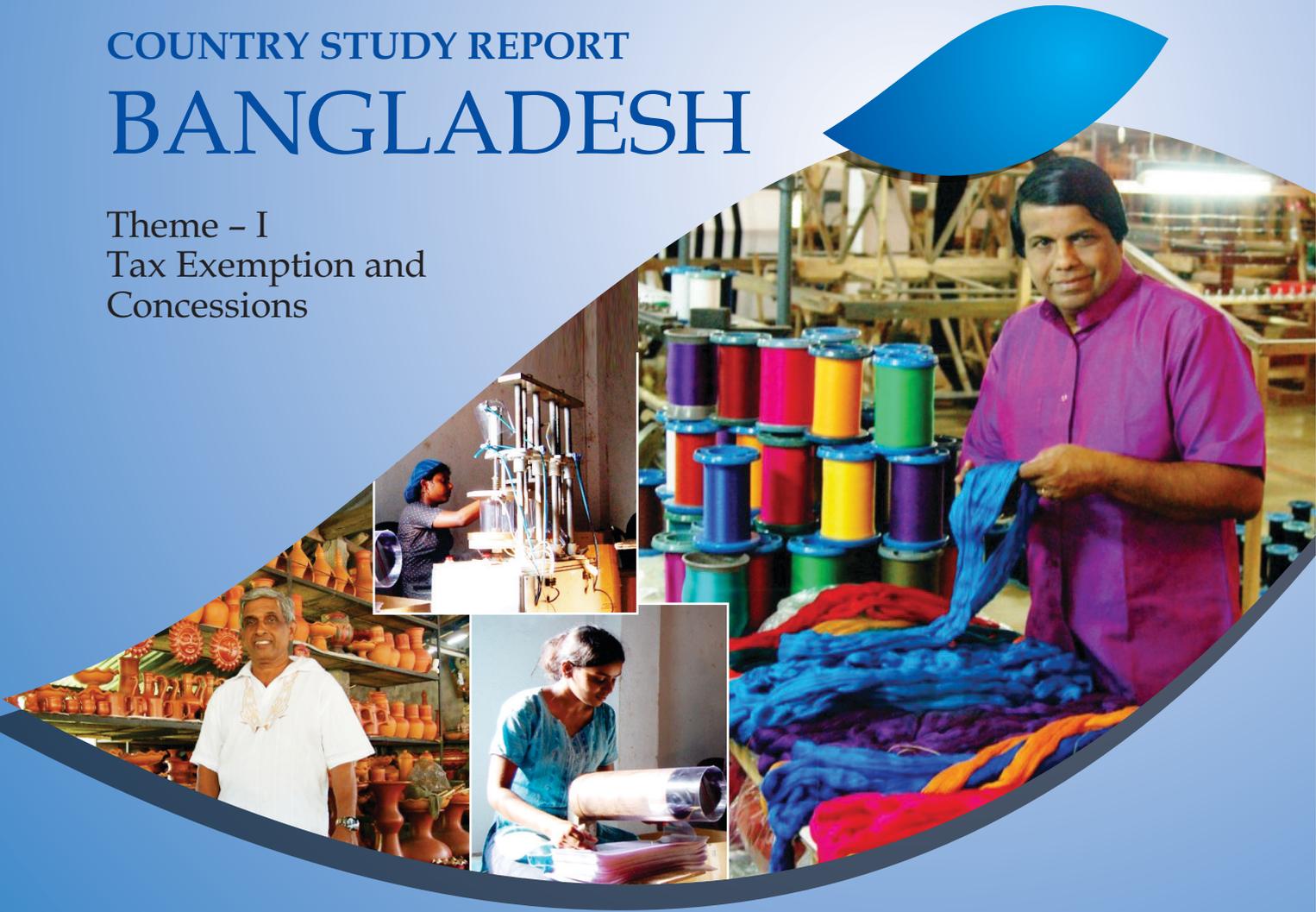




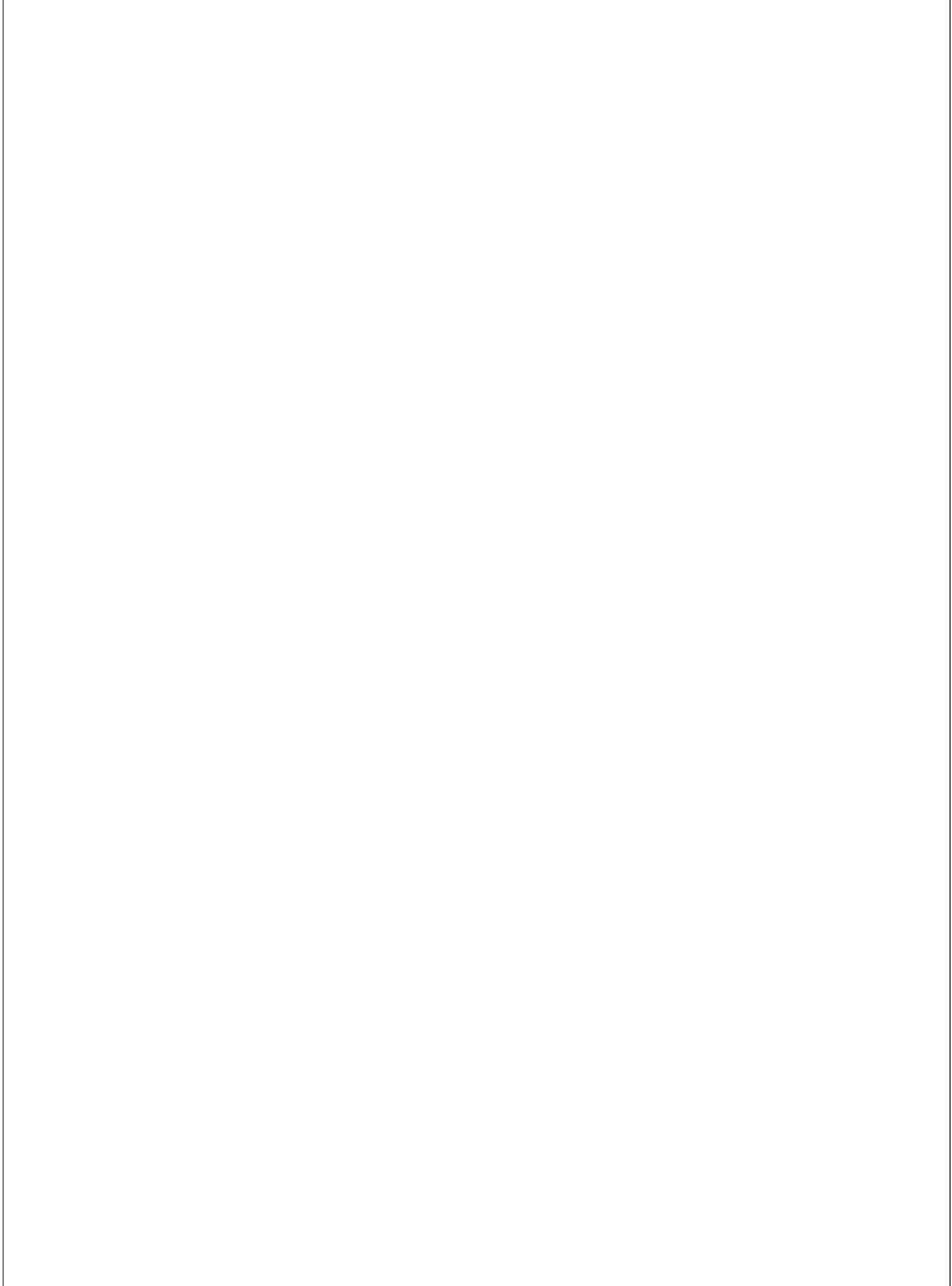
COUNTRY STUDY REPORT
BANGLADESH

Theme - I
 Tax Exemption and
 Concessions



Tax Policy and Enterprise
 Development in South Asia





COUNTRY STUDY REPORT

BANGLADESH

The Impact of Tax Exemptions and
Concessions on Enterprise Development

TAX POLICY AND ENTERPRISE DEVELOPMENT IN SOUTH ASIA

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About the Research

This research examines the impacts of property tax, value-added taxes, and tax exemptions and concessions on small enterprise development in South Asia. The goal is to provide decision-makers with data and insights to support more informed policy formulation and implementation for inclusive growth, productive employment, and enterprise development. The research also aims to examine the issues as they affect women entrepreneurs, to promote positive learning experiences among the countries, build fruitful exchanges, and foster effective policy discussions in a regional context.

The targeted outcomes include 5 Country Study Reports as well as a regional report based on Meta analysis. The reports are published and widely disseminated at the policy engagement workshops. Other project outcomes are policy workshops in all five countries and workshop reports, as well as an interactive website to support research and advocacy.

About CPD

The Centre for Policy Dialogue (CPD), established in 1993 by Professor Rehman Sobhan with support from leading civil society institutions in Bangladesh, is mandated by its Deed of Trust to service the growing demand that originates from the emerging civil society of Bangladesh for a more participatory and accountable development process. CPD seeks to address this felt need by way of organising multi stakeholder consultations, by conducting research on issues of critical national and regional interests, through dissemination of knowledge and information on key developmental issues, and by influencing the policy making process in the country.

CPD has emerged as Bangladesh's premier think-tank and has established its credibility as one of the very few places in Bangladesh where the government and opposition political parties agree to sit around the dialogue table and conduct an informed discussion with the civil society.

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List of Abbreviations & Acronyms

ATV	Advance Trade VAT
BDT	Bangladeshi Taka
BRTF	Better Regulation Task Force
BSCIC	Bangladesh Small and Cottage Industries Corporation
CPD	Centre for Policy Dialogue
Crore	South Asian equivalent of 10 million
DCCI	Dhaka Chamber of Commerce and Industry
FGDs	Focus Group Discussions
ILO	International Labor Organization
IMF	International Monetary Fund
KIIs	Key Informant Interviews
Lakh	South Asian equivalent of 0.1 million
LTU	Large Taxpayers' Unit
METR	Marginal Effective Tax Rate
MoF	Ministry of Finance
NBR	National Board Revenue
NID	National Identification
SFYP	Sixth Five-Year Plan
SME	Small and Medium Enterprise
TIN	Tax Identification Number
UIPT	Urban Immovable Property Tax
USD	USDollar
VAT	Value Added Tax

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Executive Summary

The objective of this study was to explore the extent to which small enterprises of Bangladesh face bias in availing tax exemptions and concessions and the extent to which these biases disproportionately impact small enterprise. Enterprises that are not registered and those run by women have also been emphasized in the study. The study also aimed to understand the impact of tax exemptions and concessions on entrepreneurs and SMEs in terms of enterprise performance and productivity. Another objective was to explore whether the biased tax regime has instigated entrepreneurs to emigrate.

The study has been carried out applying a number of techniques including perception survey, FGDs, interviews and case studies with key stakeholders. Analysis has been done on data obtained from primary survey on 262 manufacturing enterprises including large, medium and small size enterprises. Interviews and FGDs with regulators, entrepreneurs, officials from the regulatory authority and other stakeholders have been conducted. Finally, case study analysis has been done on women entrepreneurs to examine their status under the current tax regime and of small entrepreneurs who have been sufferers of the inconveniences of the formalities of the existing tax regulations. The study has adopted an econometric analysis to observe the impact of different factors on a firm's turnover. Statistical analysis has been adopted to observe the impact of tax related compliance costs including costs associated with registration with tax authority, costs for conforming to tax related other requirements and additional payments to get access to tax expenditure provided by the government (if any).

It is found from the study that enterprises in Bangladesh are enjoying various kinds of tax benefits which include exemption of VAT on sales and on raw materials, tax holiday, exemption on export and tax concession on sale etc. Tax holiday is mainly enjoyed by large firms whereas small and medium enterprises get insignificant share of this benefit. The study revealed that there are a large number of firms (78 percent of the surveyed enterprises) that are not enjoying any benefits of tax exemption and concession. The small and micro enterprises under paper, plastic, aluminum and agricultural products obtained smaller share of tax exemption compared to medium enterprises. There is absence of a proper assessment mechanism to assess the impact of the tax exemption benefit to the enterprises. The study revealed that registration from the tax authority does not necessarily ensure easy access to these tax related benefits for firms. Regarding the process of getting the existing tax benefits, mixed opinion has been found from stakeholders during the study. According to the regulators point of view there is no discrimination in the procedure which has also been reflected in the opinion of majority of entrepreneurs of

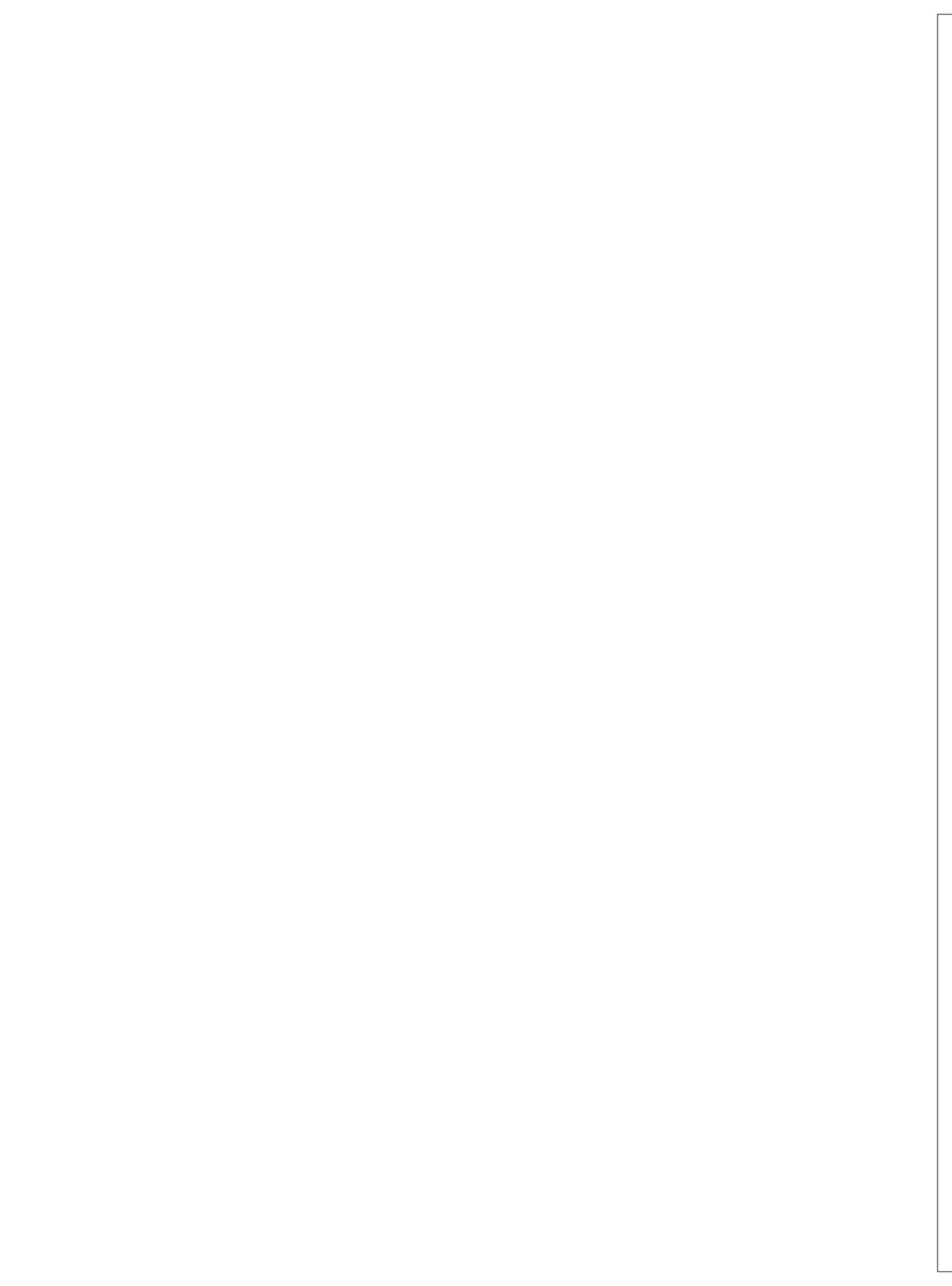
small and micro enterprises. Other stakeholder views reflect the cumbersome procedure in availing the tax benefits which may refrain potential investors to start a business. There are a large number of enterprises that operate outside the tax net and the reason for them to remain undocumented is their perception on the tax regime. These entrepreneurs perceive the existing tax regime to be characterised by high tax rates, complicated tax filling procedure, multiplicity taxation, administrative hassles and time consuming procedure. As a result of which 70 percent of the surveyed small firms and 75 percent of the medium firms are not interested to avail any tax benefit. It has been opined by regulators and other stakeholders that there is lack of awareness among the SME entrepreneurs regarding the prevailing tax exemption benefits. Lack of knowledge on the overall tax structure also makes the entrepreneurs unconcerned in availing the tax benefits. Stakeholders' opinion during the study reveal that the accrued benefits from the tax exemptions against the costs involved for availing those benefits is another major issue. The findings from the study reveal that tax related compliance cost creates negative significant impact on medium sized enterprises. It is found that tax exemptions and concessions and other tax related benefits have positive impact on enterprises' performance but it is not much significant.

Women entrepreneurs in Bangladesh face more difficulty compared to male entrepreneurs. For women entrepreneurs the challenges in case of dealing with the tax related issues include excess fee, lack of instruction, harassment, communication problem, ignorance and lack of knowledge etc. Harassment is the next important concern for women entrepreneurs. There is not much information available in the public domain regarding emigration of entrepreneurs and skilled workers due to tax related hassles. However, it is perceived that profit reductions caused by high tax rates and difficulty in complying with complex tax related procedures cause entrepreneurs to change their occupations or emigrate.

The major problem observed during the study is the lack of clear definition of SMEs to be followed by the tax regulatory authority. Due to the prevailing misconceptions about the eligibility criteria for availing the tax benefits, many eligible firms are not receiving the facilities they are entitled to. Another major issue is lack of awareness among the SME entrepreneurs regarding tax benefit related issues.

The regulatory regime is necessary for protection of the business environment but at the same time it hampers the business with additional expenditures and administrative hassles, which affects the small entrepreneurs mostly compared to the large enterprises. This is mainly because the large firms enjoy economies of scale and can opt for more possible options while dealing with their tax compliance, planning etc. For SME this is a great expense which is out of their abilities. Thus increasing awareness among the SME entrepreneurs in Bangladesh regarding their entitled benefit to tax exemptions and

concessions is vital for their growth, as there are scopes for using the tax related instruments to trigger their growth process. Women entrepreneurs need to be provided with supportive measures in dealing with tax related issues, which can be given to them by the SME foundation and the regulatory authority.



SECTION-I

Literature Review

1.1 Role of Tax Expenditure for the Development of SMEs

Review of relevant literature clearly evince that through the taxation system pursued by many developing countries SMEs often tend to face discriminatory treatment, at worst, or unfavorable treatment, at best. Taxation system of the developing countries concerning industrial enterprises often follow the time-old traditional practices, with inadequate focus to safeguard and promote the interests of small and medium enterprises (SMEs). This is in spite of the fact that, these enterprises make significant contribution to the GDP and employment generation in the developing countries and thereby play a critically important role in the socio-economic development. The modalities resorted to in designing the tax structure often pays scant attention to the issue of incentivising the process of restructuring the industrial structure keeping in focus the development of the SMEs. As a matter of fact, as evidence would bear out, prevailing tax structure in many developing countries has an inbuilt bias against the SMEs (ITD, 2007). What is also no less important is that such discriminatory practices often induce and encourage these enterprises to continue to remain informal by their nature of activity, and non-compliant from the perspective of adherence to tax related laws and regulations (Stern and Leoprick, 2007).

