the government's financial position, emphasizing their importance alongside traditional expenditure. It serves as an important tool, shedding light on how exemptions and deviations from the BTS influence government revenue and the overall economic landscape. Notably, the Value-Added Tax Wing of the NBR has embarked on a pioneering effort to systematically report and calculate VATEs for the first time. In this report, an attempt has been made to define the VAT BTS, identifying structural and nonstructural VATEs, listing items in a VATE inventory, and estimating the cost of VATEs for major consumption spending categories based on the latest available data.

According to the findings of the report, VATEs constituted approximately 3.26 percent of GDP in 2022, a substantial figure in comparison to the NBR tax revenue. Most of these VATEs (2.65 percent of GDP) stem from exemptions listed in the First Schedule of the VAT and SD Act, 2012, with exemptions granted by various SROs being equal to 0.24 percent of GDP. This emphasizes that exemptions given in the Schedule dominate nonstructural VATEs. Additionally, the estimated (implied) structural VATEs stand at 0.37 percent of GDP, which, when combined with noncompliance, total 0.59 percent of GDP. The report also presents nonstructural VATEs by major household expenditure group such as food and beverage, clothing and footwear, housing and house rent, fuel and lighting, household effects, medical, education, and other miscellaneous items as presented in the BBS HIES report.

Furthermore, this report ranked all consumption expenditure items as reported in the HIES by their consumption-based Kuznets ratios to understand the distributional impact and equity aspects of VATE measures. In addition, to facilitate the comparison and analysis of VATE trends, relationships, and fluctuations in Bangladesh before and after the COVID-19 pandemic, for the first time, this report presented both nonstructural and structural VATE cost estimates for 2016, 2021, and 2022. Post-COVID-19, structural VATEs and total VATEs show a decrease in 2022, which could possibly be due to more efficient allocation of VATEs or changes in tax policy to improve the overall efficiency as well as a change in the household consumption patterns (possibly triggered by the COVID-19 pandemic). Net VAT revenue has increased steadily from BDT 600,590.32 million in 2016 to BDT 1,042,629.74 million in 2022. However, the consistent decrease in net VAT revenue as a percentage of GDP is concerning, indicating the necessity for policy revisions to strengthen VAT revenue.

Hence, it becomes imperative to assess whether VATEs align with valid government objectives and priorities. Specifically, the TE policies of a nation warrant thorough scrutiny and integration into the broader national strategy. While there is room for improvement in VATE reporting in Bangladesh, the results in this report point to the following recommendations:

- **Rationalization of VATEs.** The NBR should streamline the exemptions it provides, establishing a realistic and sustainable framework. This ensures an effective tax system while upholding fiscal

accountability and transparency, with due consideration given to minimizing adverse effects on marginalized communities.

- **Elimination of inefficient VATEs and creating scope for revenue mobilization.** Identifying and rationalizing VATEs failing to meet policy objectives allows for revenue enhancement at a low economic/welfare cost. Hence, the long list of various exemptions should be revisited, and all nonstructural VATEs should be costed and accounted for by the NBR. It should be further scrutinized why the VATE in percent of GDP terms remains higher than the VAT-GDP ratio despite there being continuous growth in VAT revenue over the years in nominal terms.
- **Redefining eligibility criteria for VATEs.** Since poorly targeted VATEs usually fail to meet policy objectives, clear and well-defined criteria for granting these VATEs can ensure benefits are directed to the intended beneficiaries and can meet pre-defined policy objectives. Hence, the NBR should scrutinize the existing criteria for allowing VATEs.
- **Evaluation of VATE distributional impacts.** Policy makers can evaluate the distributional impact of VAT exemptions to create targeted tax policies that promote economic fairness and address income inequality, especially by adjusting VAT rates and exemptions on specific items based on consumption patterns.
- **Conduct of periodic VATE assessment and evaluations.** Regular assessments of revenue forgone due to VATEs should be conducted annually as part of efficient tax policy formulation and published as part of the regular budget process.
- **Streamlining input tax credit and VAT refund processes.** The NBR should consider simplifying the input tax credit claims system and expediting VAT refund processing to mitigate the need for excessive VATEs.

