

Seminar
on
Reforms in Customs, Income Tax, and VAT Management to Address the
LDC Graduation Challenges

Organized by the Support to Sustainable Graduation Project (SSGP), ERD

Outcome Document

Economic Relations Division (ERD) with support from its 'Support to Sustainable Graduation Project (SSGP)' organized a seminar on 'Reforms in Customs, Income Tax, and VAT Management to Address the LDC Graduation Challenges' at the NEC Conference Room in Dhaka on 27 January 2025. Hon'ble Finance Adviser Dr. Salehuddin Ahmed graced the occasion as chief guest. Hon'ble Commerce Adviser Mr. Sk. Bashir Uddin and the Chairman of the National Board of Revenue Mr. Md. Abdur Rahman Khan FCMA were present as special guests. ERD Secretary Mr. Md. Shahriar Kader Siddiky chaired the event. Major discussions and recommendations coming from the event are documented below.

Welcome Remarks by Mr. A. H. M. Jahangir, Additional Secretary & Project Director, Support to Sustainable Graduation Project (SSGP), ERD

Mr. A. H. M. Jahangir, in his welcome remarks, recalled that ERD, with support from SSGP, had organized a series of thematic seminars, workshops and Focus Group Discussions (FGDs) on LDC graduation related issues in recent years. He noted that a key recommendation emerging from those workshops was the need for reforms in the revenue structure and customs clearance process to facilitate trade. He also mentioned that the recently formulated Smooth Transition Strategy (STS) includes specific recommendations aimed at enhancing domestic resource mobilization and reforming the customs and revenue systems. Reflecting on the potential impacts of LDC graduation, Mr. Jahangir emphasized the importance of initiating fundamental reforms in the revenue mobilization structure in preparation for the country's transition. In this context, he explained that the seminar was organized to review the recommendations from the STS, study reports, and inputs from the seminars, workshop, and FGDs organized by the SSGP. He further noted that the seminar would assess the current status and identify the immediate course of actions required for implementation of the recommendations.

Keynote Presentation on 'Findings and recommendations of the STS, study reports and seminars/workshop/FGDs', by Dr. Mostafa Abid Khan, Former Member, Bangladesh Trade and Tariff Commission and Component Manager, SSGP

At the outset of his presentation, Dr. Mostafa Abid Khan highlighted several key challenges Bangladesh might encounter following its LDC graduation. Reflecting on how ERD with support from SSGP, is assisting the government in preparing for a smooth transition, he informed that SSGP had conducted a total of 10 studies



including one on revenue mobilization with support from the UNESCAP. He also highlighted that SSGP had organized various sector-specific seminars, workshops, focus group discussions and local level consultations at national and regional levels. Additionally, he noted that had contributed to the development of Smooth Transition Strategy (STS) to facilitate sustainable graduation.

Highlighting the findings of various studies and research reports, Dr. Khan pointed out that UNCTAD in its Vulnerability Profile Report for Bangladesh, as mandatory part of the graduation process, recommended strengthening the domestic resource mobilisation by improving the tax administration system and business environment to boost public revenue and private sector investment. Reflecting on the findings of the Revenue Mobilization study conducted by ESCAP, he noted that Bangladesh's Tax-GDP ratio is one of the lowest in the world. He also pointed out that the country's per capita income tax is relatively low compared to its per capita GDP. He also mentioned that the ESCAP study recommended increasing the personal income tax contribution of the highest income decile from 1 percent to around 5 percent of GDP.

Referring to the findings of the World Development Indicators 2023 published by World Bank, Dr. Khan pointed out that the cost of import and export in Bangladesh is significantly higher than India, Malaysia, Vietnam and Singapore. The same World Bank study also found that the efficiency of customs clearance process, competence and quality of logistics services; as well as the quality of trade and transport related infrastructure in Bangladesh are relatively inferior compared to those countries. Referring to a 'Time Release Study' conducted by NBR back in 2022, Dr. Khan pointed out that the average release time was 10 days 08 hours 11 minutes at Benapole port, 11 days 06 hours 23 minutes at Chattogram port and 7 days 11 hours 19 minutes at Dhaka.

