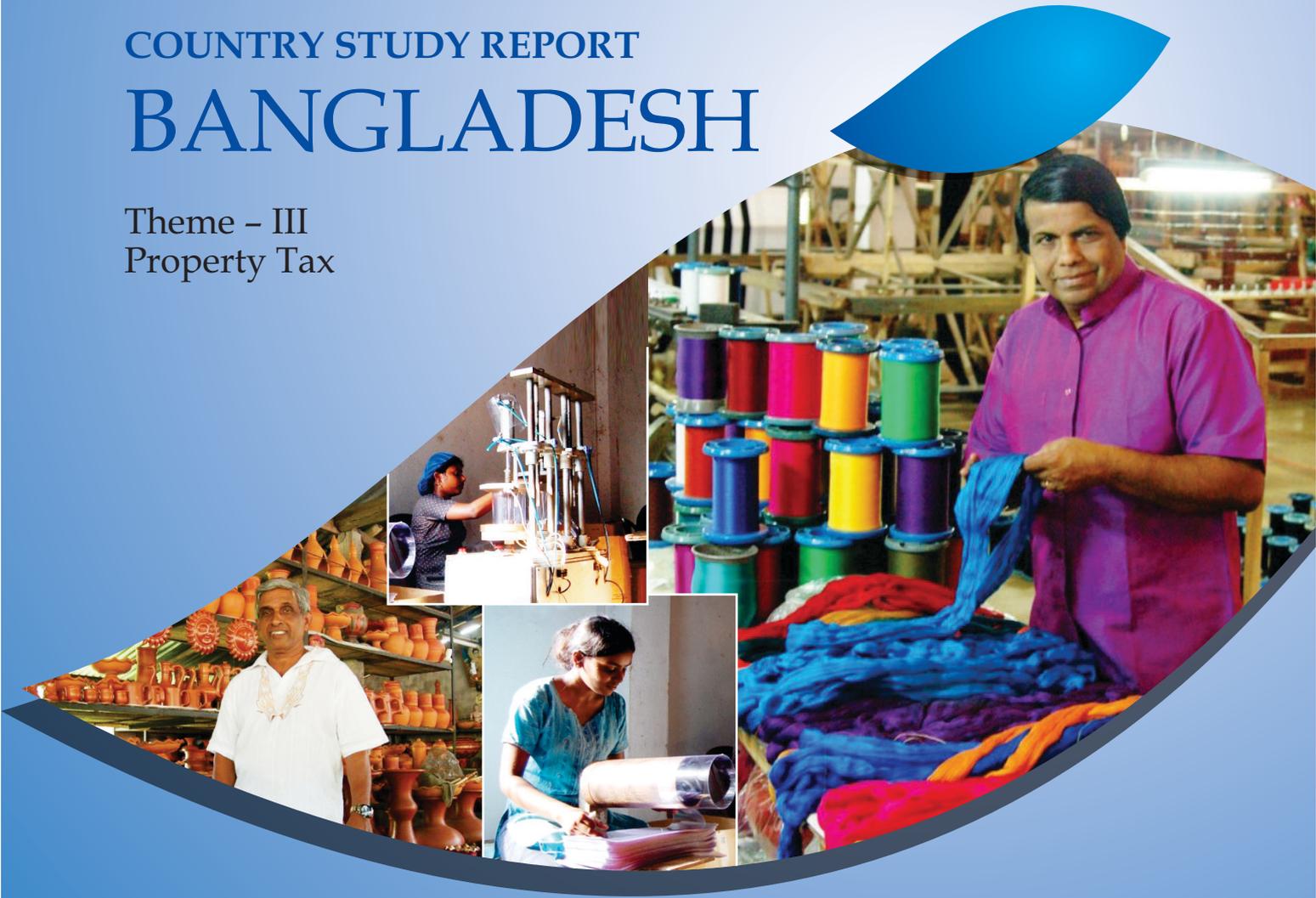




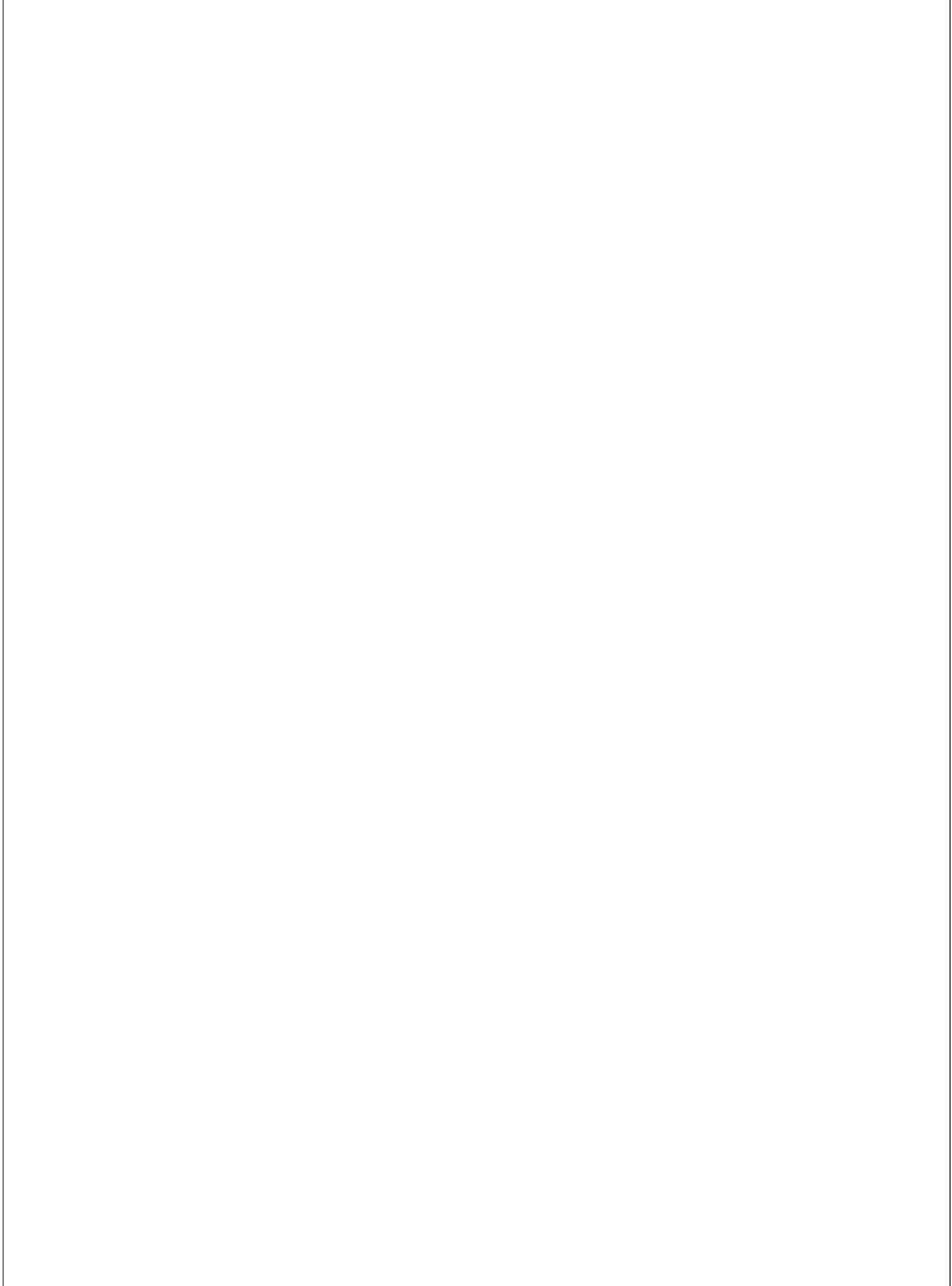
COUNTRY STUDY REPORT
BANGLADESH

Theme - III
 Property Tax



Tax Policy and Enterprise
 Development in South Asia





COUNTRY STUDY REPORT

BANGLADESH

Theme -III: The Impact of Property Tax
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 organizing 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

BDT	Bangladeshi Taka
BSCIC	Bangladesh Small and Cottage Industries Corporation
CPD	Centre for Policy Dialogue
FGDs	Focus Group Discussions
KIIs	Key Informant Interviews
NBR	National Board Revenue
NID	National Identification
SME	Small and Medium Enterprise
UIPT	Urban Immovable Property Tax
USD	US Dollar
VAT	Value Added Tax

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Executive Summary

In general, property tax is the main source of local government revenues in most good-practice countries. However, the situation in Bangladesh is quite different. High taxes for land registration and transfer discourage formal property declaration or promote underreporting of property prices. Land taxation in Bangladesh is seen as a supplemental issue in relation to land policy and administration in Bangladesh. Focused study dealing with property taxation in Bangladesh is almost non-existent, barring some anecdotal commentaries published in periodicals and dailies that do not actually reflect a sound idea regarding existing property taxation system in Bangladesh. Hence, the knowledge gap is quite large and significant.