As is known, the prevailing practice in majority of the developing countries is to promote industries through various types of support and incentives with a view to raise their effective rate of protection, enhance their competitive strengths and stimulate capital formation. Of these, the most oft-used instruments relate to fiscal and financial incentives in the form of tax concessions, reduction or waiver on import duties and accelerated depreciation facilities (Little, 1987). Indeed, developing countries spend a significant amount of revenue that they earn order to meet this type of expenditures. Related literature, however, also indicates that the effectiveness of the resources deployed for stimulating the growth of the industrial sector depends, to a significant extent, on the design of the incentive packages and the comparative treatment of firms of various sizes (Boadway et al., 1996).

1.2 Tax Expenditure in the Overall Tax Structure

Tax exemptions, deductions, tax holidays, credits, allowances, deferrals, tax free zones etc. are considered as tax expenditure which falls outside a benchmark tax system (OECD, 1996; World Bank, 2003; Swift, 2006). The level and structure of tax expenditure tend to vary among countries depending on a number of issues including availability of resources, country-specific sectoral priorities and appropriateness of using particular tax instruments etc. Tax expenditure varies widely across South Asian countries – tax expenditure-GDP ratio for India, Bangladesh and Pakistan were about 4.5 per cent of GDP (FY2005), 0.28 per cent (FY2006) and 0.4 per cent (FY2005) respectively (Itriago, 2011; Mortaza and Begum, 2006). Likewise, expenditure related to indirect taxes which is resorted to in a relatively more extensive manner, are not at the same level in these countries- the shares for India, Pakistan and Bangladesh were 55 per cent of total tax expenditure (FY2005), 82 per cent (FY2005) and 88 per cent (FY2006) respectively. Besides, tax expenditure varies as a result of changes in the sectoral coverage and number of enterprises eligible for those support measures in different years. For example, the disbursement of cash incentive (in nominal term) in Bangladesh has increased from Tk.800 crore to Tk.1500 crore between FY2007 and FY2009 (Bakht & Ahmed, 2011) which is partly because of the rise in number as well as extent of activity of the eligible firms over the years. As is known, developing countries including Bangladesh provide various incentives and supports for enterprise development and capital formation by using their limited resources. However distribution of these resources often tends to be biased towards certain categories of industries/enterprises which do not ensure distributive justice from the perspective of industrial development. In more concrete terms, SMEs get ignored in this process.

1.3 Provisions for Tax Expenditures under Different Policies/Acts

In Bangladesh, tax exemptions and concessions are provided to different categories of enterprises as per the provisions made in a number of key policies. These include the Industrial Policy 2010, the Export Policy 2009-12, the Import Policy Order 2009-12, the SME Policy 2005 and the Fiscal Policy. In aggregate, a total of 106 measures of different types are found in Bangladesh – of these, 55 measures are related to direct taxes (e.g. tax holiday, exemptions and deductions, tax rate reductions, deferrals, tax credits and others) and the rest 51 measures are related to indirect taxes (e.g. exemptions and deductions) (Mortaza and Begum, 2006). The Sixth Five Year Plan also includes various supportive measures for

SMEs putting emphasis on financial needs of SMEs and reform in VAT system for SMEs through revising threshold limit of turn over tax. Table 1 provides a list of selected incentives and support measures provided to a set of industries. These incentives are packaged mainly to encourage new investment and also to facilitate expansion of existing enterprises in a selected set of industries.

In contrast to what is seen in Bangladesh, incentives and measures in place in support of enterprises in India and Pakistan are more sector-specific in nature. Direct tax expenditures are enjoyed by enterprises which operate in special economic zones (SEZs) or are involved in infrastructure development and scientific research activities, while indirect taxes are enjoyed by enterprises which belonging to the categories of fertiliser, agricultural products, pharmaceutical products, IT, construction materials, tourism, energy and exploration industries (Mortaza and Begum, 2006).

Table 1: Selected Incentives and the Eligible Enterprises

Items	Eligible Enterprises
Tax holiday	<ul style="list-style-type: none"> Newly set up firms Enterprises involved in development of physical infrastructure Firms operate in the tourism sector
Exemptions and deductions	<ul style="list-style-type: none"> Enterprises located in EPZs Power generation companies Agro-based industries
Concessionary tax rate	<ul style="list-style-type: none"> Textiles sector Jute manufacturing sector Not eligible for enjoying tax holiday facility

1.4 Tax Expenditures for SMEs

The incentives and assistance provided to small scale enterprises in Bangladesh are rather limited both in number and the scale of support. In Bangladesh, under various provisions of existing policies/acts, small scale enterprises enjoy tax waiver and reduced tax rate benefits. Enterprises with a turnover up to Tk.7 lakh enjoy full tax waiver, while enterprises with a turnover of between Tk.7 lakh to Tk.60 lakh have to give tax at the reduced rate of between 2 to 3 per cent. A detailed breakdown of tax waiver and reduced tax rates is provided in Table 2. Regulations related to VAT in case of sales of small enterprises appear to be less stringent in nature – a minimum amount of VAT under a ‘package VAT system’ is applicable for this particular category of enterprises. However,

the rate of package VAT has increased from Tk.6, 000 to Tk.9, 000 in FY2013. In addition, sales of few products have been exempted from paying the VAT - these include food, agriculture, poultry and agricultural inputs. No doubt this type of support most likely contribute to reduction of tax burden of these enterprises. At the same time, government's recent initiatives to expand the coverage of tax net targeting sectors and activities where small enterprises are predominantly involved may raise the tax burden of those particular enterprises, in spite of the fact that this may be helpful in terms of resource mobilisation. Unlike large enterprises, no special incentive or support are provided to small enterprises in Bangladesh that are not registered. In general, the structure and composition of tax expenditure targeted to small enterprises clearly evince a narrow outlook and shallow perspective as far as development of SMEs in particular and industrialisation in general was concerned with regard to their promotion and sustainable development.

Table 2: Support for SMEs

	Eligible criteria
Turnover Tax	
Up to Tk.7 lakh	Zero
Between Tk.7 lakh and Tk.24 lakh	2 per cent
Between Tk.24 lakh and Tk.60 lakh	3 per cent
Above 60 lakh	15 per cent
VAT	
VAT exemption	Food, agriculture, poultry and agricultural inputs
Package VAT	Tk.9000

An analysis of 40 developing countries studied in 1990 found that 50 per cent of these countries had used temporary tax expenditure measures to attract investment, 31 per cent granted tax incentives for enhancing exports, 40 per cent had used reduced tax rates to enhance production/sales and 18 per cent had established free trade zones as a strategy to enhance trade (Intriago, 2011).

1.5 Institutional Structure:

A sound and strong institutional set up was necessary for effective implementation of tax expenditure related activities. As has been observed in case of Japan where numerous local banks and credit cooperatives have been available for financing the SMEs. SME share of the credits from all financial institutions in Japan has been higher than in case of Korea

which has been due to their weak institutional structure of financial institutions (Park, 2001). In Bangladesh, the institutional mechanism to allocate resources to eligible enterprises and monitoring system in place to put under scrutiny their growth and development is rather weak. The weak institutional set-up has raised doubt as to the effectiveness and appropriateness of the utilization of those resources. This no doubt undermines the possibilities of attaining the targeted objectives. The issue of tax expenditures appears not to be accorded due importance by the relevant policymaking and policy implementing institutions such as the National Board of Revenue (NBR), the Tariff Commission, the Ministry of Commerce and the Bangladesh Export Processing Zone Authority (BEPZA). None of these institutions keep systematic records related to gear towards industrial incentive related expenditures nor do they do any detailed assessment of the performance and achievement of relevant institutions, over the years. Very few records are kept in these offices particularly for the enterprises that enjoy those facilities with regard to information relating to locations and sectors. Given the limited records, it is also difficult to assess the adverse impact and implications of these measures on enterprises that do not enjoy these facilities. Needless to say, gender-disaggregated implications of those measures, particularly in-depth information on female-owned enterprises, are extremely difficult to have. Recently NBR has carried out a study in this regard, but its findings have not yet been made public. Moazzem et al. (2012) identified a number of issues and concerns relating to the rationale/justification of providing support to different sectors, criteria for selecting eligible enterprises, duration of the support that is required and major institutional weaknesses etc. To ensure maximum possible return from limited resources, the structure and composition of tax expenditures need to be revised with the periodically focus on rationale and justification of support, level and duration of this support, and also on identification of new potential sectors etc.

1.6 Different Forms of Bias against SMEs

Biasness in tax expenditures may be revealed in a number of ways. Firstly, it may occur because undocumented enterprises which do not have formal registration and other related documents are not eligible for support. Secondly, it may happen through exclusion of certain SME-oriented sectors from the preference list, and thirdly this could happen because some SMEs are excluded because these are located outside the preferential areas (e.g. EPZs and SEZs) etc. The exclusion of SMEs from the preference list have been found in Korea before 80s with minor role of the policymakers in addressing SME problems but it later became a political concern resulting in incremental expansion of existing policies to address the pressing problems faced by the SMEs (Park, 2001). SMEs may be

disproportionately affected due to complicated compliance requirement rules which are applicable for firms. Sometimes the incentives and support provided to SMEs may not be favourable if the gap is not sufficiently large between the concession received and the duty exemption enjoyed by identical foreign goods entering the domestic market (Ahmed, 2001).

1.7 Fraudulent Practices in Tax Expenditure Related Activities

SMEs may indirectly get affected due to fraudulent practices in tax expenditure related activities. Weak monitoring and enforcement mechanism related to tax expenditures may adversely impact on enterprises which are not eligible for these benefits. Tax exemptions provided for legalizing the undocumented income through investment in certain sectors could distort the equity in the market. Similarly, misuse of tax holiday facility may cause biasness against small enterprises operating in the same sector (Mortaza and Begum, 2006). Fraudulent practices through extension of tax exemptions given in case of salaries of foreign technicians working in local firms provide undue advantage against those firms which do not employ such employees. Practice of such illegal activities on a large scale may distort the competition in the market which may disproportionately affect the small and informal enterprises.

Frequent changes in the composition of incentives and support measures may create unnecessary biasness against SMEs. Introduction of various types of tax incentives carried out over the years, which are sometimes mutually exclusive in nature, may make the tax laws of Bangladesh rather complicated and may raise tax compliance costs for the enterprises (Abdul-Jabbar and Pope, 2008). The burden of these compliance costs is likely to be relatively higher for small enterprises.

1.8 Simplification of Rules and Regulations

Small enterprises in developing countries such as Bangladesh generally tends to do their businesses without having formal registration, license, and tax identification number (TIN) and other formal documents. This type of informal structure in which they do their businesses often make difficult for such enterprises to enjoy the exemptions and incentives. In Bangladesh, income tax regulations are generally found to be unfavourable for new investments and for new entrepreneurs to set up businesses (Khan, Azim and

Muzaffar, 2004). Given the fact that the process of registration is complicated and costs involved in this process are high, these enterprises feel discouraged to become formal and consequently their complex rules and regulations are one of the major constraints that discourages small businesses to become formal (IFC, 2007). A simple tax system is generally considered to be conducive for small businesses to flourish and compared to the one that has too many special provisions (Freedman, 2003). A number of studies had suggested in favour of making tax related rules and regulations more simpler with a view to encouraging entry of more small firms into formal businesses (Khan, 2010).

1.9 Impact of Tax Exemptions and Concessions on SMEs

The nature of relationship between small and undocumented enterprises/self-employed with that of formal and registered enterprises in the market determines the nature and extent of impact of tax exemptions and concessions provided across various categories of enterprises. Whilst well-structured tax expenditures try to balance the growth and development of enterprises, unstructured tax expenditures may restrain the growth of small enterprises particularly by infusing bias towards particular categories of enterprises. Research in Indonesia has indicated that in applying for licenses and fiscal concessions, and in dealings with labor or taxation offices a large cost is associated which becomes more complicated due to the prevailing political economy with existing regulations (Hill, 2001). Furthermore, the design of financial policies targeted towards various types of industries determine the various dimensional impact on the enterprises of various sizes as has happened in case of Korea where within the A cross-country study involving 4,000 firms of various types from 54 countries found disproportionate impact of subsidy on small firms arising from lack of adequate coverage (Beck, Kunt and Maksimovic, 2005). Investment incentives provided to new firms show unfavorable impact on small firms in case of Thailand (Boadway, Flatters and Wen, 1996). The burden of tax compliance cost originating from the prevalent financial, legal and regulatory framework was found to be higher in case of SMEs in Malaysia (Pope and Abdul-Jabbar, 2008). The potential financial burden for informal SMEs who do not enjoy VAT exemption appear to be higher for those SMEs who sell their products at the same price compared to firms that are compliant (IMF, 2007a).

There is a tendency among the firms to operate below the threshold level in order to avoid taxes if the firms feel that compliance will entail higher tax burden. A study by the SME Foundation on the various types of SMEs in Bangladesh show that the entrepreneurs consider the payment of income tax and VAT as obstacles in running their business in

Bangladesh. 74.71 percent and 88.23 percent of entrepreneurs from small and medium enterprises respectively under the light engineering sectors have considered the income tax payment as an impediment in their business whereas in case of large firms it has been only 50 percent (SME Foundation, 2004). Given the limited scale of reliable information and lack of research on impact of tax exemptions and incentives on productivity, efficiency and profitability of SMEs of Bangladesh, it is rather difficult to draw any conclusion in these regards.

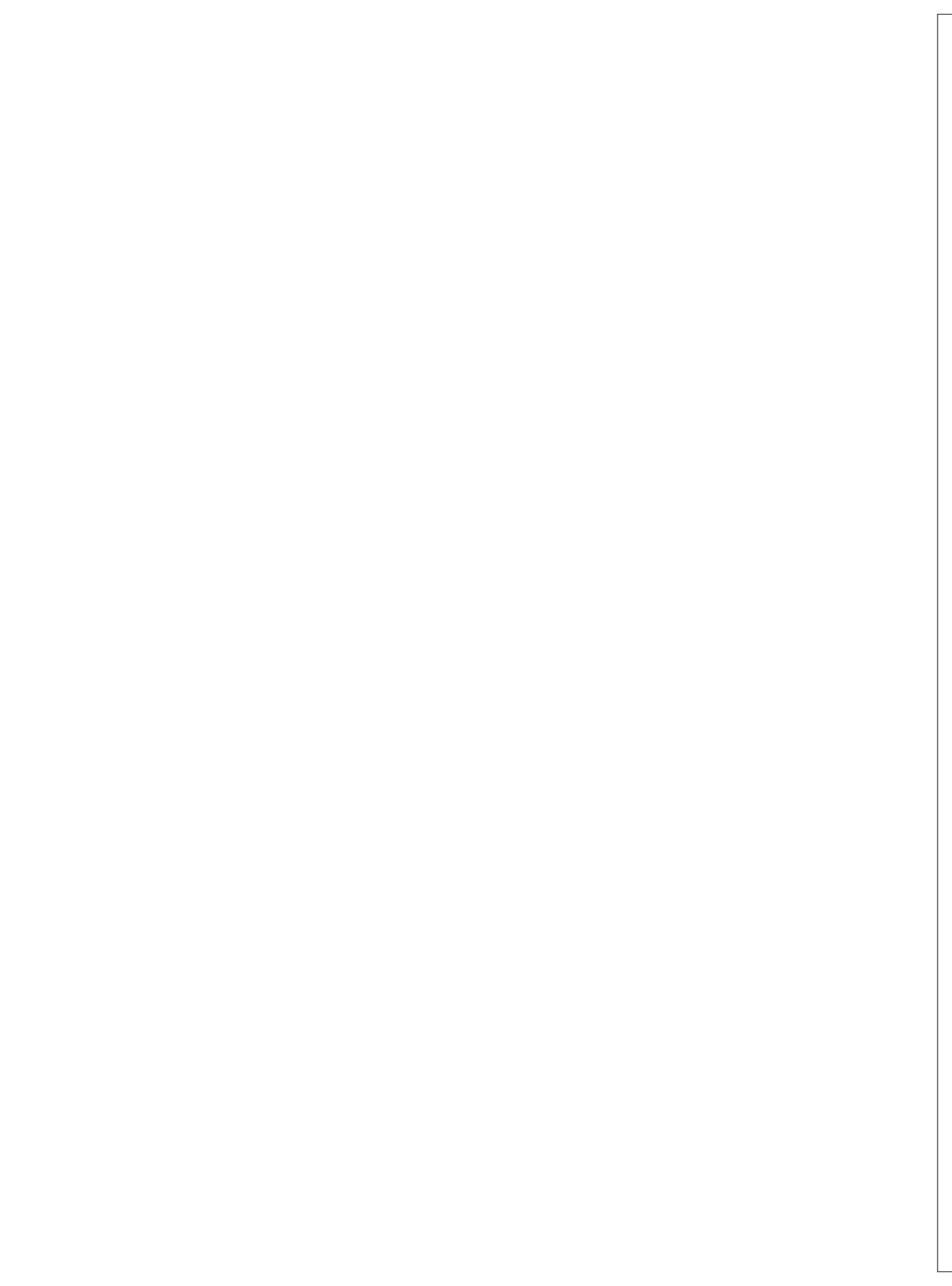
1.10 Impact of Biased Tax Regimes on Emigration of Entrepreneurs and Skilled Labour:

Information regarding the relationship between biasness of tax regimes and emigration of entrepreneurs and skilled workers in the form of 'brain drain' is scant in Bangladesh. This is perhaps not because this does not exist at all, but because that research has not looked into this. However, some indications about this relationship are found in case of Pakistan, as is seen from a report published in the national Daily Dawn (October, 2004). It is plausible however, that self-employed/entrepreneurs in SMEs in Bangladesh are perhaps compelled to change their profession and take up other work (may as well choose to become wage labourers) because of the difficulties they face including those originates from high compliance cost in the SME sector. It is hoped that the research to be carried out as part of this study will throw some light on this issue.

Literature reveals that the nature of tax expenditures often creates bias against small enterprises in a number of ways. Skewed incentive system and frequent changes in the composition of incentives and support lead to a bias against SMEs. A number of studies have put forward suggestions for making the rules and regulations simpler in order to facilitate entry of small firms in formal businesses. Implementation of policies and fraudulent practices in tax expenditure related activities also indirectly affect SMEs. The nature of relationship between small and undocumented enterprises and formal ones tend to determine the nature and extent of impact of tax expenditures on different categories of enterprises. This aspect has not been studied in an in-depth manner.

The review of literature carried out for this study indicates that in-depth analyses on issues related to tax expenditures in the context of Bangladesh particularly focusing on SMEs is rather few and far between. Relevant government institutions do not systematically keep records related to tax expenditures nor do they carry out any detailed assessment of the efficacy of policies implemented, particularly for the SMES. Very few records are kept by

relevant authorities with regard to which SMEs receive what incentives, where these are located and what they do. Given the limited records, it is also difficult to assess how adversely the informal enterprises which are not eligible for support schemes are affected by the incentives that are received by formal SMEs. Thus the nature, extent and types of impact and implications of tax exemptions enjoyed and incentives received by SMEs in unorganized sectors is an area which has not been adequately researched in the Bangladesh context. As far as female-operated enterprises are concerned, these are particularly under-researched. The present study will attempt to address the aforesaid knowledge gap through various research tools including field-level survey, FGDs and interview with relevant stakeholders.



SECTION-II

Conceptual and Theoretical Framework

2.1 Research Questions

There are four key research questions which will inform the analysis of the structure and composition of tax exemptions and concessions in Bangladesh and their impact and implications on SMEs/undocumented enterprises. Each research question is divided into several sub-questions to help get better understanding of the relevant issues. Following are the key questions and related sub-questions.