Highlighting the findings of various impact assessments carried out in recent times, Dr. Khan said that if the time for customs clearance at the local ports could be reduced by a day, the country's overall exports would increase by 7.4 percent. He also pointed out that easing the customs procedures could boost the competitiveness of domestic products by at least 5 percent.

Dr. Khan also pointed out that the recently finalized STS had outlined some priority actions including timely implementation of the National Tariff policy 2023; carrying out policy reforms outlined in Annex 3.1 of National Logistics Policy 2024; and immediate rollout of the National Single Window (NSW) scheme. He also recalled that STS had called for making the duty-drawback scheme for exports transparent and simplified to promptly refund all duties and taxes paid on raw materials; digitalizing all clearance steps with visibility on waiting times and ASYCUDA performance; revising the Bangladesh Flag Vessels (Protection) Act; and establishing dedicated customs houses in the functional SEZs and EPZs.

Lastly, he identified the following areas of discussion and expected outcomes from the seminar:



- Reviewing the proposed actions and recommendations of the STS, study reports, seminars, workshops, and FGDs to streamline business processes and strengthen domestic resource mobilization.
- Proposing innovative reform measures to achieve the above objectives.
- Categorizing actions into short-term, medium-term, and long-term priorities for effective implementation.
- Assigning key responsibilities to various Wings of the NBR and other relevant agencies for executing the proposed actions and recommendations.
- Formulating a comprehensive roadmap for the implementation of the identified actions and recommendations.

Panel Discussion

Mr. Kabir Ahmed, President, Bangladesh Freight Forwarders Association

Mr. Kabir Ahmed, in his speech, observed that although one of the biggest tasks of freight forwarders are the management of imported goods at bonded warehouses, the custodian of imported goods in Bangladesh are either customs or port authorities. He also pointed out that the local freight forwarders are facing difficulties in remitting any payment to their overseas business partners due to the lengthy and cumbersome process followed by Bangladesh Bank. He informed that recently, the Dhaka Customs House had promulgated that once a freight forwarder books a shipment with a certain airline, it cannot be changed. However, he observed that in most cases, the preliminary booking with the airlines has to be changed due to unforeseen issues. He also informed that despite repeated calls from freight forwarders and other business people, Dhaka Airport is yet to establish modern detective scanners for scanning of air cargos. He also alleged that the ground handling fees charged by Biman are extremely high which increases the cost of freight forwarding in the country. Noting that there is a 2.5 percent tax on gross freight, he urged the relevant authority to review this tax provision. He also called for reviewing the process of submitting and processing the Import General Manifest and Export General Manifest.

Mr. Razeev H Chowdhury, Senior Vice President, Dhaka Chamber of Commerce & Industry

Mr. Razeev H Chowdhury, in his remarks, emphasized on policy continuity regarding taxation issues for long term growth of businesses. He said that the corporate tax return process should be fully automated. Mr. Chowdhury also pointed out that the businesses have to pay additional import duty when they bring any replacement machinery or equipment that is still covered by replacement warranty from abroad. As such, he urged the government to review this provision. He also observed that the SMEs and informal businesses should be brought under tax net to expand the tax base in the country. He also opined that a minimum tax threshold should be introduced to bring the SMEs under tax net. He also proposed that various non-cash incentives could be offered to SMEs and informal businesses to offset their tax payment. He also called for full roll out of ASYCUDA system. Lastly, he urged the



government to defer LDC graduation by three to five years to provide enough time to prepare for a smooth transition.