With the aim to increase the transparency and accountability of the VAT system in Bangladesh, for the first time, the NBR has aimed to estimate VATEs through this report to incorporate the result and analysis of the estimation exercise into the FY 2023–24 budget. This VATE report is an essential tool for policy makers, providing valuable insights into the fiscal and economic impact of existing VATEs enabling lawmakers to enhance transparency, assess policy effectiveness, promote accountability, improve decision-making, and examine the distributional impact of various VATE-related measures and, as such, would lead them to informed and evidence-based decision-making while formulating fiscal policies in the future.

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Annex 1. Value Added Tax Expenditure Inventory under First Schedule of the Value Added Tax and SD Act 2012

Table 1.1. Goods Exempted from VAT

S. No.	Expenditure Description	Legal Reference
1	Manufacture and production of all goods mentioned in the Second Schedule of the Narcotics Control Act, 2018	Section 26 and First Part of the First Schedule of the VAT and SD Act, 2012 Second Schedule of Narcotics Control Act, 2018
2	Prescribed basic food items for human consumption	Section 26 and First Part of the First Schedule of the VAT and SD Act, 2012
3	Unprocessed agricultural, horticultural, or pisciculture products	Section 26 and First Part of the First Schedule of the VAT and SD Act, 2012
4	Prescribed goods used as inputs to agriculture, horticulture, or pisciculture	Section 26 and First Part of the First Schedule of the VAT and SD Act, 2012

Table 1.2. Services Exempted from VAT

S. No.	Expenditure Description	Legal Reference
1	Basic services required for living	Section 26 and Second Part of the First Schedule of the VAT and SD Act, 2012
(a)	Preparation and cultivation of agricultural land	
(b)	Irrigation in agricultural land	
(c)	Activities of applying pesticides and insecticides in agricultural land	
(d)	Storage and preservation of agricultural goods (except cold storage and warehousing services)	
(e)	Packing or sorting or cutting of food grains, vegetables etc.	
(f)	Preservation and distribution of agricultural seeds (except cold storage and warehousing services)	
(g)	Preservation of meat of animals and birds (except cold storage and warehousing services)	
(h)	Fishing, gathering of aquatic species, and extracting aquatic resources	
(i)	Storage and preservation of fish, aquatic species, and aquatic resources (except cold storage and warehousing services)	
2	Social welfare-oriented services	Section 26 and Second Part of the First Schedule of the VAT and SD Act, 2012
(a)	Medical and health care services provided by the government	
(b)	Medical and health care services provided by private bodies	
(c)	Education and training provided by the government	
(d)	Activities for preventing environmental pollution	
(e)	Rehabilitation activities not carried out for commercial purpose	
(f)	Social development activities not carried out for commercial purpose	
(g)	Old home/rehabilitation center and childcare services	
(h)	Research activities conducted by the government with government finance (except consultancy firm and supervisory firm and survey organization)	
(i)	Government and private orphanage	

S. No.	Expenditure Description	Legal Reference
(j)	Social welfare activities related to autism not carried out for commercial purpose	
(k)	Publication of braille for the visually impaired people	
3	Services relating to culture	Section 26 and Second Part of the First Schedule of the VAT and SD Act, 2012
(a)	Broadcasting and telecasting in radio and television (except video cassette shop, video game shop, video and audio recording shop, advertising agency, publicity of advertisement, and broadcasting of program through satellite channel and online media)	
(b)	Printing and publication of book, newspaper, magazine, and government gazette (except services of printing press and binding agencies)	
(c)	Artworks, cultural activities, sports, and sports competition not conducted for any commercial or professional purpose (except sports organizer, film studio, film show, cinema hall, and film distributor)	
(d)	Entrance fee to library, all types of museums, art gallery, zoo, and botanical garden (except lessee [Izaradar])	
(e)	Organizer of cultural functions (except community center, organizer of entertaining cultural function with foreign artists and performers, sports organizer, and renting out of sound and lighting instruments)	
(f)	Shooting club and all types of social, cultural, and sports-related club (except lessee and hotel and restaurant, decorators and caterers, community center, sweetmeat shop, cinema hall, beauty parlor, health club and fitness center, renting out of sound and lighting instruments, audio cassette shop, video game shop, video and audio recording shop, and social clubs where membership fee is over BDT 10,000)	
(g)	Entrance fee of fair and exhibition relating to agricultural goods or orchard or firm, animals and birds, fish, aquatic animals and aquatic resources, wild animals and forest resources, art, literature, technology, engineering, and so on (except lessee and hotel and restaurant, decorators and caterers, community center, sweetmeat shop, cinema hall, beauty parlor, health club and fitness center, and renting out of sound and lighting instruments)	
4	Services relating to finance and financial activities	Section 26 and Second Part of the First Schedule of the VAT and SD Act, 2012
(a)	Services related to deposit and savings by banks or financial institutions	
(b)	Life insurance policy	
(c)	Stock and security exchange	
(d)	Activities related to settlement of share and stock trading	
5	Transportation services	Section 26 and Second Part of the First Schedule of the VAT and SD Act, 2012
(a)	Services of passenger transportation (except in air-conditioned/air-cooled bus, launch and railway service, and rent-a-car)	
(b)	Services of goods transportation (except the services of shipping agent, freight forwarders, transport contractors, and courier service)	
(c)	Airlines (except the organization renting out chartered aircraft and helicopter)	
(d)	Ambulance service (engaged in carrying patients and dead body)	
(e)	Air ambulance service	
6	Personal services	
(a)	Services provided by journalist, actor, singer, performer in radio and television, writer, professional sportsman, dancer, translator, astrologer, typist, marriage registrar, match-making organization, plumber, wood worker, mason, and electrical worker (except consultancy firm and supervisory firm, survey organization, and immigration adviser)	