- a. *What is the extent to which small enterprises face bias in tax exemptions and concessions?*
 - What are the provisions in different policies and acts related to tax exemptions and concessions for different categories of industries? What is the rationale behind the provision of tax exemptions and concessions?
 - What is the overall structure of tax expenditure related to manufacturing sector of Bangladesh? Are there biases in preference for tax exemptions in terms of size, sector and location?
 - What is the evidence with regard to impact of tax expenditure on Bangladesh's industrialization particularly in case of production, export and employment?
- b. *What is the extent to which these biases disproportionately impact small enterprises operating in the undocumented economy and/or those owned/managed by women?*
 - What are the characteristic features of tax waiver and incentives under different policies and acts that may disproportionately impact small enterprises operating in the undocumented economy?
 - What are the major documentation requirements to comply with the provisions for tax waivers and concessions? Which issues relating to compliance are of particular relevance on small businesses? How much is the compliance cost for SMEs?
 - What is the perception of SMEs about compliance requirements and complexities in order to get tax incentives and supports?

- What is the extent and nature of impact of compliance requirement and compliance cost on performance of SMEs?
 - What are the cost and benefit for undocumented SMEs not to go for registration? Is there any minimum threshold compliance cost for availing fiscal and financial supports?
 - What is the perception of the entrepreneurs of SMEs regarding necessary government initiatives to minimize compliance related problems for small businesses?
 - Does the existing structure of tax expenditure and concessions have disproportionate impacts on women working in the informal sector?
- c. *What are the impact of tax exemptions and concessions on entrepreneurs and SMEs in terms of enterprise performance and productivity, (including any disproportionate impacts on women informal entrepreneurs)?*
- What are the likely impact of exemptions and concessions on sales and earnings of different categories of firms?
 - What are the impact of various kinds of exemptions and concessions on sales and earnings of women enterprises?
- d. *What are the impacts of biased tax regimes on emigration of entrepreneurs and skilled labour, the extent to which this contributes to 'brain drain' in South Asian countries?*
- Are some small-scale entrepreneurs shifting from one sector to another due to biases in terms of tax exemptions and concessions, high compliance cost and complex tax structure?
 - Do entrepreneurs quit their business and chose to work as wage labourers due to biases in tax exemptions and high compliance cost etc.?

2.2 Key Concepts and Their Translation into Measurable Parameters

2.2.1 Definition of Firm:

The target group of enterprises needs to be well defined and thereby needs to be translated into measurable parameters. According to the Industrial Policy 2010, small and medium

enterprises are those enterprises having fixed assets excluding land and building with the value (replacement cost) between Tk.5 million to Tk. 300 million and/or with workers between 25 and 250. These enterprises include both registered and unregistered enterprises. Unregistered enterprises are also named as 'informal' and 'undocumented' enterprises. However, the above-mentioned SMEs do not include micro and cottage enterprises as well as self-employed. On the other hand, large enterprises are those having fixed assets excluding land and building with the value (replacement cost) higher than Tk.300 million and/or with workers above 250. For this study, enterprises operating in the manufacturing sector will be taken into account.

2.2.2 Tax Expenditures:

Tax expenditure is defined as the revenue forgone due to reduction of tax from the benchmark rate. Tax expenditure includes direct and indirect tax related measures such as tax holidays, exemptions and credits etc. In this study all kinds of tax exemptions and concessions which are officially entitled by different categories of firms will be considered for analysis. Non-tax monetary support such as subsidized credit provided to different categories of firms will also be taken into consideration for this study.

2.2.3 Compliance Cost:

Compliance cost is defined as the burden on enterprises in terms of time and expenses to meet tax obligations. There are three major components which are included in the compliance cost, namely money costs, time costs and psychological costs to the taxpayers (e.g. Pope et al. 1991, p.7, Sanford et al., 1989; IMF 2007b). Monetary costs include amount spent for tax professionals such as tax agents and accountants and expenses which are related with taxation guide, books, communication and other incidental costs. Time cost is incurred by taxpayers usually for record keeping for tax purposes, completing tax return and/or in preparing tax details for tax professionals as well as time spent on dealing with tax authorities. Present study will enumerate money and time costs only.

2.3 Hypothesized Relationship among Parameters

2.3.1 Tax Expenditure for Large enterprises vs. SMEs

Tax exemptions and concessions disproportionately favour large enterprises particularly those which operate for export market. Small enterprises usually operate at a limited scale

in export market and have enjoyed tax exemptions at a limited level. Supports for SMEs are not sufficient enough to outweigh disproportionate support enjoyed by large enterprises. Unless tax expenditures sufficiently contribute to development targets, revision of those policy tools would lessen disproportionate effect of tax expenditures over small and medium enterprises.

2.3.2 Revenue Loss and Biasness of SMEs

Revenue loss is incurred by the regulatory authority through direct and indirect tax expenditures. Unless the contribution made by large enterprises outweighs that of medium and small enterprises, a higher level of tax expenditure through revenue forgone by large enterprises would indicate biases within the tax system against that of SMEs.

2.3.3 Compliance vs. Non-Compliance

Compliance cost is associated with enterprises in order to comply with existing tax regulations for getting benefit of tax expenditures. Small and medium enterprises would be interested to take the burden of compliance cost only when the effective benefit accrued for being complied will be sufficiently higher than the incurred compliance cost; otherwise, small and medium enterprises would be interested to operate as non-compliant.

2.3.4 Impact of Tax Expenditure on Profitability

Tax expenditures are not same for all types of enterprises. Because of differentiated nature of tax expenditure, small enterprises are likely to bear higher tax burden which may have adverse impact over small enterprises' income and profitability.

2.3.5 Biasness in case of Women Entrepreneurs

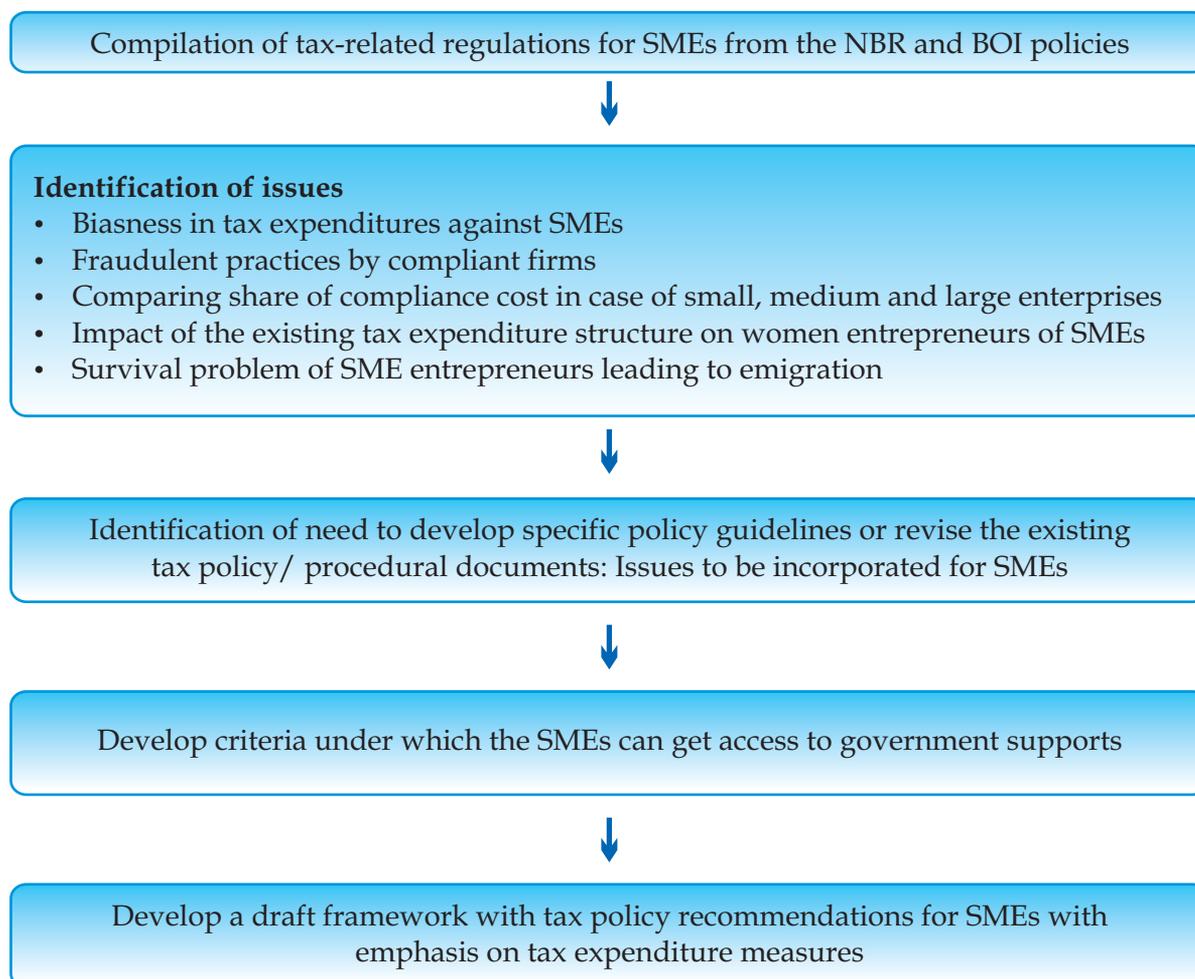
Female-headed small enterprises are likely to be affected more compared to those of male-headed small enterprises due to biases in the structure of tax exemptions and tax concessions.

2.4 Analytical Framework

2.4.1 Policy Analysis Framework

The study will analyse the existing policies regarding tax expenditure applicable to different enterprises of Bangladesh (see the Figure below). Based on that analysis, a detailed picture of structure and composition of various kinds of tax exemptions and concessions for different sectors can be drawn which will help to identify biases of different policies for sectoral development. Such an analysis is necessary to understand the strengths and weaknesses of existing policy structure in relation to contribution of different categories of enterprises and sustainability of those enterprises which will impact on long term development objectives of the country.

Figure 1 shows the policy analysis framework of the present study. This framework includes problems identified within the existing policies that are incapable of extending support to the SMEs. A detailed analysis will be done in case of existing provisions of tax expenditures for the SMEs. Special emphasis will be given on understanding the impact of specific kinds of tax expenditure measures such as tax holiday, income tax, sales tax and customs duty etc. In addition to this information collected from primary sources will highlight on biases and obstacles faced by SMEs with regard to prevailing tax system. Such an analysis will help to develop a framework for the development of SMEs putting emphasis on effective and equitable tax expenditure measures.

Figure 1: Policy analysis framework

2.4.2 Analytical Approach: Tools and Techniques

The study will first prepare a list of existing tax expenditure measures provided to manufacturing enterprises under different policies and acts. These expenditures will be categorized according to size of firms (e.g. small, medium and large). The complexities of tax structure and biases of tax exemptions and concessions which sometimes led SMEs to operate outside the tax net is a major area of focus for this analysis. A sample-survey based qualitative analysis will be done with regard to compliance cost for SMEs. This survey will also help to assess the impact and implications of existing tax expenditure measures on small enterprises particularly on their sales and income.

A number of analytical tools will be used to assess the impact of tax expenditure measures on entrepreneurs of SMEs and women entrepreneurs. We discuss below a number of those tools to be used for the analysis in accordance with the research questions formulated for the study.

2.4.2.1 Revenue foregone

Revenue foregone method is used for estimating level of assistance the tax system provides to taxpayers. The literature on tax expenditure usually presents three different approaches to estimate the cost of tax expenditures which include revenue foregone, revenue gain and outlay equivalence method. Revenue foregone is a static estimate of the loss of tax revenue. The cost of a tax allowance can be obtained by the product of tax rate and the observed amount of the allowance. The revenue foregone is available on the expenditure side of the government budget.

Anderson (2008) suggests two different ways for measuring tax expenditure: one is method for initial revenue loss (gain) and other is method for final revenue loss (gain). Initial revenue loss (gain) is defined as the amount by which tax revenue changes due to introduction or abolition of tax expenditure. In this case the assumption is that the behaviour of the taxpayer remains unchanged and revenues from other types of taxes also remain same. This study will adopt the initial revenue loss (gain) method subject to availability of data from the National Board of Revenue (NBR).

2.4.2.2 Profitability of Firms

The study would aim to conduct a statistical analysis of the impact of tax expenditures on sales and income/profit of the SMEs. It is not so easy to get the exact data on income/profit from SMEs due to lack of interest of firms to share those information which are considered to be 'confidential' to them and perhaps due to lack of proper record of those information. Such an analysis will enable us to understand the reason for which a part of the SMEs remain outside the tax net and refrain from being undocumented.

2.4.2.3 Compliance Cost

Tax related compliance costs include costs associated with registration with tax authority, costs for conforming to tax related other requirements and additional payments to get access to tax expenditure provided by the government (if any). Submission of a number of documents at each step and time and resources required of these steps indicate the nature and extent of compliance cost.

2.4.2.4 Analysis of Survey Data

CPD will carry out a sample survey which will highlight on sales, profitability, compliance costs, and perception regarding complexities in meeting compliance requirements etc. This survey will also shed light on impact of biases in the tax structure on firm's performance. Whether prevailing tax system is causing entrepreneurs to change their occupations or push them migrating to different places is another issue to be highlighted through this survey.

2.4.2.5 Interviews, FGDs and Case Study

A number of face-to face interviews, FGDs and case studies will be carried out in order to get the perception of major stakeholders including entrepreneurs, the NBR, the SME foundation, and the Ministry of Industries etc. For conducting interviews and FGDs, a semi-structured questionnaire will be used.

SECTION-III

Methodology

3.1 Primary Survey

The survey finding on tax exemption and concession has been discussed below under various issues that are in line with the research questions of theme 1.

The primary survey conducted under the research programme was a perception-based one. The key objective of the survey was to learn about the impact of taxation on the state of growth of SMEs in Bangladesh. It would be worthwhile to note that, the survey covered only manufacturing enterprises. A total of 262 enterprises were surveyed in four districts of Bangladesh and 258 enterprises had their formal registrations. Among those surveyed 223 enterprises were SMEs with less than 100 employees. The other 39 enterprises were considered large in terms of number of employees (100 and above) which represented the 'comparison' group.

A set of 37 enterprises (from the surveyed 262 enterprises) came from BSCIC specialised industrial park which represented yet another comparison group. The BSCIC industrial parks were established in a number of districts with a view to facilitate growth of small firms and generate employment. These special economic zones are equipped with basic infrastructure facilities; industrial plot is leased at a subsidised rate. 100 per cent export-oriented firms have also been set up in these parks. Narshingdi BSCIC (20 samples) was targeted to cover the SMEs belonging to this category. However, a few BSCIC samples were also drawn from Bogra (11 samples) and Dhaka (6 samples) BSCIC. A total of 26 SMEs and 11 large firms were interviewed from the BSCIC zones.

The survey covered four districts (Bogra, Dhaka, Chittagong and Narshingdi) in Bangladesh. Dhaka (101 enterprises or 39 per cent of total) and Chittagong (60 enterprises; 23 per cent) was considered to represent core business activity places while Bogra (70 enterprises; 27 per cent) is chosen for its peripheral location. Narshingdi (31 enterprises; 12 per cent) was chosen to cover SMEs located in the BSCIC industrial park. However, 30 per cent of the firms located in the BSCIC zone were found to be of large-scale nature.

The samples were chosen through purposive sampling, as per the requirements of the study. The target respondent group comprised of manufacturing industries of all size categories available in Bangladesh spread over varied locations. Both compliant and non-compliant firms were visited. Given the limited resources, the survey accepted to follow purposive sampling method and kept the sample size limited.

3.2 Key Informants' Interview

In order to better understand the regulatory environment and status of SMEs on tax related aspects, a number of interviews have been taken with the officials of key stakeholders including National Board of Revenue (NBR), SME foundation and Bangladesh Small and Cottage Industries Corporation (BSCIC). KIIs were asked to share their opinion regarding various aspects related to tax structure, tax payment processes, tax exemption and concessions for SMEs and other related institutional issues.

3.3 Focus Group Discussion

A number of focus group discussions (FGD)s have been organised in order to get the views of relevant stakeholders including entrepreneurs, association leaders and officials of relevant chambers and to understand their views about the existing tax structure and status of firms at different dimensions.

3.4 Case Study

Case studies have been conducted during the study for focusing on the impact of the current practices of the tax regime on the women entrepreneurs. It aims to find out whether there are any disproportionate impacts on them and how it distorts their business activities. In this context, the issue of tax exemptions and concessions has been looked into. Attempt has been made to observe whether there is impact of biased tax regimes on entrepreneurs in terms of shifting occupation or migrating.

SECTION-IV

Findings

4.1 Findings from Primary Survey

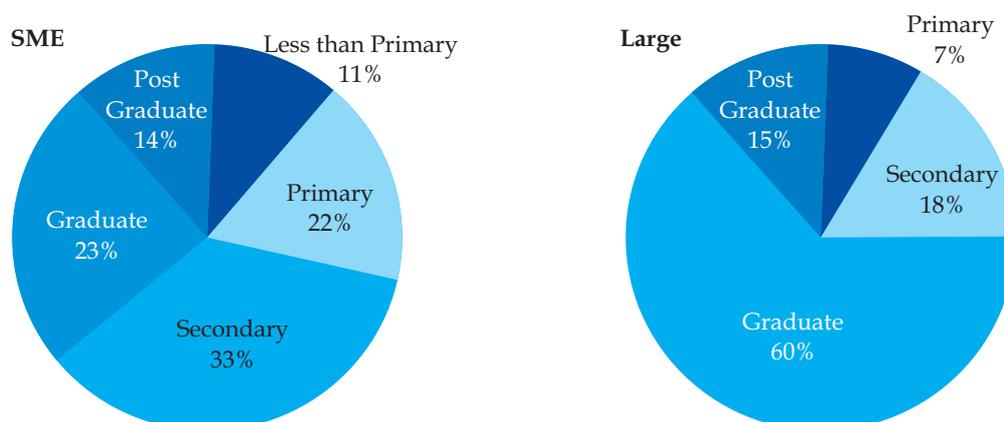
4.1.1 Registration Status

Out of 262 firms surveyed only 4 firms are found to be non-registered. These firms belonged to the SME category. About 50 per cent of the firms are found to be registered with City Corporations which issue trade license. The other authorities which are entitled to give registration are Upazilla Parishad, Union Parishad, and Pourashabha etc. More than 80 per cent of the SMEs were sole proprietorship-based enterprise. However, partnership-based firms were found to be more frequent in case of large enterprises. A number of enterprises were drawn from special economic zones.

Table 3: Number of Enterprises Surveyed by Location

Division	SMEs	Total
Bogra	56	70
Chittagong	59	60
Dhaka	81	101
Narshingdi	27	31
Total	223	262

The survey questionnaire also incorporated a section on educational background and experience of the proprietor or key decision maker (as the case may be) of an enterprise. Three out of every four entrepreneurs of large firms have at least a graduation degree. In case of SMEs, one-third of the entrepreneurs have completed secondary education; 37 per cent obtained even a higher degree. Notwithstanding, entrepreneurs with only primary level education or entrepreneurs with no institutional educational background also constituted a significant proportion (about 30 per cent of the total).

Figure 2: Educational Background of Proprietors

It was found that entrepreneurs generally had some experience as regards their profession. Many of the entrepreneurs are operating inherited business. Average years of experience were found to be 13.6 years with highest experience of an individual entrepreneur to be 45 years. Both high experience and higher level of education were the case for a number of entrepreneurs. About 58 per cent of the entrepreneurs with more than 5 years of experience were found to have a degree equivalent to secondary or higher than that. Some 50 SME entrepreneurs were with less than 5 years' experience which is indicative of growth of the SME sector in recent years.