Rear Admiral S M Moniruzzaman, OSP, ndc, ncc, psc, Chairman, Chattogram Port Authority (CPA)

In the beginning of speech, Mr. Moniruzzaman informed that the waiting time at the Chattogram port had been lately reduced to just one week due to effective collaboration between NBR, Customs and Chattogram Port Authority. He further informed that currently the Chattogram port is moving towards full automation. He pointed out that the CPA had introduced vehicle tracking and ticketing system while online payment system will soon be enabled. He also informed that the CPA had incorporated the same system for import and export through adopting the ASYCUDA system. Mr. Moniruzzaman, in his speech, observed that the efficiency of the Chattogram port would be increased by 80 percent if the port moved towards full automation under the National Maritime Single Window scheme. He projected that the handling capacity of the Chattogram port could potentially reach 5 million TEUs by 2030. In this context, he said that the construction of three new terminals including the bay terminal would be essential to ensure efficient handling of goods and commodities. He also hoped that once the deep seaport in Matarbari becomes operational, Chottagram port would be able to operate 24/7 while having direct feeder service with Singapore, Colombo and other ports of the world. The CPA Chairman also called for setting up an integrated scanner system for all the land, river and seaports of the country. He also proposed that alternatively the port authorities could be provided with their own scanning machines which they could operate on their own as per their requirements.

Mr. AKM Badiul Alam, Member (Tax Policy), National Board of Revenue

Mr. AKM Badiul Alam, in his remarks, informed that the NBR is moving towards complete automation of taxes. He pointed out that the tax filing process for individual taxpayers had already been fully automated. He also informed that corporate tax filing process would also be fully automated by June 2026. He recalled that the audit selection process would also be automated very soon. Mr. Alam informed that the number of tax return filings had increased exponentially since the introduction of PSR (Proof of Submission of Return). He recalled that although the number of tax return filings stood at 2.4 million in 2022-23, it had increased to 4.4 million in 2023-24. He hoped that the number of tax return filing would cross 5 million mark this year. The senior NBR official emphasized that lowering the tax expenditure would be crucial for the country. Citing the latest tax expenditure estimate carried out in 2021-22, he noted that the tax expenditure incurred for that year totaled Tk. 1.15 trillion, while the total tax revenue collected amounted to Tk. 1.02 trillion. Mr. Alam said that the tax exemption facilities should be gradually withdrawn-- especially for those businesses which had enjoyed it for a long period. He also put emphasis on active collaboration of relevant private sector entities in this regard. He also informed that a



committee had been formed lately to recommend necessary reforms in tax related laws. Welcoming the recent government move to separate tax policy division from tax administration— he said that the NBR officials should continue to remain in the management positions of both to ensure a smooth transition.

Open floor Discussion

At this stage, the floor was opened for feedback and recommendations from participants. During this phase, the following suggestions and recommendations came from them:

- The government may consider deferring LDC graduation for three years to provide additional time to prepare for a smooth transition.
- The customs clearance process for capital machinery and spare parts should be automated and simplified.
- The rate of import duties should be reviewed and rationalized to prevent the malpractices like under invoicing or money laundering.
- The system of 'Top Taxpayers Award' should be reviewed as it is demotivational for the majority of businesses.
- The procedures for carrying out any necessary corrections in customs clearance documents should be simplified.
- A dedicated fund should be established for sourcing Man-made Fibre from China for the local RMG industries.
- The laws related to tax, VAT and customs need to be simplified.
- The provision of mentioning the minimum value of tariff during the submission of documents related to consignment clearance should be withdrawn.
- Exporters in the country are increasingly relying on Delhi and Kolkata for airfreight to cut transportation costs, as Dhaka airport faces challenges in handling the recent surge in cargo volume.
- VAT collection from retail stores can be increased in phases through piloting.
- Authentic English translation and proper legal interpretation of Statutory Regulatory Orders (SROs) issued by NBR must be ensured. Business associations can play an active role in this regard by organizing training and awareness programs alongside NBR and ensuring high level participation in those training programs.