S. No.	Expenditure Description	Legal Reference
(b)	Researcher relating to educational matters, researcher relating to technical matters, and services provided by computer experts (except consultancy firm and supervisory firm and survey organization)	Section 26 and Second Part of the First Schedule of the VAT and SD Act, 2012
(c)	Services provided by harbor pilot including pilots of internal waterways and services provided by drivers of all types of transportation	
(d)	Services provider by designers (except architect, interior designer or interior decorator, graphic designer, engineering firm, consultancy firm, and supervisory firm).	
7	Other services	Section 26 and Second Part of the First Schedule of the VAT and SD Act, 2012
(a)	Services provided to all types of religious rituals, functions, places, and establishments	
(b)	Services of postal communication (except courier service and express mail service)	
(c)	All types of charity and scientific activities provided in public interest	
(d)	Manual laundry (except the laundry services provided in hotel, mechanized laundry, and dry-cleaning activities)	
(e)	Activities of pesticides and insecticides	
(f)	Activities under the 'Food for Work (Kabikha)' and 'Money for Work (Kabita)' programs conducted by the Union Parishad Authority under the social safety net	

Table 1.3. VATE Inventory under SROs

S. No.	Expenditure Description	Objective	Year When First Introduced	Existing Legal Reference
1.	Exemption of VAT on production of air conditioner and its compressors subject to fulfillment of certain conditions	To attract investment and to promote local air conditioner manufacturing industry	2019	SRO 173/Ain/2019/30-Mushak Date: 13.06.2019
2.	Exemption of VAT on production of refrigerator, freezer, and its compressors subject to fulfillment of certain conditions	To attract investment and to promote local refrigerator manufacturing industry	2019	SRO 174/Ain/2019/31-Mushak Date: 13.06.2019
3.	Exemption of VAT on production stage of active pharmaceutical ingredients and laboratory reagents (conditional)	To facilitate and to promote pharmaceutical industry	2019	SRO 178/Ain/2019/32-Mushak Date: 13.06.2019
4.	Exemption of VAT on production stage of polypropylene staple fiber (conditional)	To facilitate and to promote packaging/ automotive industry	2019	SRO 179/Ain/2019/36-Mushak Date: 13.06.2019
5.	Exemption of VAT on utility bills (gas, water, and electricity) and services provided by procurement providers for the companies investing in the economic zones	To promote investment in economic zones	2019	SRO 190/Ain/2019/47-Mushak Date: 13.06.2019
6.	Exemption of VAT on certain services of export-oriented organizations located in export processing zone (EPZ)	To promote and to attract investments in economic zones	2019	SRO 188/Ain/2019/45-Mushak Date: 13.06.2019