Table 4: Experience of Entrepreneurs

Experience with present enterprise	Firm Size		
	SME	Large	Total
Up to 1 Year	13	0	13
Up to 5 Years	37	8	45
More than 5 Years	173	31	204
Total	223	39	262

4.1.2 Assets and Turnover

According to primary survey results, more than 50 per cent of the SMEs have capital investment of up to Tk. 0.5 million. Investment portfolio of most of the large firms start from Tk. 1 million, at least 25 per cent firms have capital investment equivalent to Tk. 10 million or more. Statistically capital investment portfolio of SMEs and large firms were found to be different at 1 per cent significance level (chi2 p-value=0.000).

Table 5: Capital Investment by Enterprise

Investment range (in Taka)	Firm Size		
	SME	Large	Total
Upto 500,000	119	6	125
500,001-1,000,000	37	5	42
1,000,001-5,000,000	54	11	65
5,000,001-10,000,000	5	7	12
10,000,000 above	8	10	18
Total	223	39	262

Average capital investment of SMEs was found to be Tk. 2 million (with median value of Tk. 0.5 million), according to the survey data. For large firms, the corresponding figure is about Tk. 36.5 million. A single firm having investment of Tk. 750 million was an outlier, leading to overestimation of the data for large firms. However, 50 per cent of the large firms have Tk. 5 million of investment (median value). Hence, large firms could invest, on an average, 10 times more capital than SMEs, if median value is considered.

In case of enterprises in BSCIC zone, the capital investment opportunity is significantly different than that of the other enterprises which are operating outside BSCIC (chi2 (4) test statistic=31.3; p-value=0.000). While firms outside BSCIC (225 reported) have a capital investment amounting Tk. 0.5 million (median value), similar figure is Tk. 2.8 million (median value) for enterprises in BSCIC park (37 reported).

Table 6: Capital Investment by BSCIC Zone

Investment range (in Taka)	BSCIC zone		
	BSCIC	not in BSCIC	Total
Upto 500,000	4	121	125
500,001-1,000,000	5	37	42
1,000,001-5,000,000	19	46	65
5,000,001-10,000,000	3	9	12
10,000,000 above	6	12	18
Total	37	225	262

Annual turnover of the surveyed SMEs were found to be Tk. 4.5 million (median value). Turnovers are significantly higher for large firms (Tk. 28.8 million).

Table 7: Annual Sales in 2012

Firm	N	Mean	Median	Std. dev.	Skewness	Kurtosis
SME	223	9,811,182	4,500,000	18,700,000	6	41
Large	39	176,000,000	28,800,000	289,000,000	2	7
Total	262	34,600,000	6,000,000	126,000,000	6	51

4.1.3 Number of Staff

According to survey results, sample SMEs employed staff in the range of 8 and 85. On an average, 22 staff worked in each of the 222 SMEs in the sample. On the other hand, dispersion of employment in large firms was found wide. One of the large firms employed 2,500 employees.

Table 8: Descriptive Statistics of Employment by Enterprise

Firm size	N	Mean	p50	Sd	Skewness	Kurtosis
SME	222	22	16	16	2	6
Large	39	335	155	444	3	16
Total	261	69	18	204	8	84

Employment generation capacity of SMEs differed significantly as survey data suggests. 10 SMEs were running with less number of employees than the number of employees they had during their inception time into operation. Seasonal nature of employment, skill development, technological drawback, financial considerations of staff is some of the concerns which were mentioned by the SMEs with regard to sustainable job creation. The survey data analysis found that roughly 5 to 8 per cent employment generation is feasible from their current structure of operation. It is pertinent to assume that amount of job creation could be large if SMEs could receive increased support and priority from the government. Typically SMEs have limited to access to formal loan for capital accumulation and struggle to develop their own infrastructure.

4.1.4 Access to Credit

Registration with local government (availing a trade license) is a mandatory compliance requirement for an enterprise in order to apply for formal loan. 121 SMEs (66.5 per cent) got access to formal commercial loan (out of 182 SMEs that received some kind of loan). A significant number of SMEs received credit from cooperatives and money lenders (7.7 per cent and 16.5 per cent respectively). However, in case of large firms, most of the credit was availed through the formal lines (about 80.6 per cent).

Large firms showed significantly different pattern with regard to outstanding credit. 53 per cent SME entrepreneurs have outstanding personal loan for business development, while for large firms the matched figure was 77 per cent.

Summary in Brief

- In case of a large number of entrepreneurs, their experience is matched with their high degree of education. 58 per cent of the entrepreneurs with more than 5 years of experience had a degree equivalent to secondary or higher.
- Large firms could invest, on an average, 10 times more capital than SMEs. Investment pattern for special economic zones is also significantly different.

4.1.5 General Tax Behaviour

This section attempts to examine existing tax structure, tax collection process and tax related compliances prevailing in Bangladesh. Questions included in this section were mainly targeted to gather information on status of firms as regards tax regulations, types of taxes, tax related compliance cost and entrepreneurs' perception about existing tax structure.

4.1.5.1 Overall Tax Compliance

Tax related compliance of firms was examined in the context of various types of direct and indirect taxes. According to the primary survey data, about 96 per cent enterprises reported themselves to be either direct or indirect tax payers whereas only 10 out of 262 enterprises (3.8 per cent) were found as non-tax payers (Table 9). Tax payers pay taxes at two levels – central and local. Taxes at the central level include corporate tax/Income tax, general sales tax, withholding tax, excise duty, import duty, turnover tax, supplementary duty and others. Three types of taxes are paid by a significant share of surveyed tax-paying units which include corporate tax or income tax (91.7 per cent) and general sales tax (56.0 per cent) and excise duty (28.2 per cent) (Table 10). An overwhelming share of firms reported to be tax payers mainly due to biasness of the sample to cover only manufacturing units¹ which are largely operating under formal arrangements. A large number of industrial units informally operating in the service sector is largely out of the tax net (Walther, 2011) and have not been taken into consideration under this study.

¹ The manufacturing sector has been chosen due to the feasible size of the respective sector in terms of conducting survey operation. Additional factor affecting the decision is the formal structure of such establishment and the availability of information from the sector

On the other hand, taxes imposed on firms at local levels include property tax, land revenue, capital value tax on immovable property, fees for purchasing motor vehicles, stamps duty, electricity duty, fees for registration of real estate agencies, tolls on roads and bridges, fees on food and agriculture, fee for fairs, agricultural shows, cattle fairs, and tariffs for industrial water supply and drainage. Taxes and user fees paid by a large share of firms include electricity tariffs (51.2 per cent), property taxes (36.1 per cent), land revenue (21.0 per cent), fees for motor vehicles registration (19.4 per cent), tolls at roads and bridges (18.7 per cent) and fees for water (17.9 per cent) and drainages (about 19.4 per cent) (Table 10). Payment of local level taxes by relatively small share of firms indicates firms' limited access to different types of assets, utilities and services at the local levels. Low level of responses in case of payment of property taxes and land revenue indicate poor asset base of firms which is the most likely scenario for the SMEs in Bangladesh.

Table 9: Status of Tax Payment by Sample Firms

Responses about payment of taxes	Frequency	% Share
Yes	252	96.2
No	10	3.8
Total	262	100

Source: CPD Primary Survey, 2013

Table 10: Responses as Regards Payment of Different Kind of Taxes

	Response	Per cent (out of total 252 tax payers) sponse
Central Level Taxes		
Corporate Tax/Income Tax	231	91.7
General Sales Tax	141	56.0
Withholding Tax	26	10.3
Excise Duty	71	28.2
Import Duty	13	5.2
Turnover tax	1	0.4
Supplementary Duty	3	1.2
Others	1	0.4
Local Level Taxes		
Property Tax	91	36.1
Land Revenue	53	21.0
Capital Value Tax on Immoveable Property	2	0.8
Transfer of Sales Tax on Services	1	0.4
Motor Vehicles	49	19.4

Stamps Duty	26	10.3
Electricity Duty	129	51.2
Tolls on Roads and Bridges	47	18.7
Fees on Food & Agriculture	3	1.2
Fee for fairs, agricultural shows, cattle fairs,	2	0.8
Water Supply	45	17.9
Drainage	49	19.4

Source: CPD Primary Survey, 2013

A spatial distribution of firms in terms of payment of taxes reveals variation in payment of different kinds of taxes both at central and local levels. It has been observed during the survey that the share of firms paying income tax is varied between 80 per cent (in case of Dhaka) to 100 per cent (in case of Narshingdi). On the other hand, share of firms paying sales taxes widely varied between 28 per cent (Chittagong) to 77 per cent (in case of Dhaka). Similar cases are also revealed in case of payment of excise duty by firms located in different regions (Annex Table 1 and 2). In general, firms located in Dhaka are better tax compliant compared to that in other districts perhaps due to better operation of the tax administration in the capital city compared to that in other districts. Tax offices are conveniently located in the Dhaka city contribute to reduce hassles in paying taxes (discussed in later part of the report). Similar to the central level taxes, pattern in the payment of local taxes is widely varied between firms located in different regions. Better compliance is observed in Bogra and Dhaka districts. Given the legal obligations for paying taxes and user fees, spatial variation could be explained by differences in extent of coverage in tax collection by local tax authorities and variation in the sample distribution where large firms are relatively high in Dhaka and Bogra which are supposed to be more tax complaint etc.

There are cases also among the survey samples which do not pay any kinds of taxes. As mentioned before, only 3.8 percent firms are not paying any taxes of the total 262 surveyed firms (Table 9). Most of these firms have turnover or sales below the taxable level (92.3 per cent of the non-tax paying units). One respondent has reported that he did not face any problem for not paying taxes (Table 11) implying that sales of the unit is above the minimum threshold level for the exemption of taxes but nonetheless he did not face any difficulty.

Table 11: Reasons for Not Paying Taxes

Responses	Frequency	Percent
Turnover/Sales are below Exemption Level	12	92.3
No problem if tax is not paid	1	7.7
Total	13	100.0

Source: CPD Primary Survey, 2013

4.1.5.2 Overall Tax Perception and Experience

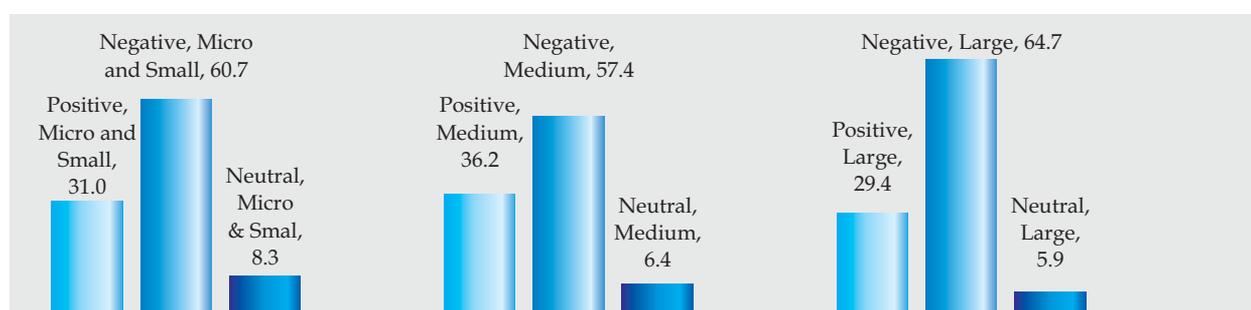
The structure of taxes, tax collection processes and processes in tax administration in Bangladesh, as in many developing countries, could be criticised on many grounds. About 80 per cent of survey-respondents either strongly or moderately agreed that structure of tax was not favourable for businesses. According to their opinion, this is because of the large number of taxes accompanying with procedural complexities. However, another 20 per cent respondents have different views regarding this issue. The competency of tax administration was in general found to be acceptable to the surveyed firms. About 60 per cent firms agreed that tax collection agencies have competent officers, and that locations of tax offices are convenient for them. However another 30 per cent respondents have opposite views regarding this issue. There are contrasting views regarding the experience of harassment by tax officials – about 40 per cent firms found tax staffs fair and respectful in their dealings with SMEs while about 54 per cent firms found tax staffs not dealing properly (Table 12). A large division in responses indicates issues and concerns from both sides with regard to determination of tax payable income/sales, amount of taxes, settlement of taxes etc. Table 3 in Annex would provide a detail perception of the enterprises under the three categories of small, medium and large.

Table 12: Perception on Tax Structure (% of Total Surveyed Firms)

Perception on different issues	Too many taxes?	Tax laws and procedures too complex	Tax collecting Agencies have competent officers and the location of tax office is convenient	Tax staff is fair and respectful in its dealing with SMEs	Harassed by the tax official
Strongly agree	43.5	48.1	16.0	6.9	26.3
Agree	35.1	33.6	44.3	34.7	27.9
Disagree	13.0	11.1	24.8	42.0	28.2
Strongly disagree	1.5	1.5	5.7	6.5	6.5
Indifferent	6.1	5.0	9.2	9.9	11.1
Total	99.2	99.2	100.0	100.0	100.0
Missing	0.8	0.8			
Total	100.0	100.0			

Source: CPD Primary Survey, 2013

Existing tax structure in terms of their number and procedural complexities was considered to be less benefit for the firms. About 60 per cent of firms found it negative for their firms – there is not much difference in the perception as regards to the nature and extent of implications of tax structure for different categories of firms (Figure 3). Multiplicity of taxes, on the other hand, has multi-dimensional adverse impacts on the enterprises including harassment, rise in expenses and waste of time (Table 13). Because of weaknesses and inefficiencies of various types, firms face multiple challenges in marketing the products. This is because of increase in tax compliance cost as also production cost which has adverse impact on the price of the marketed products (Table 14). Overall, there is scope for improving the existing tax structure, tax administration and tax collection processes in order to make them business friendly.

Figure 3: Perception of Entrepreneurs of Various Sized Enterprises on the Existing Tax Structure

Source: CPD Primary Survey, 2013

Table 13: Problems caused by Multiplicity of Taxes

Impact of Multiplicity of Tax	Responses	Percent	Percent of cases
Tax officers demand extra money	25	10.6%	16.4%
Multiple taxes is difficult to recognize	23	9.70%	10.1%
Multiplicity of taxes is more harassing	75	31.80%	49.3%
Increase in expenses	65	27.50%	42.8%
Waste of time	48	20.30%	31.6%
Total	236	100.00%	155.3%

Source: CPD Primary Survey, 2013

Table 14: Challenges created by Prevailing Taxes

Challenges	Responses		
	Number	Percent	Percent of cases
Increase in expenses	90	36.10%	53.6%
Prices of goods increases	74	29.70%	44.0%
Harassment / misbehavior of tax office	24	9.60%	14.3%
Increase in production cost	27	10.80%	16.1%
Waste of time	34	13.70%	20.2%
Total	249	100.00%	148.2%

Source: CPD Primary Survey, 2013

4.1.5.3 Compliance Cost

Firms have to spend a considerable amount of money at different stages of operations starting from entering into the business towards the regular operation of firms. Table 152.8 provides a picture of the number of registered firms with the tax authority which shows that 84.70 percent of SMEs are registered with the tax authority.

Table 15: Registered Firms with the Tax Authority

		Yes	No	Total
Small & micro	N	144	26	170
	Percent	84.70	15.30	100.0
Medium	N	51	1	52
	Percent	98.10	1.90	100.0
Large	N	39	0	39
	Percent	100.00	0.00	100.0
Total	N	234	27	261
	Percent	89.70	10.30	100.0

Source: CPD Primary Survey, 2013

Registration of SMEs which is the first step of formalization of SMEs is supposed to be free of charge with a view to promote operation of SMEs in Bangladesh. According to the survey respondents, registering the firms is considered to be one of the major expenses incurred by the firms. Tax officials in the name of cost for processing registration collected money from the firms which are most likely various kinds of authorized and unauthorized payments for getting the formal registration from the authority. According to Table 2.9, sample firms on average have to spend about Tk.13500 for completing the process of registration. Registration fee is the only 'authorized' expense, which incurs about 20 per cent of total expenses while most of the rest are different kinds of 'unauthorized' payments including bribes to officials and other employees and processing charges for paper/documents etc. Different kinds of expenses vary widely between firms perhaps because of differences in the size of operation, location of firms and informal understanding of 'unauthorised' payments (Table 16). A large share of unauthorized payment by firms to tax authorities refutes their claim for experiencing better dealings from the latter. Part of this difference could be explained by variation in dealings at initial level when both parties are unknown to each other and dealings latter when both parties are familiar with each other.

Table 16: Tax Related Expenses

Items of Expenses	Number	In Taka		
		Minimum	Maximum	Mean
What was the registration cost?	235	0	15800	2760
How much you have to pay in addition to the regular amount for 'travel expense'?	46	100	3000	938
How much you have to pay in addition to the regular amount for 'Bribe'?	21	50	10000	2126
How much you have to pay in addition to the regular amount for 'Dalal/Peon'?	20	400	9000	2845
How much you have to pay in addition to the regular amount for 'Office'?	17	500	20000	3682
How much you have to pay in addition to the regular amount for 'Papers/ Documents'?	2	1000	1000	1000
How much you have to pay in addition to the regular amount for "others"?	1	200	200	200
Total				13551

Source: CPD Primary Survey, 2013

Firms have to bear tax related expenses for maintaining office staffs and/or for hiring tax lawyers. Most of the firms (about 74 per cent) did not have any employee specifically dealing with tax related issues (Table 16). Given the limited scope of work involved for processing tax related documents firms in most instances do not hire employees specifically to deal with these issues- either an employee is in charge of finance or the entrepreneurs themselves did the job. Expenses for hiring employees for dealing with taxes may become an issue for firms as average cost ranges between Tk. 20,000 to as high as Tk. 240,000 (Table 17B). Other tax related costs are more burdensome which can be as high as 40 per cent of the total tax related costs in 2012. Tax related costs did not increase much in 2012 compared to that in 2011 after a jump in 2011 from 2010. Tax related costs are much higher for large firms though not much change of these costs took place particularly the limited period in consideration.

Table 17a: Annual Tax Related Cost

	Annual cost associated with the salary and other payment to specialized tax employees (Tk.)	Annual cost on tax related matters (Tk.)		
		2010	2011	2012
Small & Micro				
N	37	127	131	141
Mean	4608	7761	8656	9137
Minimum	0	500	600	700
Maximum	20000	140000	140000	140000
Medium				
N	14	46	47	50
Mean	7364	13704	14657	16748
Minimum	0	1000	1000	200
Maximum	20000	100000	110000	120000
Large				
N	13	37	39	39
Mean	77692	93919	129749	140054
Minimum	1000	2000	2000	2000
Maximum	240000	1120000	1125000	1200000

Source: CPD Primary Survey, 2013

Table 17b: Annual Costs on Tax Related Matters

Issues	Number	Minimum	Maximum	Mean
What is the annual cost associated with the salary and other payment to these specialized tax employees?	64	0	240000	20056
What has been your annual cost on tax related matters in 2010?	211	500	1120000	24171
What has been your annual cost on tax related matters in 2011?	218	600	1125000	31615
What has been your annual cost on tax related matters in 2012?	231	200	1200000	32895

Source: CPD Primary Survey, 2013

4.1.5.4 Willingness to Formalise

One of the prerequisites for firms to enjoy tax related benefits is to operate as a formal entity by registering with appropriate authorities. About 90 per cent of surveyed firms are registered with at least one authority. Interestingly, majority of these firms (about 70 per cent) are not interested to get tax benefits may be to avoid hassles and high costs related to compliance requirements. Among the firms which are not registered, the factors that instigated them not to become formalized include excess cost (88 per cent), complex rules

and regulations (12 per cent) and offering bribe to tax officials (87.50 per cent) (Table 18). Because of overwhelming burden of financial and non-financial costs tax related benefits might be considered insignificant to firms. Hence firms' willingness or unwillingness to formalise does not seem to be associated with enjoying tax benefits.