Statement by the Special Guests

Mr. Md. Abdur Rahman Khan, FCMA, Chairman, National Board of Revenue

Mr. Khan, in his remarks, recalled that in recent years, NBR had been provided with too much ambitious revenue generation target to cover the ever-expanding annual national budget. Noting the significant tax expenditures incurred by the apex tax-collecting authority in recent years, he observed that a huge array of tax exemptions had been granted, many of which had often been misused. The NBR Chairman



cautioned that revenue collection would fall drastically unless the tax expenditures are considerably reduced through necessary collaboration from the private sector. He opined that the entire tax structure, especially the income tax system had been heavily distorted over the years. Recalling that the VAT Act 1991 originally intended to impose VAT at every stage of value addition—he said that the provision had also been distorted over time. He also said that the introduction of multiple rates of VAT had diminished the intrinsic power of VAT. The NBR Chairman informed that he is now advocating for the introduction of a uniform single VAT rate. The NBR Chairman expressed optimism that such measure would exponentially increase the amount of VAT collection. He also informed that the government is drafting an ordinance to facilitate the auctioning of all the commodities, at one go, that had been left at the port yard for several years. He also recalled that the Chattogram Port Authority had been given the go ahead to install the required number of scanners. He informed that National Single Window scheme would be fully rolled out from 01 March 2025. He further informed that Authorized Economic Operator's license had been issued to a total of 14 business entities while six more are in the pipeline. The NBR Chairman recalled that bonded automation system had already rolled out in the country. Mr. Khan assured that all the tax related rules, regulations and laws would be made transparent. However, he also asked the businesses to reciprocate such measures by ensuring transparency in their business transactions.

Mr. Sk. Bashir Uddin, Hon'ble Adviser, Ministry of Commerce

The Commerce Adviser, in his speech, put emphasis on demonstrative effect from both tax payers and tax collectors to develop a tax-friendly culture in the country. He observed that there is no alternative to uniform implementation of taxes for establishing social justice in a free market economy. Mr. Bashir Uddin emphasized on increasing the efficiency of local businesses to face the potential challenges of LDC graduation. The Commerce Adviser said that the provision of providing GP ratio during tax assessment should be reviewed. He also observed that the provision of AIT refund should be made more efficient. The Commerce Adviser said that businesses from all sectors should work in a collaborative manner and speak in one voice with NBR to seek the best policy for the macroeconomic prosperity of the country. Noting that the economy of the country is rebounding—he said that the businesses should take this as an opportunity. He called for a risk assessment of customs procedure to identify the possible scopes for expediting the customs clearance process. He also suggested to carry out an analysis of the total amount of tax filed by the top hundred tax paying entities in the country vis-à-vis their contribution to the GDP.

**Speech by the Chief Guest: Dr. Salehuddin Ahmed, Hon'ble Adviser,
Ministry of Finance**

The Finance Adviser, in his remarks, said that the government would take prudent and judicious decision regarding the timeline of LDC graduation after carefully



analysing the potential gains and losses. He remarked that irrespective of the timeframe of LDC graduation, the private sector should work vigorously to enhance its competitiveness and compliance with environmental and labour standards. He also observed that the domestic industries, especially pharmaceuticals, had gained enormous capacity over the decades. The Finance Advisor also stressed that the actions recommended in the STS should be implemented in a timely manner.

Affirming that there are scopes for enhancing the port facilities, boosting the infrastructure and streamlining the tax and customs procedures, he said that private sector should also play a collaborative role with the government in addressing these issues. Dr. Ahmed also observed the business process could be much more simplified and streamlined through proper implementation of the trade facilitation measures. The Finance Adviser said that increasing the efficiency of NBR would be essential for the growth of business in the country. He also affirmed that the SMEs should be brought under the tax net by reviewing and adjusting the minimum tax threshold.

The Finance Adviser informed that the government would start the pre-budget discussion earlier than the previous years to ensure inclusive and in-depth discussions. He also informed that the Cabinet had lately given the nod to separate tax policy division from the tax administration. Reflecting on the recent government move to increase VAT on some particular products and services, he said that this increase in VAT rate would be compensated through other indirect measures. He also said that the businesses themselves can offset this increase in VAT by lowering other costs.

Remarks from the Chair:
Mr. Md. Shahriar Kader Siddiky, Secretary, Economic Relations Division

Reflecting the discussions and recommendations from the seminar, the Chair emphasized that enhancing the efficiency of local industries is essential to prepare for the upcoming LDC graduation. He stressed the importance of trust and collaboration between the government and businesses entities. He expressed hope that the NBR would take necessary measures to implement the recommendations from this seminar. He also mentioned that a series of stakeholder consultations like this would be organized for successful implementation of the STS. Lastly, he concluded the event by thanking all the participants.