S. No.	Expenditure Description	Objective	Year When First Introduced	Existing Legal Reference
7.	Exemption of VAT on different services of export-oriented organizations located in EPZ	To promote and to attract investments in economic zones	2019	SRO 189/Ain/2019/46-Mushak Date: 13.06.2019
8.	Exemption of VAT on different services for investors in hi-tech park	To promote and to facilitate investments in domestic IT and information and communication technology (ICT) sectors	2019	SRO 191/Ain/2019/48-Mushak Date: 13.06.2019
9.	Exemption of VAT on the supply of cigarette for the navy	To facilitate navy officers while in service	2019	SRO 193/Ain/2019/50-Mushak Date: 13.06.2019
10.	Exemption of VAT on the supply of cigarette for navy officials deputed on Bangladesh Coast Guard Sea vessels	To facilitate navy Officers while in service	2019	SRO 194/Ain/2019/51-Mushak Date: 13.06.2019
11.	Diplomatic exemption for embassy and diplomats on telephone, telex fax, and Water Supply and Sewerage Authority (WASA) services	Vienna Convention on Diplomatic Relations and Protocol	2019	SRO 203/Ain/2019/60-Mushak Date: 13.06.2019
12.	VAT and SD exemption on observing the national day of foreign missions	Vienna Convention on Diplomatic Relations and Protocol	2019	SRO 204/Ain/2019/61-Mushak Date: 13.06.2019
13.	Exemption of VAT on manufacturing mobile phone	To promote and to facilitate mobile phone manufacturing industries	2019	SRO 229/Ain/2019/65-Mushak Date: 30.06.2019
14.	Exemption of VAT (over certain amount/percentage) on certain goods and services	To promote and facilitate building construction and other respective sectors	2019	SRO 320/Ain/2019/82-Mushak Date: 13.10.2019
15.	Exemption of VAT (over BDT 800 per MT) for manufacturing MS products (for cutting and bending, stirrup, or welded mesh)	To promote and to facilitate MS product industry	2020	SRO 100/Ain/2020/94-Mushak Date: 25.03.2020
16.	Exemption of VAT for manufacturing lift and for importing its associated raw materials	To promote and to facilitate lift manufacturing industries	2020	SRO 109/Ain/2020/102-Mushak Date: 14.05.2020
17.	Exemption of VAT for production of gas, condensate, and petroleum products under production-sharing contract with the government	To facilitate gas, condensate, and petroleum products manufacturing industries	2020	SRO 173/Ain/2020/118-Mushak Date: 23.06.2020

S. No.	Expenditure Description	Objective	Year When First Introduced	Existing Legal Reference
18.	Exemption of VAT on providing International Terrestrial Cable (ITC), International Internet Gateway (IIG), and Nationwide Telecommunication Transmission Network (NTTN) services	To promote and to facilitate the IT and ICT sectors		SRO 237/Ain/2020/121-Mushak Date: 25.08.2020
19.	Exemption of VAT (over 7.5%) on production stage of containers for compressed or liquefied gas, iron, or steel (liquefied petroleum gas [LPG] cylinder)	To ensure price stability and uninterrupted supply chain at the domestic market	2020	SRO 259/Ain/2020/122-Mushak Date: 24.09.2020
20.	Exemption of VAT for manufacturing and supply of di-calcium phosphate (DCP)	To facilitate domestic poultry and dairy sector	2021	SRO 39/Ain/2021/131-Mushak Date: 11.02.2021
21.	Exemption of VAT for manufacturing washing machine, microwave oven, and electric oven and for importing and local purchasing of associated raw materials and accessories	To facilitate and to promote local industries of such products	2021	SRO 148/Ain/2021/145-Mushak Date: 03.06.2021
22.	Exemption of VAT for manufacturing blender, juicer, mixer, grinder, electrical kettle, iron machine, rice cooker, multi cooker, and pressure cooker and for importing and local purchasing of associated raw materials and accessories	To facilitate and to promote local industries of such products	2021	SRO 149/Ain/2021/146-Mushak Date: 03.06.2021
23.	Exemption of VAT on SUKUK Islamic Bond (conditional)	To attract and to facilitate investment for Shariah-compliant bond	2021	SRO 294/Ain/2021/165-Mushak Date: 07.09.2021
24.	Exemption of VAT on exploration and production of natural gas and mineral oil under production-sharing contract on certain specific blocks	To facilitate exploration and production activities in this sector	2021	SRO 357/Ain/2021/167-Mushak Date: 13.12.2021
25.	Exemption of VAT on the production stage and supply stage of refined soybean oil and palm oil	To ensure price stability and uninterrupted supply chain of edible oil in domestic consumer market		SRO 50/Ain/2022/170-Mushak Date: 14.03.2022
26.	Exemption of VAT on manufacturing and import stage of motor and motor vehicle production	To attract investment and to promote motor and motor vehicle production	2022	SRO 165/Ain/2022/178-Mushak Date: 01.06.2022
27.	Exemption of VAT (over 5%) on manufacturing four-stroke three-wheeler and on import stage of its related parts and accessories	To ensure less polluting economic mode of mass transportation	2022	SRO 180/Ain/2022/193-Mushak Date: 01.06.2022