Table 18: Tax Related Hassles

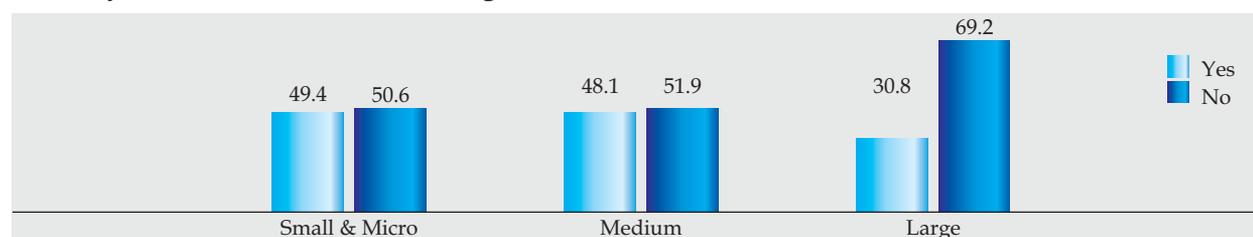
Tax related hassles	Registered		Unregistered		Total	
	Frequency	Per cent of total respondents	Frequency	Per cent of total respondents	Frequency	Per cent of total respondents
Cost	102	64.60%	22	88.00%	124	67.80%
Complex rules and regulations	55	34.80%	3	12.00%	58	31.70%
Documentation procedure	1	0.60%	0	0.00%	1	0.50%
Total	158	100.00%	25	100.00%	183	100.00%
Others						
Harassment	3	5.30%	1	12.50%	4	6.20%
Bribe	35	61.40%	7	87.50%	42	64.60%
Long distance from tax office	19	33.30%	0	0.00%	19	29.20%
	57	100.00%	8	100.00%	65	100.00%

Source: CPD Primary Survey, 2013

4.1.6 Biasness Faced by SMEs in Tax Exemptions and Concessions

Tax exemptions and concessions are provided to facilitate growth and expansion of different sectors. While eligibility of firms for getting these facilities is neutral in terms of the size of firms, impact and implications of such provisions for growth and expansion may not be same for all categories of firms. The respondents of the primary survey are divided in their perceptions on the biasness of tax exemptions and concessions for SMEs. Almost half of the sample firms perceived that SMEs are not facing bias on the provision of tax benefits in the existing tax structure (Figure 4). Such a perception differs with the understanding on biasness issue against SMEs regarding tax exemptions and benefits. This may happen for different reasons such as the lack of awareness of SME firms on such tax benefits and the lack of attractiveness of such benefits against the costs involved for availing those benefits as discussed earlier.

Figure 4: Views Of Respondents Under Various Categories Of Firms On The Existing Biasness Faced By SMEs In The Current Tax Regime



Source: CPD Primary Survey, 2013

Firm under the survey in many cases revealed their perception on biasness in case of getting access to various kinds of financial and non-financial benefits which would make a difference in the operation of firms. About 55 per cent SMEs did not face biasness in case of getting credit at subsidized rates of interest; in contrast, more than 15 per cent SMEs face biasness in terms of less government assistance and/or less incentives/benefits. About 11 per cent SMEs mentioned about lack of recognition of SMEs as a major biasness against SMEs. This could be interpreted in terms of less focus on SMEs in national policy making, poor dealings by tax officials and lack of attention to the challenges and concerns faced by SMEs etc.

In some (about 5 percent) cases, SMEs are deprived of what large enterprises are enjoying such as tax exemption and export related benefits etc. Bribery, complicated tax processes and other kinds of harassment etc. are also adverse experiences of SMEs (Table 19). Only one respondent mentioned about being deprived of export facilities which large exporters get.²

Table 19: Biasness Faced by SMEs

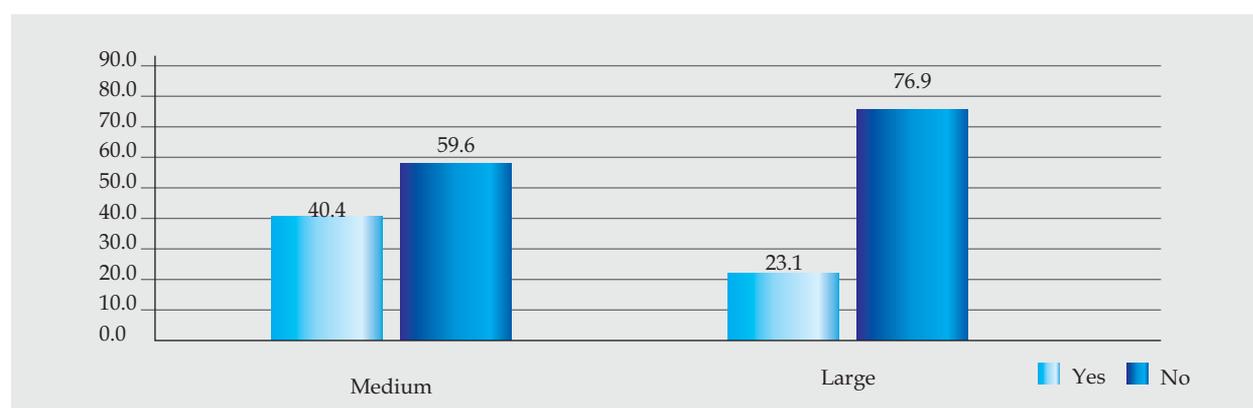
Issues	Firm Size		Percent of Cases
	Number	Percent	
Excess loan / do not have any benefit to get loan	83	55.0%	68.6%
Less incentive / Low Govt assistance	27	17.9%	22.3%
Lack of recognition	18	11.9%	14.9%
Bribe / Complicated procedure / Harassment	13	8.6%	10.7%
Tax evasion of large enterprise	6	4.0%	5.0%
Deprived of getting benefits enjoyed by export-oriented industries (mostly large and medium industries)	1	0.7%	0.8%
Others	3	2.0%	2.5%
Total	151	100.0%	124.8%

Source: CPD Primary Survey, 2013

² Export facility can be mentioned in terms of low interest credit facility for export, duty-free import facility for export-oriented industries etc.

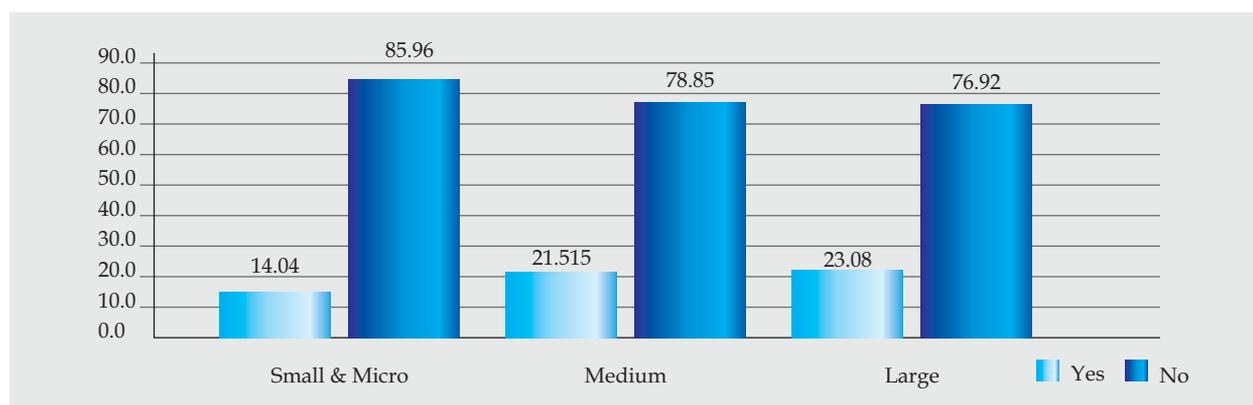
The survey revealed that majority of firms is not enjoying the benefits of tax exemption and concession. Amongst the 170 small and micro enterprises, only 22 per cent enjoyed tax exemption and concession benefits. A large part of small and micro firms enjoy tax waiver in case of sales/production with the minimum threshold levels as a low level of tax benefit enjoyed by these firms. According to the perception of these respondents, about 40 per cent of medium enterprises got a number of tax related benefits while the share of large enterprises is much less (23 per cent) tax exemption and concession. This view reflects lack of knowledge and awareness of the entrepreneurs regarding the threshold level. But as high as 77 per cent of large firms are currently not enjoying any sort of exemption and concession is difficult to explain unless a large part of these firms have already enjoyed the benefit for the stipulated period (Figure 5).

Figure 5: Different Categories of Firms with Access or No Access to Various Tax Exemption and Concession Benefits



Source: CPD Primary Survey, 2013

Figure 6 shows that some firms under a specific industry got tax benefits for over 30 years. According to NBR, this is because tax holiday is provided to an industry to become competitive. In this case, the period is fixed by the authority subject to their perceived period for the industry to become matured. Thus there are cases in which a specific industry is provided with this benefit for a long period of time (e.g., horticulture).

Figure 6: Years of Obtaining Tax Holiday

Source: CPD Primary Survey, 2013

A variety of exemptions and concessions are provided to firms at different stages of their development taking into consideration of their differential requirements. Various kinds of tax benefits enjoyed by sample firms include VAT exemption, tax exemption on different materials or raw materials, tax holiday, exemption on export and tax concession on sale etc. About 47 percent of small and micro enterprises got exemption on VAT. A large part of small and micro enterprises pay “package taxes”³ which is considered as a preferential arrangement for micro and small enterprises. A sectoral disaggregation shows that only 10 per cent of small and micro enterprises working in different sectors such as paper, plastic, aluminum and agricultural products obtained tax exemption whereas the comparable figures for medium and large enterprises were 22 per cent and 33 per cent respectively. Tax holiday is generally enjoyed by large firms (44 per cent); only an insignificant share of small and medium enterprises acquired this facility (only 7 per cent and 4 per cent of for their enterprises respectively).

Export tax exemption is applicable for export-oriented sectors and it is disproportionately enjoyed by large and medium enterprises as they are mainly engaged in export. According to the survey, about 11 per cent of large and about 5 per cent medium enterprises obtained the benefit of tax exemption on export. All three categories of firms got tax exemption on raw materials at different levels while small scale firms enjoyed tax concession on sale only as these firms are eligible for this benefit (Table 20). Although most of these benefits provided to firms maintain neutrality with regard to the eligibility of different categories of firms, given the differences in size of operation, market share, extent of export orientation and network with other market players in the value chain, any benefits are

³ Package taxes, in this context refer to the lump sum amount of VAT on sales/revenue paid by the taxpayer to the tax authority. For difficulty in availing authenticated documents for imposing VAT on an enterprise, VAT is calculated by the tax authority on presumptive value addition by applying truncated base, tariff value or other forms of presumptive base.

likely to contribute more to large firms vis-à-vis those of micro, small and medium firms. For example, a firm in an export-oriented supply chain which is already getting various tax related benefits and other incentives will indirectly benefitted more through the benefit provided to the firms operate in backward and forward linkage industries. Thus export oriented industries other than direct benefits have also been benefitted through duty-free import facility of raw materials, intermediate products and capital machineries for the export oriented industries.

Table 20: Percentage of Enterprises Getting Tax Exemption Benefits

Tax Exemptions and Concessions	Small & Micro Firms			Medium Firms		
	Responses		Percent of Cases	Responses		Percent of Cases
	N	Percent		N	Percent	
VAT exemption	18	47.40%	47.40%	4	18.20%	19.00%
Tax exemption on Paper/ Plastic/ Aluminum/ Agricultural Pro	4	10.50%	10.50%	5	22.70%	23.80%
Tax exemption on raw material	2	5.30%	5.30%	4	18.20%	19.00%
Tax holiday	3	7.90%	7.90%	1	4.50%	4.80%
Package Tax	8	21.10%	21.10%	7	31.80%	33.30%
Tax concession on sale	3	7.90%	7.90%			
Export tax exemption				1	4.50%	4.80%
Total	38	100%	100%	22	100%	104.80%

Source: CPD Primary Survey, 2013

Tax related benefits help the firms to reduce production cost and thereby to improve their competitiveness both at the domestic and international market. About two-thirds of the sample firms perceived that tax related benefits help firms to increase their businesses at a high level – from as high as 75 per cent for large firms to 62 per cent for small firms. About 10 per cent of SMEs however find the benefit without any impact on businesses possibly because of high compliance and other costs associated to avail this benefit (Table 21). The perception would however differ in case of firms which are getting tax benefits and which are not getting any kind of benefit.

Table 21: Impact of Tax Benefits on Businesses

Firm size		No Impact	Business will grow at low level	Business will grow at medium level	Business will grow at high level	No Answer	Total
Small & micro	Number	14	5	35	87	0	141
	Per cent	9.90%	3.50%	24.80%	61.70%	0.00%	100.00%
Medium	Number	5	2	8	30	2	47
	Per cent	10.60%	4.30%	17.00%	63.80%	4.30%	100.00%
Large	Number	1	2	5	25	0	33
	Per cent	3.00%	6.10%	15.20%	75.80%	0.00%	100.00%
Total	Number	20	9	48	142	2	221
	Per cent	9.00%	4.10%	21.70%	64.30%	0.90%	100.00%

Source: CPD Primary Survey, 2013

4.1.6.1 Extent to which these Biases Disproportionately Impact Small Enterprises

Most of the firms comply with the pre-requisite for getting tax benefits – about 90 per cent of firms have registered with the tax authority. While all large and most of the medium firms have registered with the tax authority, about 85 per cent of small and micro level firms have done this. In other words, a part of micro and small enterprises are ‘undocumented’ and they operate informally in the market (Table 22).

Table 22: Status of Registration with the Tax Authority

Firm size	Number and percentage under each category		
	Yes	No	Total
Small & micro	144(84.7%)	26(15.3%)	170(100.0%)
Medium	51(98.1%)	1(1.9%)	52(100.0%)
Large	39(100.0%)	0(0.0%)	39(100.0%)
Total	234(89.6%)	27(10.4%)	261(100.0%)

Source: CPD Primary Survey, 2013

Getting registration from the tax authority does not necessarily ensure easy access to tax related benefits for firms. Firms which enjoy tax benefits were asked about the process for applying for the benefits; however, the number of respondents was not so large (only 29 respondents). Out of the 18 respondents who have micro and small enterprises, over 90 per cent small and micro sample enterprises did not face any difficulty while applying for exemption and/or concession. Unlike micro and small, more than 25 percent medium and large sized enterprises faced difficulty while applying for tax exemption and/or

concessions although most of them are registered with tax authority (Table 23). Given the limited number of samples covered under these two categories, it is difficult to draw conclusions as regards the extent of difficulty faced by medium and large firms. Getting registration from the tax authority does not necessarily ensure easy access to tax related benefits for firms. Firms which enjoy tax benefits were asked about the process for applying for the benefits; however, the number of respondents was not so large (only 29 respondents). Out of the 18 respondents who have micro and small enterprises, over 90 per cent small and micro sample enterprises did not face any difficulty while applying for exemption and/or concession. Unlike micro and small, more than 25 percent medium and large sized enterprises faced difficulty while applying for tax exemption and/or concessions although most of them are registered with tax authority (Table 23). Given the limited number of samples covered under these two categories, it is difficult to draw conclusions as regards the extent of difficulty faced by medium and large firms.

Table 23: Difficulty in Applying for Tax Exemption and/or Concession

Firm size	Number/Percentage under each category			
	Yes	No	Neutral	Total
Small & micro	1 (5.6%)	17 (94.4%)	0.0%	18 (100.0%)
Medium	2 (25.0%)	5 (62.5%)	1 (12.5%)	8 (100.0%)
Large	1 (33.3%)	2 (66.7%)	0.00%	3 (100.0%)
Total	4 (13.7%)	24 (82.8%)	1 (3.4%)	29 (100.0%)

Source: CPD Primary Survey, 2013

4.1.6.2 Undocumented SMEs

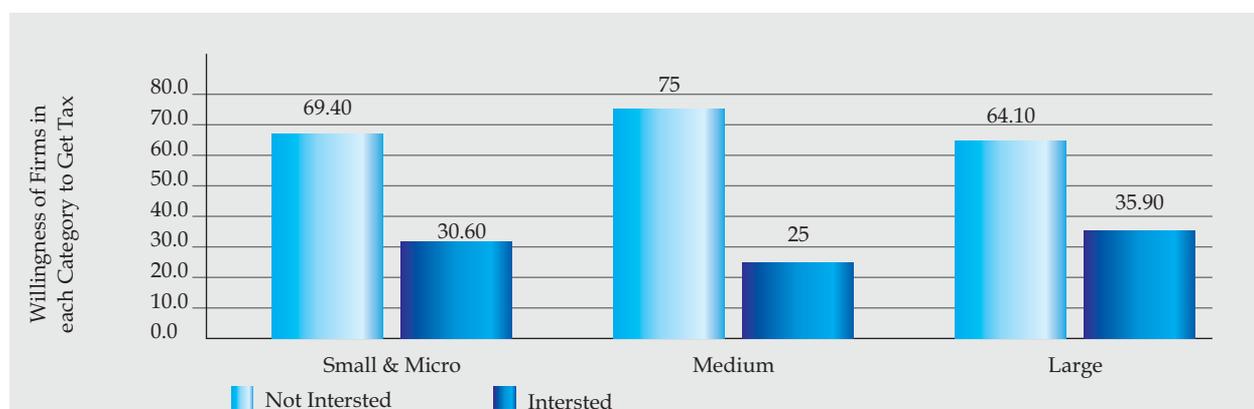
Even if most of the SMEs have not faced any difficulty while applying for exemption and concession, a number of respondents outside the tax net and undocumented opined that the whole tax procedure is complicated. This may be due to high tax rates, complicated tax filling procedure, multiplicity taxation, administrative hassles and time consuming etc. (Table 24). The issue of 'never been requested by the government' as a cause for non-compliance has also come out from the study. Over 30.4 per cent of small and micro 34.7 percent of medium enterprises have mentioned that they have never been asked by government officials to pay their taxes; rather they take these initiatives by themselves. As there is lack of government initiative, SMEs are least bothered about tax payment and compliance.

Table 24: Causes for SME Non-Compliance

Causes	Small & Micro			Medium		
	Number	Percent	Percent of Cases	Number	Percent	Percent of Cases
Tax rates are too high	67	29.6%	39.9%	15	22.7%	30.6%
Procedures for tax filling are too complicated	105	46.5%	62.5%	33	50.0%	67.3%
Never been requested to pay taxes by the government	51	22.6%	30.4%	17	25.8%	34.7%
Others	3	1.3%	1.8%	1	1.5%	2.0%
Total	226	100.0%	134.5%	66	100.0%	134.7%

Source: CPD Primary Survey, 2013

Despite the fact that tax-related benefits positively contribute to the businesses, firms were found to be less interested in dealing with those issues. This may be related to the perceived hassles faced by the entrepreneurs (as depicted in table 24). About 70 per cent of small, 75 per cent of medium and 64 per cent of large enterprises are not interested to get tax benefits (Figure 7).