Major Recommendations

The seminar has come up with the following major recommendations:

- Actions regarding customs, income tax and VAT related issues outlined in the STS, as well as recommendations from various studies and workshops & seminars, must be implemented in a timely and prioritized manner.
- Enhancing the efficiency of local businesses is crucial to overcoming the potential challenges of LDC graduation.



- The Private sector must actively work to strengthen its competitiveness and ensure compliance with environmental regulations, labour standards and other mandatory requirements in preparation for LDC graduation.
- The government should consider deferring LDC graduation by three years to provide additional time to prepare for a smooth transition.
- The introduction of a uniform single VAT rate can exponentially increase the amount of VAT collection.
- Lowering the tax expenditure would be a crucial part of strengthening the revenue generation structure in the country.
- Tax exemption facilities should be gradually withdrawn-- especially for those businesses which had enjoyed it for a long period.
- The provision of providing GP ratio during tax assessment should be reviewed.
- The process of AIT (Advance Income Tax) refunds and duty drawbacks should be streamlined for greater efficiency.
- Businesses from all sectors should work in a collaborative manner and speak in one voice with NBR to seek the best policy for the macroeconomic prosperity of the country.
- A risk management system in customs control needs to be adopted and maintained for expediting the customs clearance process.
- A thorough analysis should be carried out on the total amount of tax filed by the top hundred tax paying entities in the country vis-à-vis their contribution to the GDP.
- SMEs and informal businesses should be brought under tax net to expand the tax base in the country.
- A minimum tax threshold should be introduced to bring the SMEs under tax net. Various non-cash incentives could be offered to SMEs and informal businesses in return.
- Customs clearance process for capital machinery and spare parts should be automated and simplified.
- The rate of import duties should be reviewed and rationalized to prevent malpractices like under-invoicing or money laundering.
- The system of 'Top Taxpayers Award' should be reviewed as it is demotivational for the majority of businesses.
- Procedures for carrying out any necessary corrections in customs clearance documents should be simplified.
- A dedicated fund should be established for sourcing man-made fibre from China for the local RMG industries.
- The laws related to tax, VAT and customs need to be simplified.
- The provision of minimum import prices should be abolished in line with Bangladesh's commitment to the WTO.
- VAT collection from retail stores can be increased in phases through piloting.



- Authentic English translation and proper legal interpretation of Statutory Regulatory Orders (SROs) issued by NBR must be ensured. Business associations can play an active role in this regard by organizing training and awareness programs alongside NBR and ensuring high level participation in those training programs.
- Currently, the businesses have to pay additional import duty when they bring any replacement machinery or equipment that is still covered by replacement warranty. This provision should be reviewed.
- The construction of three new terminals, including the bay terminal at Chattogram Port, will be imperative to cope with the increased growth in cargo in coming years.
- An integrated scanner system for all the land, river and seaports of the country can be established. Alternatively, the port authorities can be provided with their own scanning machines which they can operate on their own as per their requirements.
- The process of remitting foreign exchange for the overseas business partners of local freight forwarders should be streamlined and expedited.
- Recently, the Dhaka Customs House has promulgated that once a freight forwarder books a shipment with a certain airline, it cannot be changed. This regulation should be reviewed, as airline bookings are often subjected to unforeseen issues.
- Dhaka Airport needs to establish modern detective scanners for scanning of air cargos.
- To address the challenges posed by the Dhaka airport's limited capacity in handling the recent surge in cargo volume, it is recommended that the respective government authorities explore options to modernize and expand the cargo handling facilities at Dhaka airport.
- The ground handling fees charged by Bangladesh Biman should be rationalized.
- The provision of 2.5 percent tax on gross freight needs be reviewed.
- The process of submitting and processing the Import General Manifest and Export General Manifest should be reviewed.
- Operationalization of the National Single Window (NSW) needs to be expedited.
- Implementation of Trade Facilitation Agreement (TFA) of the WTO needs to be expedited.