S. No.	Expenditure Description	Objective	Year When First Introduced	Existing Legal Reference
28.	Exemption of VAT for importing raw materials of maintenance-free and sealed maintenance-free batteries with idling stop/start-stop technology manufacturing industry	To attract investment and to facilitate production of such car batteries	2022	SRO 181/Ain/2022/194-Mushak Date: 01.06.2022
29.	Exemption of VAT (over 5%) for local manufacturing stage of Labsa and Sles	To facilitate the production of cosmetics and toiletries products	2022	SRO 229/Ain/2022/201-Mushak Date: 28.06.2022
30.	Exemption of VAT (over 5%) on meditation service	To facilitate meditation service	2022	SRO 230/Ain/2022/202-Mushak Date: 28.06.2022
31.	Exemption of VAT at manufacturing stage of various products and services (conditional)	To facilitate the underprivileged sect of the society, promote the local industries, secure consumer markets, and ensure uninterrupted supply of life-saving emergency items, and so on	2023	SRO 136/Ain/2023/213-Mushak Date: 13.03.23
32.	Exemption of VAT (over 5%) on software manufacturing	To facilitate the domestic IT and ICT sectors	2023	SRO 154/Ain/2023/231-Mushak Date: 21.05.23
33.	Exemption of VAT (over 5%) on manufacturing stage of optical fiber cable production	To facilitate the domestic IT and ICT sectors	2023	SRO 155/Ain/2023/232-Mushak Date: 21.05.23
34.	Exemption of VAT (over 5%) on manufacturing stage of ball point pen production	To promote and to facilitate domestic industries and to ensure availability and price stability in consumer markets	2023	SRO 204/Ain/2023/237-Mushak Date: 21.05.23

Table 1.4. VATE Inventory under General Orders (GOs)

S. No.	Expenditure Description	Objective	Year When First Introduced	Existing Legal Reference
1.	Exemption of VAT on various services regarding private-public partnership (conditional)	To promote and to facilitate private-public partnership	2019	GO 11/Mushak/2019 Date: 13.06.2019
2.	Exemption of VAT on various services provided to the Rooppur Nuclear Power Plant	To facilitate a fast-track project of the GoB	2019	GO 12/Mushak/2019 Date: 13.06.2019
3.	Exemption of VAT for supplying readymade garment (RMG) products under subcontract agreement between bonded factories (conditional)	To facilitate RMG sectors	2022	GO 8/Mushak/2022 Date: 01.06.2022

Table 1.5. VATE Inventory under Special Orders (SOs)

S. No.	Expenditure Description	Objective	Year When First Introduced	Existing Legal Reference
1.	Exemption of VAT on space rent for Asian University for Women established under the Asian University for Women Act 2016	To facilitate Asian University for Women which is a foreign-funded non-profitable organization dedicated for the education of underprivileged women in society	2019	SO 15/Mushak/2019 Date: 22/09/2019
2.	Exemption of VAT on supplies and services received by various United States Agency for International Development (USAID)-funded projects in Bangladesh (conditional)	Done according to the provisions under the bilateral agreement between United States of America and the GoB to exempt VAT under projects funded by the USAID and its prime partners	2019	SO 17/Mushak/2019 Date: 16.10.2019
3.	Exemption of VAT, SD, and AT for the project of establishing Floating Storage Re-gasification Unit (FSRU) under the Implementation Agreement between Energy and Mineral Resources Division and Excelsior Energy Bangladesh Limited (EEBL)	To facilitate the project to ensure uninterrupted supply of power, energy, and gas	2017	SO 18/Mushak/2019 Date: 12.12.2019
4.	Exemption of VAT and SD and AT for the project of establishing FSRU capable of producing 500 MMCF daily by Summit LNG Terminal co. (Pvt.) under the Quick Enhancement of Electricity and Energy Supply (Special Provisions) Act 2010	To facilitate the project to ensure uninterrupted supply of power, energy, and gas	2019	SO 19/Mushak/2019 Date: 12.12.2019
5.	Exemption of VAT on construction and operation of five floating hospital projects implemented by Friendship, operated by ADB and funded by Fael Khair Program in Bangladesh (conditional)	To facilitate the project which aims to provide a wide range of health care services to poor people in hard-to-reach char areas of Bangladesh	2019	SO 22/Mushak/2019 Date: 22.12.2019
6.	Exemption of VAT on lease documents registry for plot number 5th and 7th allocated to the Embassy of Nepal, Dhaka in Road Number 1, G Block at Baridhara Diplomatic Zone	Vienna Convention on Diplomatic Relations, 1961	2020	SO 03/Mushak/2020 Date: 23.01.2020