Figure 7: Firms' Willingness to Obtain Tax Benefits

Source: CPD Primary Survey, 2013

4.1.6.3 Women Entrepreneurs

A total of 19 women entrepreneurs have been included in the primary survey who managed their business directly. Among these women entrepreneurs, 9 women (47 per cent) said that they got preference in accessing tax incentives. According to the survey, more than 35 per cent women got quota benefit, 25 per cent got tax exemption, and 12.5 per

cent obtained low fee or less tax rate as incentives for their business (Table 25). However, the perception of male entrepreneurs regarding the benefit enjoyed by female entrepreneurs slightly varies a large share of them mentioned tax exemption as the major benefit enjoyed by female-owned firms.

Table 25: Different Kinds of Benefits for Women Entrepreneurs

Causes	Responses	
	Male Response	Female Response
Low fee/ tax rate	10.5%	12.5%
Quota benefit	18.9%	37.5%
Get considerate approach	10.5%	25.0%
Tax exemption/ concession	46.3%	25.0%
Package 'Somoy'	9.5%	0.0%
Others	4.2%	0.0%
Total	100%	100%

Source: CPD Primary Survey, 2013

Women entrepreneurs face more difficulty compared to their male entrepreneurs. For women entrepreneurs the challenges in case of dealing with the tax related issues include excess fee, lack of instruction, harassment, communication problem, ignorance and lack of knowledge etc. Lack of knowledge about tax related processes is the major issue for women entrepreneurs (about 68 per cent). Harassment is the next important concern for women entrepreneurs - about 14 per cent entrepreneurs mentioned about this (Table 26).

Table 26: Problems for Women Entrepreneurs in Accessing the Tax Incentives/benefits

Issues	Responses		Percent of Cases
	Number	Percent	
Excess fee/ bribe	9	3.70%	3.90%
Lack of instruction	15	6.20%	6.50%
Harassment/ discrimination	35	14.50%	15.20%
Communication problem	3	1.20%	1.30%
Do not feel any problem'	10	4.10%	4.30%
Do not know	156	64.70%	67.50%
Similar problem faced by male tax payers	13	5.40%	5.60%
Total	241	100.00%	104.30%

Source: CPD Primary Survey, 2013

4.1.6.4 Impact of Tax Exemptions and Concessions on Entrepreneurs and SMEs in terms of Enterprise Performance and Productivity

Firms in general perceived that tax exemptions and concessions have positive impact on their businesses particularly in terms of sales, productivity and overall competitiveness; however the extent of impact is not same for all categories of firms. Over 50 per cent of all categories of firms have mentioned about 'high' positive contribution of tax related benefits. As high as 86 per cent of large firms mentioned about 'high' rise in firms' sales due tax exemption/concession, the comparable share for small and medium sized firms were 58 per cent and 30 per cent respectively. In case of firms' productivity, about 70 per cent of large firms mentioned about 'high' rise in productivity due to the tax related benefits; while the comparable shares for small and medium sized firms were 61 per cent and 35 per cent respectively. As a result, large firms compared to their counterpart medium and small firms experienced higher rise in competitiveness in the market (Table 27).

Table 27: Tax Impact Assessment

		High	Medium	Low	No effect	Don't know	Total
What was the impact of this exemption and/or concession on your firm's sales?	Small & micro	58%	31%	8%	3%	0%	100%
	Medium	30%	40%	25%	0%	5%	100%
	Large	86%	14%	0%	0%	0%	100%
	Total	52%	32%	13%	2%	2%	100%
What was the impact of this exemption and/or concession on your firm's productivity?	Small & micro	61%	28%	6%	6%	0%	100%
	Medium	35%	40%	20%	0%	5%	100%
	Large	71%	29%	0%	0%	0%	100%
	Total	54%	32%	10%	3%	2%	100%
What was the impact of this exemption and/or concession on your firm's competitiveness?	Small & micro	53%	42%	3%	3%	0%	100%
	Medium	40%	45%	15%	0%	0%	100%
	Large	71%	29%	0%	0%	0%	100%
	Total	51%	41%	6%	2%	0%	100%

Source: CPD Primary Survey, 2013

4.1.6.5 Impact of different Factors on Firm's turnover

Following Asteriou and Hall (2007), this report employs a Cobb-Douglas production function with some modifications Fraser (2002) to analyze the impact of different factor's on firm's turnover. In this context, this report employs the modified Cobb Douglas function given by the following specification:

$$Q_u = A L_u^\alpha K T_u^\gamma C_u^\delta Z_u^\phi \dots \dots \dots (1)$$

$$\ln Q_u = C_0 + \alpha \ln K_u + \gamma \text{Incentive} + \ln \text{Cost}_u + \phi Z_u + \varepsilon_u \dots \dots \dots (2)$$

From Equation 2, $\ln Q_u$ is the log of annual firm's turnover in 2012 which has been considered as a dependent variable to appreciate firm's performance and C_0 is constant. $\ln K_u$ is log of capital investment in 2012. Incentive includes three dummy variables i.e. tax exemption and concession and tax holiday. $\ln \text{Cost}_u$ is log of compliance cost. Z_u is vector of firm-specific variables which include: division, number of worker, firm age, and experience and ε_u is a random disturbance term assumed to be distributed identically and independently across the firms which represents factors such as luck, weather conditions and unpredicted variations in input (Maynde, 2013).

Table 28 presents the results of this regression. Among firm specific factors, the results indicated that number of workers is an affirmative significant factor for small sized firms at the 1 percent level of significance. Firm age is another important factor for both small and medium sized enterprises that realized 0.154 and 0.525 per cent point increase in firm's performance respectively. A noteworthy factor is current investment which has positive effect on three sized enterprises at 1 percent significance level. Under the cost factor, tax related compliance cost creates negative significant impact on medium sized enterprises i.e. 1 per cent point change in compliance cost will lead to 0.36 percent point decrease in medium sized enterprise's turnover. It is found that tax exemptions and concessions and other tax related benefits have no significant impact on different categories of firms. This indicates that net benefit accrued to firms is perhaps insignificant given the huge burden in terms of compliance cost, hassles and other costs.

Table 28: Regression Result (SPSS)

Issues	Micro & Small		Medium		Large	
	Coefficient	Sig	Coefficient	Sig	Coefficient	Sig
(Constant)	9.933	.000***	11.210	.000***	2.175	.298
Division	.072	.049**	.055	.316	.033	.616
Compliance Cost	-.140	.161	-.361	.026**	.144	.247
No of worker	1.928	.001***	1.563	.109	.675	.190
Present capital	.250	.000***	.367	.001***	.760	.000***
Firm age	.154	.158	.525	.008***	.356	.172
Entrepreneurs experience	-.107	.420	-.081	.754	-.406	.175
Tax holiday	.164	.437	.145	.207	.133	.756
Tax exemption & concession	.077	.678	.207	.437	.026	.951

*, ** and*** indicates level of significance at 10, 5 and 1 per cent respectively.
Source: CPD Primary Survey, 2012

4.1.6.6 Impact of biased tax regimes on emigration of entrepreneurs and skilled labor

There is not much information available in the public domain regarding emigration of entrepreneurs and skilled workers due to tax related hassles. Amongst 262 surveyed firms only 7 firms reported about incidences of emigration due to difficulties in tax related issues. Those who emigrate, according to the surveyed firms, are mainly due to profit reductions caused by high tax rates and difficulty in complying with complex tax related procedures (Table 29).

Table 29: Knowledge of any SME/MSME Entrepreneur Changing his Occupation or Migrating due to Tax Related Hassles

	Response	Frequency	Percent
Knowledge of any SME/MSME entrepreneur changing his occupation or migrating due to tax related hassles	Yes	7	2.7
	No	255	97.3
	Total	262	100.0
Specific reasons	Low Profit	1	14.3
	Tax complexity	6	85.7
	Total	7	100.0

Source: CPD Primary Survey, 2013

4.1.6.7 Recommendation

It is revealed from the survey that there are scopes for using various kinds of tax related instruments in favor of SMEs towards developing the private sector. A major thrust of undertaking initiatives should be to ensure an environment where existing biases against SMEs to be removed and would ensure level playing field for businesses of all categories of firms. Surveyed firms proposed a number of changes in existing tax related regulations for SMEs. Major proposed changes include reduction of tax rates (35 per cent), provision of tax exemption (30 per cent) and tax holiday (17.0 per cent) making rules easier (17.0 per cent) and tax concessions (14.0 per cent). Other major required changes include easy loan process and tax payment procedure etc. (Table 30).

Table 30: Required Assistance for SMEs

Issues	Responses		Percent of Cases
	Number	Percent	
Provide Tax Support	90	63	94.74
Simplified Tax Payment Procedure	17	12	17.89
Increase govt facility	37	26	38.95
Total	144	100	151.58

Source: CPD Primary Survey, 2013

Government should take a more proactive role to facilitate the process of simplifying the tax structure (as opined by 7 respondents in terms of enhancing facilities from the government. Surveyed firms opined that raising awareness should be the foremost important initiative required to be taken (37 per cent) particularly through organizing seminars and training (31.0 per cent) and making rules and regulations easier (14.5 per cent). Besides, the government should extend easy loan (9.7 per cent), strengthen rules and regulation against bribe (2.4 per cent) and enhance monitoring (8.1 per cent) which can encourage SMEs to follow tax related rules and regulations (Table 31).

Table 31: Assistance from Government for Simplifying Tax Structure

	Responses		Percent of Cases
	Number	Percent	
Provide loan with low/without interest	3	1.6%	2.4%
Make rules and regulation easier	18	9.6%	14.5%
Raise awareness of importance of tax	46	24.5%	37.1%
Develop human resources and increase technical expertise	14	7.4%	11.3%
Enhance monitoring	10	5.3%	8.1%
Facilitate strict rules	15	8.0%	12.1%
Provide easy loans	12	6.4%	9.7%
Provide facilities through banks	1	0.5%	0.8%
Reduce harassment	4	2.1%	3.2%
Enhance facilities from the Govt.	7	3.7%	5.6%
Legal measures against bribery	3	1.6%	2.4%
Provide loans without interest	2	1.1%	1.6%
Raise awareness through fair, training and seminar	38	20.2%	30.6%
Provide access to information	4	2.1%	3.2%
Others	11	5.9%	8.9%
Total	188	100.0%	

Source: CPD Primary Survey, 2013

SMEs also need direct fiscal, financial and non-financial support. More than 54 percent SME suggested for providing access to easy loan whereas 28 per cent mentioned about low interest credit (as mentioned by facilities through banks). About 11 per cent SMEs suggested for access to land to set up firms for SME development. Other recommended initiatives include creation of separate SME zone, increased marketing of SME product, creating new SME market agencies, long term planning, provide proper guidance for tax official and provide tax exemption at initial stage etc.

4.2 Findings from Key Informant Interviews

The characteristic features of the existing tax structure and the status of the SME entrepreneurs under this regime has been well reflected in the views of the key informants interviewed during the study. Various issues have been addressed by the interviewed stakeholders including the officials of key stakeholders including National Board of

Revenue (NBR), SME foundation and Bangladesh Small and Cottage Industries Corporation (BSCIC).

4.2.1 Perception on Biasness in Accessing Existing Tax Benefits

According to the NBR officials there is no discrimination in case of providing tax exemptions and concessions to the SMEs. All enterprises have to submit tax returns by declaring turnover to get registered with the tax authority in order to get tax benefits and exemptions. In this case no additional document is required for getting the tax exemptions. In case of imposing tax on firms, NBR maintains a gestation period for enabling the newly established enterprises to get matured and become capable of paying tax return. As viewed by the tax officials, the only need is a firm's awareness in availing the tax support benefits. The NBR collects data of registered firms on a daily basis from their Circle offices (field offices/Tax Paying Stations) through internal and external surveys. In case of internal survey the method used for updating data is to follow the trade licensing procedure. Registration of purchased land and vehicles are other means of collecting data on eligible tax payers. In case of external survey, primary household survey is used with the objective of identifying tax eligible persons who do not possess any Tax Identification Number (TIN) and are outside the purview of tax net and therefore bring them under it.

The opinion of the officials at the SME foundation varies in this regard. According to them, in order to get tax benefits, entrepreneurs have to show record of their turn over estimates and VAT copies for previous several years which are very difficult for the small entrepreneurs to maintain. Opinion of BSCIC officials also show that SMEs face problem in applying for exemptions and other benefits. As per the BSCIC rule, a newly set up firm is unable to apply for any exemption unless its production starts. Under this situation, interested firms/entrepreneurs may refrain from investing in a business as they have to face the hassles of tax payment and undergo the expenditure on tax related issues at the initial phase of establishing firms.

Entrepreneurs who participated at the FGDs and were interviewed during the primary survey opined on various inconsistencies prevailing in the tax structure of Bangladesh. According to them, the deficient structure is putting the taxpaying entrepreneurs in discomfort. There are too many types of taxes and long submission procedures which make the process complex. These features of the prevailing tax structure create fear among the entrepreneurs, pushing them to avoid falling under the tax net.

4.2.2 Institutional Constraints

Internal weaknesses in the NBR hamper its swift functioning on tax related issues. First,

lack of manpower is one of the major weaknesses which hamper proper monitoring of the tax net and in assessing the impact of the provided tax supportive measures. Discussion made it clear that government has been providing tax exemption and concession benefits to industrial units without having proper impact assessment. Second, lack of record keeping of various tax-related issues was also observed during the interview. This deficiency is associated with the lack of use of updated technology at the institutional level. Most of the tax related documents are kept in hard copies which hamper assessments and analysis of the existing tax benefits at enterprise level. The institutional weaknesses have come out from the primary survey as well.

4.2.3 Discrimination and Harassment (faced by Women Entrepreneurs)

Entrepreneurs varied in perceptions regarding efficiency level of the regulatory authority and the level of competence of the tax collecting officials. Regarding the attitude of the tax staff, majority of tax payers thought that the tax officials are fair and respectful in dealing with them. Harassment from the tax officials have also been felt by a large number of entrepreneurs, specifically women entrepreneurs. Regarding the level of cooperation from tax officials, women SME entrepreneurs opined at the FGD that the officials were not cooperative with them in dealing with the tax related issues. According to their observation, they were discriminated against their male counterparts in their own neighborhood. Whereas, the some male SME entrepreneurs were exempted from paying VAT, the female entrepreneur was approached by the tax official several times for paying VAT.

4.2.4 Impact of Tax Exemption and Concessions on SMEs

The impact of tax exemption and concession on the SMEs would definitely be positive for building their competitiveness according to the officials of NBR. It also benefits the economy through capacitating employment generation in the industries. However, this would depend on how much of these benefits are availed by the SMEs and cost associated with the payment of taxes. If the cost is higher compared to the benefits they acquire then these exemptions would have limited impact on the 'actual' benefits received by the industrial units. According to the official of NBR, in case of assessing the impact of tax exemption on SMEs firstly requires a uniform definition of SMEs across various tax regulations and industrial policy.

Regarding the comparative impact of tax expenditure on large and small enterprises, a Bangladesh Bank official's view of the FGD is that the same rate of tax exemption and concession would definitely provide less benefit to the SMEs in comparison to large enterprises due to the large size of their operations and large supply network. Tax

exemption and concession if provided to backward linkage industries would incur indirect benefit to export oriented large and medium firms by reducing per unit cost of production.

4.2.5 Lack of Awareness

The interviewed officials of the SME foundation also opined of the low level of capacity of the SMEs in availing the benefits they are supposed to get as per various policies and regulations. This low capacity of the SMEs according to them is the result of a lack of their awareness on the various entitled benefits. Views of the officials of the SME foundation is that small entrepreneurs do not know about existing tax exemptions and concessions that they are supposed to get due to the misinterpretation of existing rules and regulations. For example, all SME entrepreneurs do not know the eligibility criteria of tax exemptions and concessions. Lack of cooperation from the tax officials contribute to their incapability in availing the entitled benefits.

4.2.6 Undocumented SMEs

Interviewed tax officials opined that there is no flaw within the tax system that would discourage 'undocumented' SMEs from being registered. But as per the findings from the survey, the overall tax system is complicated for those SME firms and hence these firms remain to be 'undocumented'. In this context it may be mentioned that there is a lack of initiative from the part of the regulators to make the tax system friendlier to the SME entrepreneurs. This has been reflected in the views of the participants at the FGD. Moreover, there is prevailing perception among the SMEs that becoming registered with the tax authority would impose additional tax burden to the enlisted firms. In that case, it is important to make them fearless about tax regulators, as opined by SME Foundation officials. The Foundation is organizing workshops aiming to make the SME entrepreneurs free in dealing with tax officials.

SME officials also opined that there are hassles faced by the entrepreneurs in submitting tax return and applying for their entitled benefit which instigates the entrepreneurs to stay out of the tax net. These hassles as has been reflected in the views of surveyed entrepreneurs included harassment by tax officials, excessive time and complicated procedure for application etc. Thus, they prefer to refrain from submitting their tax return and get the designated benefits instead of paying a lump-sum amount of money to the tax officials. Tax officials at the NBR however denied such allegation. According to BSCIC estimate, there are about 0.9 million undocumented SMEs in Bangladesh and BSCIC officials also opined that the entrepreneurs prefer to stay out of the tax net and avail the benefits in order to avoid hassles in the procedures. However, according to BSCIC officials,

the SMEs staying out of the tax net do not actually benefit compared to those under registration. But regarding the impact of inclusion under the tax net, the SME foundation officials opined that the enterprises outside the tax net become more competitive than those who pay tax. This has been mentioned in terms of payment of VAT at various phases, which creates a significant tax burden for the compliant small firms. In addition the registration cost and related expenses, as revealed from the survey, increase the operation cost for a firm that would obviously have negative impact on the competitiveness of a firm.

Table 32: List Of Interviewees For KIIs

Name of Interviewee	Designation	Designation	Expertise	Interview Detail
Mr. Kalipada Halder	Member	NBR	Legal Issues of Taxation and Enforcement	Held at NBR office on 2 November 2013
Md. Shahjahan	Member	NBR	Taxes Appeal & Exemption	Held at NBR office on 2 November 2013
Md. Alauddin	Member	NBR	Taxes Survey & Inspection, Management of Development Projects	Held at NBR office on 2 November 2013
Syed Md. Aminul Karim	Member	NBR	Taxes Policy, Statistics & Research	Held at NBR office on 2 November 2013
Dr. Syed Md. Ihsanul Karim	Managing Director	SME Foundation		Held at SME Foundation on 18 November 2013
Abu Manjoor Sayeef	Program Manager	SME Foundation	Policy Advocacy & Research	Held at SME Foundation on 18 November 2013
Akhil Ranjan Tarafdar	Program Manager	SME Foundation	Policy analysis and advocacy for SMEs	Held at SME Foundation on 18 November 2013
Mr. Abu Taher	Director	BSCIC	Policy advocacy	Held at CPD office on 4 Dec 2012
Mr. Md. Mosharaf Hossain Sarker	Controller of Accounts & Finance	BSCIC	Financing of SMEs	Held at CPD office on 2 Dec 2012

4.3 Outcomes from Focus Group Discussions

With the objective of achieving feedbacks from a policy perspective, a focus group discussion (FGD) has been organized at the CPD on 1 December, 2013. The participants at the FGD included tax officials and experts from the NBR, representatives of the SME foundation and associations, SME entrepreneurs, women entrepreneurs, officials of SME and Special Program Department of Bangladesh Bank, the Dhaka Chamber of Commerce (DCCI) etc. Discussion was held at the FGD on three themes of the study. Significant feedback was obtained from the participants followed by their views on the prevailing scenario regarding the existing tax structure and its impact on the SMEs.

The discussion on the theme 1 incorporated the following issues: a) views on the existing tax exemptions and concessions; b) perception as regards the biasness faced by the SMEs in getting tax benefits; c) inconsistencies at policy level; d) availability of data at disaggregated level on the tax expenditure for enterprises of different sizes; e) Implementation of the tax benefits for the women entrepreneurs as stipulated in the SME policy; f) perception on undocumented SMEs; g) way of making tax expenditure policy more cost effective in terms of the selection of enterprises (parity between smaller and larger firms), sectors and instruments (e.g. tax holidays, exemptions and concessions etc.); h) Views on the economic incentives that may be used for ensuring better compliance with tax regulations by the SMEs. The outcomes of the FGD are discussed below under the heading of various tax related issues.

4.3.1 Prevailing Tax Exemptions and Concessions

According to tax officials SMEs should not be facing any bias in case of getting access to tax related benefits including tax exemptions and concessions as the provisions stipulated in the Income Tax Ordinance do not differentiate enterprises according to size. Such fiscal measures are provided on a sectoral basis and there are no differential requirements for SMEs in getting tax benefits. According to the officials of NBR, the prevailing exemptions and concessions, if availed by small entrepreneurs, would definitely have a positive impact on their competitiveness. Their opinion is that the additional expenditure on these types of measures would have negative impact on the generation of government revenue as SMEs in textile, jute, and agricultural sectors are already enjoying this benefit. In this context, priority should be given towards ensuring better access for SMEs in these benefits instead of adopting new measures.

4.3.2 Challenges at Institutional and Policy Level: Implication on SMEs and Women Entrepreneurs

The participants at the FGD put their emphasis on challenges at the institutional level. SMEs in some sectors, according to few participants are diminishing and are increasingly being absorbed by large firms. One of the reasons behind this tendency is the existing tax system. One such sector is the agro-processing sector. The stakeholders opined that the policy making process is discontinuous which hampers the efficiency of the implementation. Moreover, changes of tax officials often create problems due to the lack of knowledge base at respective offices regarding tax related issues.

Difficulty prevails for the small enterprises for proving themselves under the particular category of tax net to be entitled to get the tax benefits. The procedure is complex which instigates them into tax evasion and avail the tax exemption benefits. Another problem is the lack of cooperation from the tax officials which has been repeatedly mentioned by entrepreneurs and representatives of the associations. Women entrepreneurs also opined that the existing VAT rate is too high and it needs to be exempted.

There is a Duty Exemption and Drawback Office (DEDO) in Bangladesh that deals with the issues of duty drawback for the enterprises. However, there is no systematic structure of this institution and its functions are inefficient in terms of distributing duty drawback facilities at the enterprise level. It has been recently decided that the functions that have been carried on by this institution will be assigned to the commissioner. The inefficiency of this institution has been reflected in the underutilization of its budget for providing duty drawback facility to the entrepreneurs. For instance, according to the official of DCCI, the budget for the fiscal year 2012-13 of this institution was fixed at about 500 crore taka to give duty drawback to enterprises. Out of this only about 60 crore taka has been distributed to the entrepreneurs. According to the official, the NBR was to publish a list of exporters under the SME sector who would get duty draw back facility, but the plan has not been implemented so far. Such a measure would have significant impact on these enterprises as observed in India and Sri Lanka.

Problems also prevail in case of getting access to exemption and concession benefits. Examples were given on such incidents where entrepreneurs have been unable to avail their entitled exemptions. In this case entrepreneurs producing non-traditional products for the developed countries are not given access to their benefits. Whereas in some cases they are paying duty draw backs for their products despite being entitled to them through national policies and regulations. In some cases, entrepreneurs were also imposed a high tax on their profit.

4.3.3 Availability of Data

As has been observed from the views of the tax officials at the FGD, there is no data at disaggregated level on the tax exemptions and concessions provided to the enterprises. As such, the estimation of the total tax expenditure of the government incurred for the development of SMEs is difficult to obtain. Moreover the tax benefits are provided on a sectoral basis without considering the size of the enterprises.

Prevailing difficulty in determining the exemption structure of SMEs is the definition of these enterprises. Most of the participants at the FGD opined that there is no uniform definition of SMEs. As a result of this, it is difficult for the regulatory authority or other institution to prescribe a definite exemption structure for these enterprises. Moreover, whatever exemption the small entrepreneurs are getting, it is difficult to do impact assessment of these exemptions on the competitiveness and growth of the SMEs.

4.3.4 Recommendation on Policy Measures

The key informants and stakeholders at the FGD have given their suggestions in various aspects to remove the inefficiencies at the institutional and operational level. They also provided their views on eliminating the barriers for small entrepreneurs for to become tax compliant and avail tax benefits.

4.3.5 Institutional Mechanism for Ensuring Compliance

NBR officials recommended institutional development through the deployment of sufficient manpower. Efficiency in the implementation of the regulations would require recruitment of competent tax officials in the regional offices and training of these officials in dealing with tax related aspects. This would lead to better service delivery at the field level and ensure better compliance with the tax regulations. They also opined of adopting punitive measures for the taxpayers not submitting their tax return in due time and organizing public awareness programs such as tax fairs, seminars etc. to enhance the compliance level. Full automation of the tax authority is required, according to the officials. For efficient monitoring of tax compliance and impact assessment, recruitment of skilled manpower and inspectors in field offices are also required. The NBR officials opined that SME Foundation should undertake initiatives to raise the taxpayers' awareness on complying with the tax legislation. View of SME officials is that the SMEs are capable of generating a significant amount of revenue for the government if they are provided with proper guidance and incentives.

4.3.6 Increasing Awareness and Ensuring Spontaneous Response from Entrepreneurs

Campaigning on the tax payment and other procedure may be done through the media. The BSCIC official recommended significant campaigning of the incentives and benefits for SMEs in the Industrial policy 2010. This would create awareness among the entrepreneurs. According to the official, the women entrepreneurs of small enterprises should be able to access the tax benefits entitled for them according to the Industrial Policy 2010. Women entrepreneurs at the FGD suggested keeping a separate and simple procedure of tax payment procedure for them. According to the official, tax holiday facility should be extended to 10 years to encourage investment in the sector by potential investors.

Opinion of officials from SME foundation is that it is necessary for these entrepreneurs to overcome the fear of being apprehended by tax officials and the negative consequence of coming under the tax net. In this regard, the regulatory authority may adopt initiatives for simplifying the tax payment procedures and application procedure for exempting the SME entrepreneurs. In that case, the first requirement would be to arrive at a uniform definition of SMEs that would be applicable for all tax related issues followed by the simplification of the procedure for them. The government along with the private sector stakeholders, such as associations and media can actively participate in jointly initiating various programs to support the SMEs, majorly focusing on building awareness among them regarding tax issues.

4.3.7 Incentives for Increasing Compliance with Tax Regulations

Enterprises that refrain from being registered cannot get the tax benefits. In this case, proper incentives may be provided to the enterprises based on certain criteria. For example, enterprises having good environmental performance or those using solar power may be exempted from certain duties and taxes and be incentivized. Emphasis needs to be given on the implementation of measures prescribed in the policies and regulations for women entrepreneurs regarding the related concerns raised by many stakeholders.

4.3.8 Training Facility

Impact of tax exemption and concession on the productivity and growth of the SMEs has been positively seen by all the stakeholders interviewed and discussed with. The major concern is the lack of knowledge of the SME entrepreneurs and misinterpretation of the benefits as stipulated in the policies for them. In this regard, cooperation from the tax officials and SME foundation will be the priority requirements. The SME foundation has already been providing training facilities for the SME entrepreneurs related to various tax

related issues. These trainings need to be held more frequently emphasizing the problematic issues faced by the entrepreneurs.

4.3.9 Monitoring and Impact Assessment

The utmost priority as has been revealed by the stakeholders at the FGD is to adopt a uniform definition of SMEs to identify appropriate policy measures for their development. In this case, the definition of the Industrial Policy 2010 can be considered to be the proper definition. This initiative should be followed by easier tax related measures for the SMEs. Proper initiatives may be undertaken for monitoring and impact assessment of the various benefits provided to the enterprises.

4.4 Results of Case Studies

Women entrepreneurship in Bangladesh is a recent phenomenon. There has been existence of very small number of women in the business profession before 1985. Although women are resorting to entrepreneurship, very few number have sustained in the profession (Begum, 1993). Lack of access to finance, to information and entrepreneurial training prevents the sustenance of women headed enterprises. In addition to these, substantial participation of women in the business sector has been obstructed by prevailing institutional constraints at the national level, such as prevailing structural features of the tax system of Bangladesh. Institutional constraints may deplete the level of entrepreneurship having negative impact on productivity and entrepreneurial activity. This may result in changing occupation or country of origin as per the hypothesis of this study. But the issue of 'Brain drain' phenomenon in the context of Bangladesh as included in the research design document on this study cannot be addressed as per the stipulated research questions. This is due to the lack of research and available data related to the context. However, there are certain cases where an entrepreneur is instigated to close down his/her business due to various hassles created by the existing tax regime. These types of cases would to some extent reveal the phenomenon in the context of Bangladesh.

This section of the report incorporates two case studies for the purpose of exploring the status of women entrepreneurs in the SME sector. This is done in terms of their awareness and access to the prevailing tax exemption facilities and impact of the existing structure of the tax regime. To some extent one of these studies would address the "Brain Drain" phenomenon in terms of the respondent's attempt at fleeing from the burdensome tax regime. It is to be mentioned here that the names and particulars of the entrepreneurs have been changed for keeping confidentiality of the respective respondents.

4.4.1 Introducing Case 1: Women Entrepreneur faced with Institutional Hassles & Non-cooperation of Tax Officials

Ms. Taslima Hamid (pseudo name) started her small business in the 2000 with 15 permanent workers in the district of Narayanganj. Her family problems and the necessity to create an income source of the family motivated her to start a business of her own. Taking loan from the bank she started her business with limited knowledge on the required formalities for running an enterprise.

Table 33: Demographic Profile

Name of the Respondent	Ms. Taslima Hamid (Pseudo Name)
Age	39
Religion	Islam
Educational Status of the Respondent	Higher secondary level
Marital Status	Married
Previous Occupation of the Respondent	Housewife
Family Type of the Respondent	Nuclear
No. of Family Members	5

Source: Telephone interview of respondent conducted on 3rd December, 2013 at CPD office.

4.4.1.1 Overview on the Case

Ms. Taslima started producing handicrafts including jute items (baskets and mats), bamboo crafts, home textile items, and handmade bags from jute and fabrics etc. She used local raw materials and intermediary products for her production. These products included fabrics, jute and other accessories. During the first two-three years after the establishment of firm, annual turnover was Tk.10-12 lakh.

With her limited knowledge on tax related matters, Ms. Taslima went to the circle office (local tax office) to open her tax file for which she had to pay Taka 2000 to the officer. She was informed that she would have to pay a lump-sum amount to the tax official for opening file, which she did accordingly and got a Tax Identification Number (TIN). But what concerned her at that time was that the official refused to give her any receipt for the money she paid. Her illustration also revealed non-cooperation and harsh attitude towards her by the tax official.

With the gradual expansion of her business, Ms. Taslima started importing fabrics from India. She was unaware that she was entitled for a duty drawback and instead she continued to pay duties for imported raw materials. Through another male entrepreneur friend, she came to know about duty draw back and went to the circle office to know about the matter. To her dismay she found that she does not possess a TIN and there was no record of her payments. As such the tax official denied to give her any benefits and advised her to hire a lawyer. Since 2008 she has been paying Tk.25 thousand monthly to the lawyer with meager legal support just to satisfy the tax officials. She was even given a threat that she would be subject to penalty if not going through the formalities of opening a new TIN. Thus she has opened another new TIN to avail the tax benefits in 2008. But till present she has not achieved any kind of tax benefit. However, Ms. Taslima has obtained support from the SME foundation through advisory services and she is aware of the tax issues now. But she still fears dealing with the tax office and prefers not to approach it for the entitled tax exemptions and benefits. Regarding the payment of VAT, according to the respondent, there are very few entrepreneurs in her locality who pay VAT, but the matter has not been noticed by the tax officials who collect it from them. Her perception regarding this matter is that the discrepancy may have been possible by paying off the tax officials by those entrepreneurs. In this case being a female and not having strong stance in the society has made her unable in dealing with the officials.

The case of Ms. Taslima reveals the hassles women entrepreneurs have to face in dealing with tax issues and are deprived of tax benefits that are stipulated in the policies for them. As suggested by Ms. Taslima, the media can play active role in campaigning of bringing entrepreneurs under the tax net. Women chambers should also play supportive role for the small women entrepreneurs in dealing with tax related issues. They should also undertake initiatives in negotiating with the government for adopting and implementing policy measures targeted towards the growth of SMEs, especially under women entrepreneurs.

Table 34: Business Profile Of Case 1

Issues	
1. Firm profile	
Type of Business	Manufacturing household items and gents garments
Nature of Ownership of Business	Sole ownership
Starting year of business	2000
Manufactured Product	Gents garments & household items (jute items (baskets and mats),bamboo crafts, home textile items, and handmade bags from jute and fabrics etc.)
No. of Employees	
During Establishment	15
At present	100
Average Working Hour	9 hrs.
Annual Turn over	Taka 3 crore
Source of Procured Raw Materials	Locally and Imported (fabric from India)
Business Formalities Attained(Trade License, Certificates obtained)	Trade license (obtained in 2000)
Marketing & Sale of Product	Supplied to shops in Dhaka, Narayanganj, Chittagong and Sylhet districts
2. Financial Accounts	
Source of initial capital	Loan from public bank (at 16% rate)
Source of Current capital	Loan from private bank (at 18% rate) and SME loan (at 10% rate)
Ownership of Asset	Na
Source of credit (If applicable)	Public and private banks (At 18% interest rate)
Accounting & Book keeping	Not regular
3. Tax Compliance	
Registration with Tax Authority	2004
Compliance with VAT	2005

4.4.2 Introducing Case 2: Unsuccessful Entrepreneur

The features of a tax regime may instigate entrepreneurs to change occupation by giving up his/her established business or moving away from current location to a new locality. This is revealed in this case study where an entrepreneur being subject to the institutional discrepancy of the tax regime intends to close down her business. In this case the entrepreneur is a 50 year old lady who started her business totally on her own initiative to provide support to her family. Ms. Waheda Akhter (pseudo name) started making processed food items at home and supplied those to the local shops. She then planned to

start a business for which she took loan from her husband and using local ingredients started production at home. The motivation of starting the business was to provide support to her husband who was the only earning member of the family. She received support from her husband who assisted her in of all kinds of formalities for her business. With her level of education, Ms. Waheda has been unable to understand all the business formalities and tax related procedures required for her business. This has been revealed through her inability to respond to tax related matters during the interview. Table 35 provides demographic profile of the respondent.

Table 35: Demographic Profile

Name of the Respondent	Ms. Waheda Akhter (Pseudo name)
Age	50
Religion	Islam
Educational Status of the Respondent	Secondary level
Marital Status	Married
Previous Occupation of the Respondent	Housewife
Family Type of the Respondent	Joint family
No. of Family Members	7

Source: Interview of respondent conducted on 5th December, 2013 at CPD office.

4.4.2.1 Overview on the Case

Ms. Waheda gradually expanded her business in course of which she built a tin-shed room on a small piece of land owned by her husband in the year 2000 and employed 20-25 persons. Initially her manufactured product basket included snacks, tomato ketchup, jam and jelly. The basket gradually widened including various kinds of pickles. Her business gradually expanded with employment to 75 workers. She started supplying to the leading food chain shops in the capital city Dhaka.

With the help of her husband, Ms. Waheda opened her tax file and as per her saying she has been submitting her tax return regularly. As her husband has been mainly responsible for dealing with all the tax related matters, she could not recall the year she had first submitted her tax return and also was not sure while describing procedural matters on some of the tax related issues. She is also unaware of whether she is entitled to any tax exemptions and concessions.⁴ While expanding her business, she started importing small capital machineries and raw materials for her preserved food item such as preservatives, food colors etc. She didn't get the duty waiver she is entitled for. She paid the Value added tax

⁴ As per the NBR regulation, 100% income derived from any SME is with annual turnover of not more than 24 lakh taka is excluded from taxability.

(VAT) at each stage of the production process as per requirement and has been keeping the record of all the VAT payment receipts.

Table 36: Business Profile of Case 2

Issues	
Firm profile	
Type of Business	Food Processing
Nature of Ownership of Business	Sole ownership
Starting year of business	2000
Manufactured Product	Tomato ketchup, Pickles, Jam and Jelly, Snacks
No. of Employees	
During Establishment	20-25
At present	70
Average Working Hour	9 hrs
Annual Turn over	Taka 20-25 lakh
Source of Procured Raw Materials	Locally
Business Formalities Attained (Trade License, Certificates obtained)	Trade license (obtained in 2000), ISO certificate (2012) Supplied to outlets of chain super shops in Dhaka districts
Marketing & Sale of Product	
Financial Accounts	Loan from husband
Source of initial capital	Loan from private bank
Source of Current capital	33 decimal of land (mortgaged for loan)
Ownership of Asset	Private Bank (At 18% interest rate)
Source of credit (If applicable)	Regular in case of VAT receipts
Accounting & Book keeping	
Tax Compliance	Could not recall
Registration with Tax Authority	2001
Compliance with VAT	

Despite maintaining all the VAT receipts, officials of the tax authority filed a case against her for not paying due amount of VAT for a couple of years which was Tk.3 crore. She was harassed by a group of tax officials has been constantly receiving threats on various occasions. The large amount was a huge burden for Ms. Waheda which had negative impact on the whole family. With the support from her husband Ms. Waheda went to various organizations which would provide her legal advice in this aspect. But with all the advices and suggested measures, she was unable to solve the matter. At present she has

applied to the high court to give her enough time to pay the amount though she is not liable for this amount of tax. Being unable to solve the problem through negotiating with the authority Ms. Waheda mortgaged the small piece of land she had and could pay a small amount of the due. She has also stopped importing the ingredients she had done before and resorted to local materials. She had to reduce the number of employees and currently has halted production. Being pressurized by her family members Ms. Waheda is now thinking of closing down her business.

The case of Ms. Waheda to some extent reveals the impacts of biased tax regimes on entrepreneurs instigating them to close down their business and in some cases making them shift from one sector to another due to high compliance cost and complex tax structure. Cases of this sort should be brought under in-depth research and identify policy options for overcoming the impediments of these entrepreneurs. Active role should be played by the associations and SME foundation to provide them the necessary legal advisory support.

4.4.3 Major Findings and Analysis

The perception and experience of the female respondents with the tax related issues as mentioned by the respondents in the case studies to some extent have been reflected in the primary survey and KII. The major issues that have come up in the case studies are the lack of knowledge on tax related matters and harassment from tax officials. This has been connected with the gender discrimination in the process of dealing with tax officials, according to the perception of these respondents.