S. No.	Expenditure Description	Objective	Year When First Introduced	Existing Legal Reference
7.	Exemption of VAT on selling books except for supplier	Promote book as means of education and research	2020	SO 07/Mushak/2020 Date: 12.02.2020
8.	Exemption of VAT on dredging and subcontractor of the public-private partnership project 'Capital and Maintenance Dredging of Rabanabad Channel' in Payra Bandar	To facilitate a fast-track project of the GoB	2020	SO 21/Mushak/2020 Date: 08.11.2020
9.	Exemption of VAT on supplier service of construction aid materials bought under the Development Assistance for Special Area (except Chittagong Hill Tracts [CHT]) implemented by the Prime Minister's Office (conditional)	To facilitate housing development project for the homeless and the displaced and to promote income-generating activities among them	2020	SO 23/Mushak/2020 Date: 08.12.2020
10.	Exemption of VAT on Revenue between the Bangladesh Telecommunication Regulatory Commission (BTRC) and mobile operators following conditions provided at the 2G and 3G license approval (with retrospective effect from first of July 2019)	To avoid double taxation. Mobile operators already pay 15% VAT on the charge they receive from users.	2021	SO 01/Mushak/2021 Date: 27.01.2021
11.	Exemption of VAT of over 7.5% on 4G license issuance or renewal or royalty or technology neutrality fee (when applied on 2G and 3G license) or spectrum fee with retrospective effect from first of July 2019 (condition applied)	To protect public interest	2021	SO 02/Mushak/2021 Date: 16.02.2021
12.	Exemption of VAT including VAT at source on preservation, sales, transportation, distribution, and vaccination program of COVID-19 vaccines	To protect the countrymen from deadly coronavirus	2021	SO 03/Mushak/2021 Date: 03.03.2021
13.	Exemption of VAT on the subscription fee for database and online electronic journals used by researchers, scientists, and academia community of Bangladesh Academy of Science	To facilitate the prime organization for research and scientific professionals to promote and represent the country toward international scientific community	2021	SO 17/Mushak/2021 Date: 25/10/2021

S. No.	Expenditure Description	Objective	Year When First Introduced	Existing Legal Reference
14.	Exemption of VAT on house rent for Bangladesh Thalassemia Foundation	Huge economic burden is caused while treating this deadly disease, and Bangladesh Thalassemia Foundation provides cheaper medication and medical services to such patients.	2021	SO 18/Mushak/2021 Date: 19/09/2021
15.	Exemption of VAT on house rent by Bandhu Social Welfare Society	Bandhu Social Welfare Society works for the development and benefit of the <i>Hijra</i> and gender-variant sect of the society. It is a non-profitable service-providing organization.	2022	SO 06/Mushak/2022 Date: 20.03.2022
16.	Exemption of VAT for service charges provided by overseas companies to the Bangladesh Telecommunication Company Limited (BTCL) for internet bandwidth, Google and Facebook peering, Inmarsat, and international outgoing telephone call services paid in foreign currencies (with retrospective effect from July 1, 2019)	To avoid double taxation	2022	SO 10/Mushak/2022 Date: 04.04.2022
17.	Exemption of VAT on revenue sharing between BTRC and mobile operators following conditions provided at the 4G license approval (with retrospective effect from July 1, 2019)	To avoid double taxation	2022	SO 14/Mushak/2022 Date: 01.06.2022
18.	Exemption of tax on revenue sharing between BTRC and NTTN service providers for NTTN service	To avoid double taxation	2022	SO 15/Mushak/2022 Date: 01.06.2022