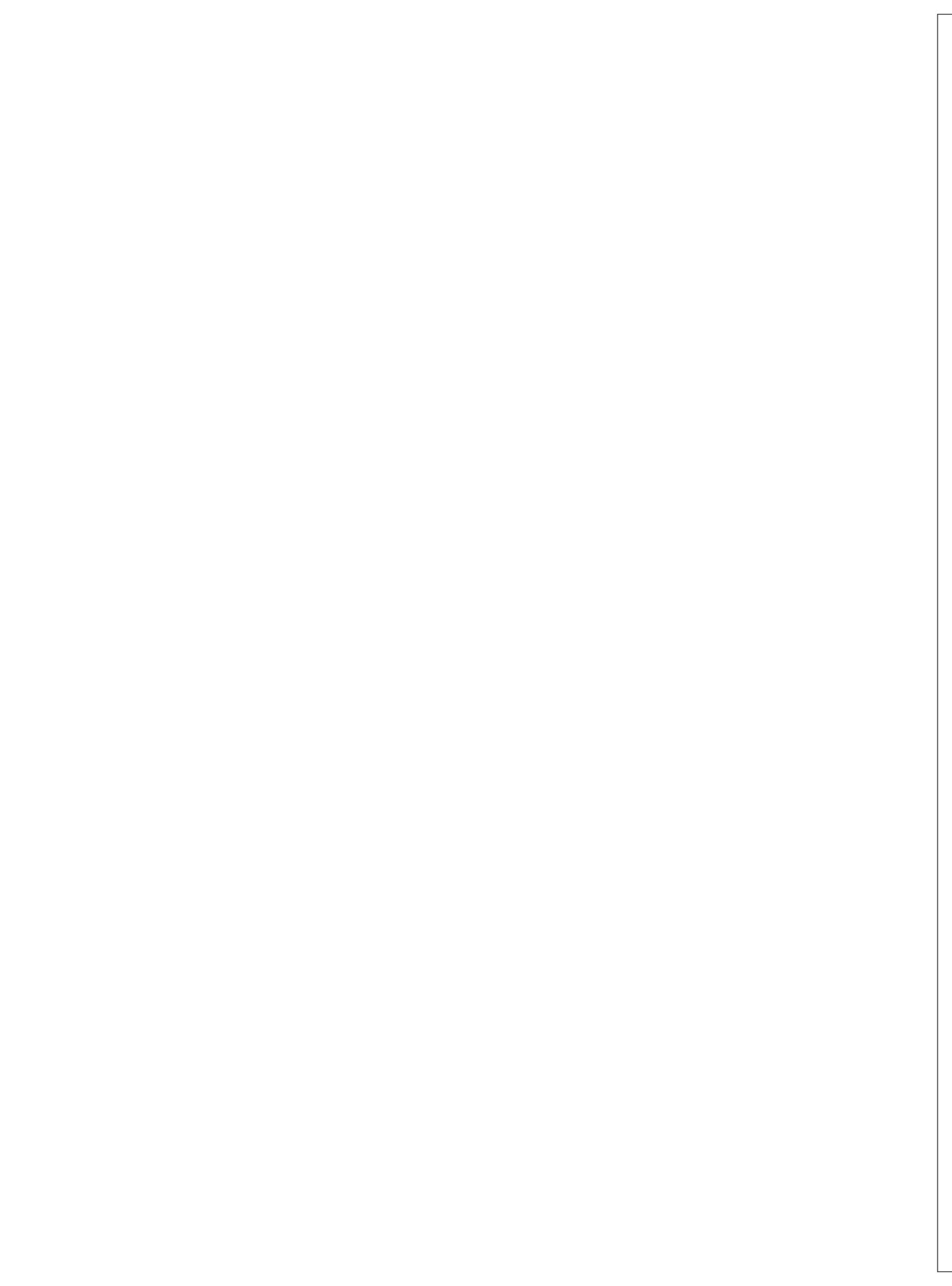
Regarding the issue of lack of knowledge, it has been observed that 67.50 percent of cases in the primary survey opined of not having knowledge about the tax benefits women entrepreneurs are entitled to (include both male and female respondents). However, 25 percent of the female respondents opined that women entrepreneurs get preference in accessing the tax incentives⁵. Our findings from the case studies thus differ in this aspect. Regarding the case study respondents, the level of education and lack of dissemination of knowledge by the tax authority regarding tax related matters has affected them in dealing with tax related issues. The issue of harassment faced by the female entrepreneurs have been mentioned and emphasized by respondents in both the survey and the case studies. Gender discrimination has been reflected in this issue when respondents opined of less number of male entrepreneurs being subject to such problems. The views of stakeholders during the interviews also reflect the limited bargaining capacity of small women entrepreneurs and their harassment both legally and mentally by the tax officials.

⁵ As per the NBR regulation, 100% income derived from any SME is with annual turnover of not more than 24 lakh taka is excluded from taxability.

The status of women entrepreneurs under the current tax structure according to our findings thus include majorly lack of access to knowledge on tax related matters and harassment by the tax officials. In this case, the SME foundation has to some extent provided support to these entrepreneurs. But there is lack of initiative from the part of the tax regulatory authority in assisting the women entrepreneurs on these issues.

4.4.4 Conclusion

It is encouraging for Bangladesh to note that women entrepreneurship is expanding with these women contributing to the financial status of the family and also participating in the socio-economic development of the society. But sustained effort is needed for enhancing their capability as well as creating a suitable business environment for them for setting up and maintaining productive operations. In this context, tax related matters are serious impediments for female entrepreneurship development in Bangladesh, as observed during our study. Under the circumstances, emphasis needs to be put on the implementation of measures prescribed in the policies and regulations for women entrepreneurs. Regarding the awareness building issues, the respondents of the case studies opine that the regulatory authority need to undertake measures for building awareness among entrepreneurs for paying taxes and availing tax benefits. In this case media can play an important role for such measure. The procedural issues of tax payment and availing the existing tax benefit by the women entrepreneurs require training on such matters. These types of training need to be regularly conducted by the regulatory authority at the circle offices in various regions incorporating women entrepreneur in them. For supporting female entrepreneurs under the SME sector with tax related matters, the SME foundation may undertake effective programs to provide information, training and also advocacy with the government on related issues.



SECTION-V

Policy Implication and Recommendation

The deficiency in the existing tax structure of Bangladesh in targeting the growth of enterprises is mainly reflected in its incapability of defining and categorizing enterprises. The inadequate focus on incentivizing the industrial structures of various sizes have led to the insufficient safeguard and promotion measures for the SMEs. Despite the prevailing scopes for using various kinds of tax related instruments for SME growth, these enterprises are being unable to attain their entitled benefits. The incapability can be attributed to the lack of awareness and negative perception of the entrepreneurs about tax regime and thus remaining outside the regulatory environment. In addition to this, a more proactive role of the government is missing in transforming the negative perception of the SME entrepreneurs into optimistic views regarding the existing tax structure and administration.

During the course of the study recommendation has been obtained from entrepreneurs and stakeholders based on which criteria can be developed under which SMEs can get access to government tax benefits. According to the entrepreneurs of SME sector, major emphasis should be given on enhancing government's proactive role in facilitating the process of simplifying the tax structure and enhancing other facilities from the government. These facilities include ensuring access to land for setting up separate SME zone, facilitating marketing of SME product and creating new SME market agencies. Regarding the development of the tax structure, recommendation has been given on making rules and regulations easier, extend easy loan and strengthen rules and regulation against bribery. Enhancing monitoring activities is regarded crucial for encouraging SMEs to follow tax related rules and regulations.

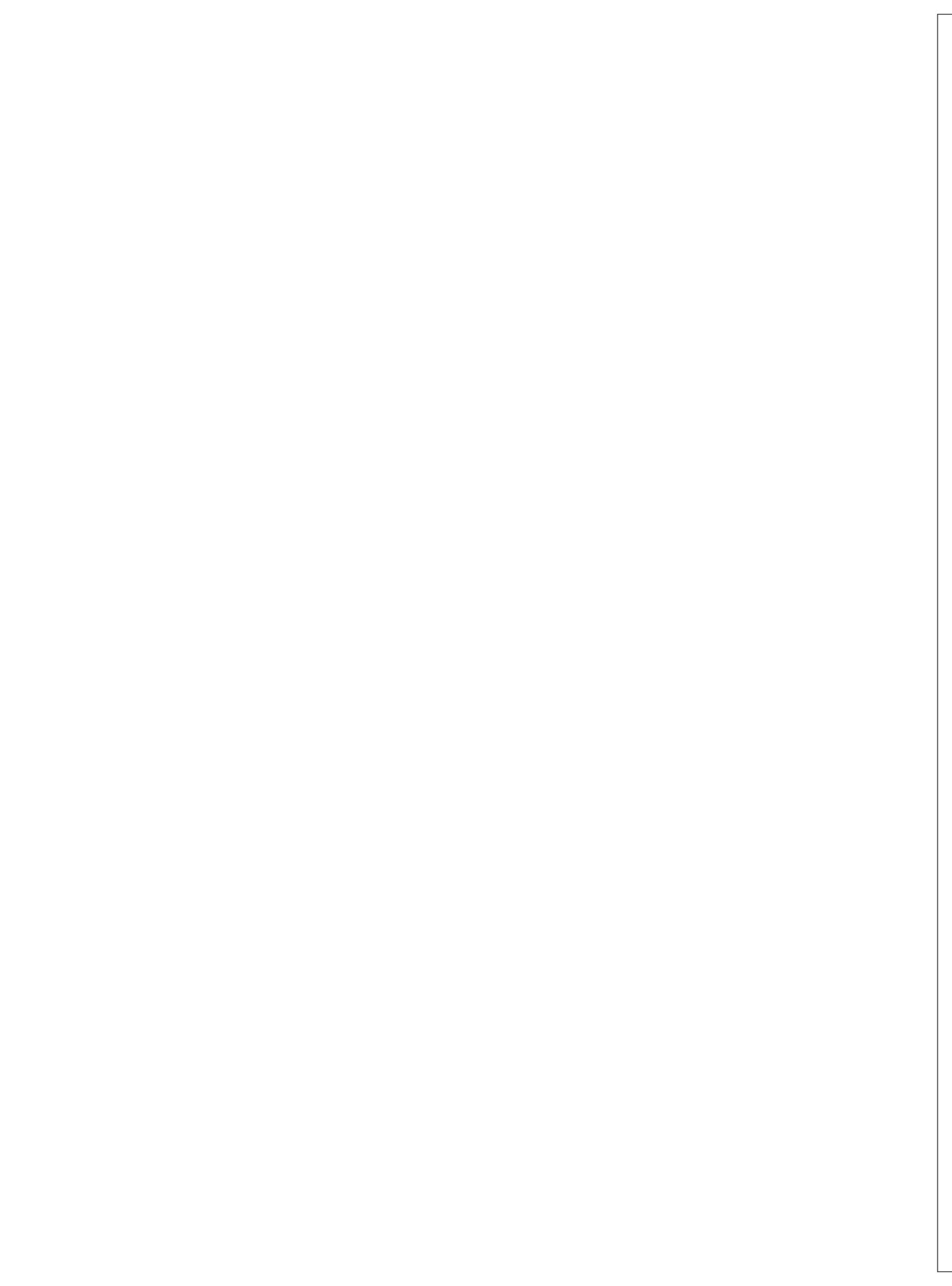
A number of changes have been suggested in existing tax related regulations for SMEs. Major proposed changes include reduction of tax rates, making rules easier for loan processing and tax payment procedure.

Biasness against SMEs is reflected in a part of SMEs remaining undocumented, complicated compliance rules and in addition to this, the compliance cost for remaining under the tax net, as perceived by these enterprises. Stakeholders opined of various policy guidelines for revising the existing tax policies and simplifying the tax structure for making it more convenient and helpful for the small and medium enterprises. Table 37 would reflect the recommendations provided by various stakeholders on tax related aspects.

Table 37: Recommendations For Removing Inefficiencies At The Institutional And Operational Level And Modification Of Tax Regime

Addressing Issues	Addressing Issues	Addressing Issues
Development of Institutional Mechanism for Ensuring Compliance	Simplify tax payment and availing tax benefit procedures	<ol style="list-style-type: none"> I. Deployment of sufficient manpower. ii. Recruitment of competent tax officials in the regional offices and training of these officials in dealing with tax related aspects. iii. Adopt punitive measures for the taxpayers not submitting their tax return in due time iv. Organize public awareness programs such as tax fairs, seminars etc. to enhance the compliance level v. Full automation of the tax authority
Increasing Awareness and Ensuring Spontaneous Response from Entrepreneurs	Transforming the negative attitude of tax payers towards optimistic nature	<ol style="list-style-type: none"> i. Initiate campaigning on the tax payment and other procedure through the media. Significant campaigning required on the incentives and benefits for SMEs in the Industrial policy 2010. ii. Ensure easy access of women entrepreneurs of small to the tax benefits entitled for them according to the Industrial Policy 2010. iii. Tax holiday facility should be extended to 10 years to encourage investment in the sector by potential investors (subject to the potentiality of sectors and impact assessment) iv. The NBR may adopt initiatives for simplifying the tax payment procedures and application procedure for exempting the SME entrepreneurs. As the first step, it is required to arrive at a uniform definition of SMEs. v. The government along with the private sector stakeholders, such as associations and media can actively participate in jointly initiating various programs to support the SMEs, majorly focusing on building awareness among them regarding tax issues. vi. SME Foundation should undertake initiatives to raise the taxpayers' awareness on complying with the tax legislation. Proper guidance may be provided to the entrepreneurs in dealing with tax related issues through trainings and workshops.
Incentives for Increasing Compliance with Tax Regulations	Fostering enterprise growth through ensuring access to the tax benefits	<ol style="list-style-type: none"> i. Identify incentive measures for growth of enterprises through research and development ii. Identify sectors in need of supportive measures iii. Incentives may be provided to the enterprises based on certain criteria, such as, possessing good environmental performance. iv. Keep special incentive structure for women entrepreneurs in the regulations

Record Keeping	Systematic record keeping of the total tax expenditure	<ul style="list-style-type: none"> i. Prepare list and keep record of the various tax expenditure measures for the industrial sector ii. Prepare database of the amount of tax expenditure incurred by the government in each fiscal year
Monitoring and Impact Assessment	Enhance the compliance level with tax regulations and identify the those in actual need of supportive measures	<ul style="list-style-type: none"> i. Adopt a uniform definition of SMEs to identify appropriate policy measures for their development. In this case, the definition of the Industrial Policy 2010 can be considered to be the proper definition. ii. Proper initiatives may be undertaken for monitoring and impact assessment of the various benefits provided to the enterprises. iii. Recruitment of skilled manpower and inspectors in field offices required for efficient monitoring of tax compliance and tax benefits
Punitive Measures for fraudulent practices	Controlling distortion of competitiveness caused by illegal activities	<ul style="list-style-type: none"> i. Adopt and campaign on the punitive measures for enterprises practicing illegal activities through misuse of the tax benefits
Promulgation of tax exemption and concessions	Enhance knowledge of small enterprises on tax benefits they are entitled to	<ul style="list-style-type: none"> I. The NBR may take initiative in promulgating information on tax benefits for SMEs through arranging fairs and special programs in media
Training Facility	Increasing knowledge of entrepreneurs on tax related issues and capacity building of tax officials	<ul style="list-style-type: none"> i. Adopt initiative for organizing trainings for the SME entrepreneurs emphasizing the problematic tax related issues faced by the entrepreneurs ii. Training may be provided by the SME Foundation in keeping records of their tax related annual cost iii. Regular training for tax officials for clarifying their concepts on procedural issues and building their capacity for being informative and more cooperative with the tax payers



SECTION-VI

Conclusion

Policymakers in developing countries such as Bangladesh do try to take various measures to facilitate the industrial development of the country. The incentives provided for industrialisation are to encourage new investments and to facilitate expansion of existing enterprises in selected set of industries. Given the limited resources, policymakers have to prioritize and choose in doing so. An expenditure of about 4 per cent of GDP for tax expenditure in Bangladesh is considered to be high in South Asian standard although given the demand this is hardly enough. The structure and composition of these expenditures raise concerns regarding attainment of the objectives of higher pace of growth, equity, justice and development of the SMEs. More importantly, the structure and composition of tax expenditure eligible for small enterprises indicate a narrow perspective with regard to the promotion and development of industry in general and SMEs in particular. In addition, weak institutional structure and implementation capacity are responsible for lack of effective and appropriate utilization of these resources which impede the achievement of the targeted objectives.

The regulatory authority in Bangladesh does not systematically keep record of the tax expenditure incurred by the government and the detail on the beneficiaries. Given this limitation, it is difficult to ascertain the actual impact of the tax expenditure measures in Bangladesh. Unless proper analysis is done on the nature and extent of impact of tax expenditure measures on SMEs, it cannot be assessed as to what extent the competitiveness of the informal enterprises is being affected. Organized record of these is thus vital for adequate research on the above mentioned issues. The definitional problem of enterprises is an additional problem that needs to be addressed on urgent basis. Compliance with tax administration cannot be ensured and positive impact of the tax expenditure benefits cannot be availed by the entrepreneurs unless their perception can be changed. And for changing their perception, attempts need to be taken for filling up their knowledge gaps on the current tax regime. It is also required to enhance their awareness on availing tax benefits entitled to them. Sustained effort is required for enhancing the access of women entrepreneurs to the tax exemptions and concessions to enhance their capability for setting up enterprises and maintaining productive operations.

For a developing country like Bangladesh it is necessary to keep a balance between the objectives of the government regarding resource mobilization and industrial growth. Considering the importance of the SME sector in the industrialization process, it is necessary to include appropriate tax expenditure measures that would be economically feasible for generating state revenue and fostering growth of the SME sector. Analysis in

this study has identified some avenues that need to be addressed for the possible expansion of the tax base. Through restructuring tax expenditure measures and removing institutional inefficiencies both the objective of revenue generation and enterprise development targeting the SME growth is achievable.

SECTION-VII

Limitations and Areas for Further Research

7.1 Limitation of the study

Various limitations have been encountered during the study period that has to some extent impeded the study process. These limitations have also caused difficulty in conducting analysis as per the initial analytical framework. We discuss below the various issues encountered and how they have affected the analysis.

7.1.1 Non-availability of data on tax expenditure measures

The methodology of the study as planned initially included 'Revenue Foregone' method that required data on the total tax expenditure incurred by the government. The Objective of using this method was to examine the total tax expenditure incurred for the SMEs and for the large industrial units to explore whether SMEs are facing bias compared to the large firms. But such data was not available at the NBR due to which the method could not be used and analysis has been based on the perception of the entrepreneurs of various sized enterprises.

7.1.2 Insignificant number of women entrepreneurs

One of the objectives of this study was to find out the extent to which prevailing biasness in the tax regime disproportionately impact small enterprises managed by women. Another objective was to find out how the productivity of these enterprises is being affected by the existing tax exemptions and concessions. But during the primary survey it has been difficult to find women entrepreneurs. Only 19 women entrepreneurs could be found in the survey areas out of 262 total respondents. Thus to understand their status in the current tax regime views of male and the insignificant number of female respondents has been used for the analysis.

7.1.3 Lack of information obtained for brain drain phenomenon

The study aimed to find out the impacts of biased tax regimes on emigration of entrepreneurs and skilled labors and the extent to which this contributes to 'brain drain' in South Asian countries. No significant information could be obtained for addressing this

research question. Only perceptions of a few entrepreneurs could be collected.

7.1.4 SMEs do not keep record on the compliance cost or other costs on tax related matters

Impact of tax exemptions and concessions could not be estimated due to non-availability of the cost related information. Lack of knowledge of the SME entrepreneurs regarding the components of annual tax related costs and compliance costs led to further problems for the analysis.

7.2 Areas for Further Research for Meta-Analysis

The various limitations encountered during the study have made the researchers realize that there are few aspects under the national tax regime may be brought under analytical research. These aspects are as follows;

7.2.1 Study on documentation required for tax related formalities

During the process of this study, as mentioned before, no accurate information could be obtained from the regulatory authority of other stakeholders regarding the required documents from an enterprise for being compliant with the tax regime and getting access to the tax exemptions and concessions. This matter may be considered for further in-depth analysis.

7.2.2 Building up database for tax expenditure measures

Lack of national database in Bangladesh on total tax expenditure incurred by the government is a crucial issue that needs to be addressed through research. In this context comparable analysis on documentation requirement and the procedure of availing the tax benefits at national level and in other countries may be conducted.

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