The ongoing study on “The Impact of Property Tax on Enterprise Development” aims to bridge the gap with a view to providing some policy direction as regards property taxation. It also tried to provide a comprehensive idea about the current state of property taxation in Bangladesh. The study will expect to provide a clear understanding on Bangladesh issues while conducting the regional study for the South Asia.

Standard tools and approaches are followed to conduct the research study. At the field level, data collection is associated with both quantitative and qualitative forms of data. However, due to absence of published sources, quantitative data will be gathered through field survey by using questionnaire from a purposive sample of small and large firms. Text data are to be collected from key informant interviews, case studies and focus group discussion.

A dedicated research team at the Centre for Policy Dialogue (CPD) was deployed for the Bangladesh country study. The study team conducted an enterprise level primary survey with 262 enterprises comprised from 4 different locations in Bangladesh. A number of the samples were drawn from large enterprises and also from enterprises located at special economic zones to provide dimensions for comparison. As per the requirements of the study, the survey accepted purposive sampling methods and remained limited to small sample size. To validate the primary survey results, the study team consulted with key informants from different sectors relevant to SMEs and organised a focus group discussion (FGD) with experts to discuss the issues in a common platform.

The summary findings from the primary survey show (i) Overall land and property tax related issues appear to affect large firms more than SMEs, (ii) Value of land is the basis for Property tax; (iii) Capacity of property tax authority is ‘strong’ - perception of large firm

entrepreneurs. SME entrepreneurs opined the same to be 'somewhat strong'; (iv) Half of the Large firm owners mentioned that operation in owned land helps the growth and expansion of business, while one in every four SME owners feels the same; (v) Lack of capital and lack of suitable location are two defining factors for not owning a land and (v) Land acquisition remains challenging because of procedural complexity, involved cost and transparency in the process.

From KIIs and FGDs it was found that the land tax is determined by the government on the basis of survey on some ad hoc basis and a minimum deed value is usually prescribed for determining land tax. However, the official price list (or deed value) did not update very regularly. It is found that usually a lower "shown price" of a land is mentioned compared to the actual paid price to avoid higher registration fee and incidental taxes. This makes a certain amount of "undisclosed" money earned by the seller from the illicit sale. In terms of record keeping of financial transaction recording, licensed small entrepreneurs have some record-keeping requirement for verification by the higher administrative/licensing authorities or tax authorities. But property tax is so infrequent that financial recording and reporting costs in relation thereto are almost insignificant. In urban areas, the compliance cost in relation to property tax is to some extent visible. But in other areas the toll/rent paid by small entrepreneurs/businessmen are so minimum, that in no way it is an issue of attention. However, acquisition of land, particularly land without dispute, is very difficult in Bangladesh. Since property tax rates are usually low enough to give any discomfort to the owners of small enterprises, it is hardly hampering commercial operations.

SECTION-I

Literature Review

1.1 Data sources

For the purpose of the study on the impact of property tax on enterprise development, sources of data and other information on regulatory framework which may be of use include: the constitution of Bangladesh, various statutes under which property taxes are imposed and collected, the annual reports of the National Board Revenue (NBR), the apex tax authority in Bangladesh, relevant fiscal policy documents of the Government of Bangladesh such as the Report of the Taxation Enquiry Commission (1979) and the Report of the Revenue Reform Commission (2003), the World Bank's An Agenda for Tax Reform (December 1989) for Bangladesh and the IMF's Tax Policy Handbook (Shome 1995). For literature purpose, available research publications have been consulted.

1.2 Key knowledge gaps

In general, property tax is the main source of local government revenues in most good-practice countries (World Bank 2008, vide Nenova, 2010). However, but the situation in Bangladesh is totally different. More than half of the urban population lives in the four largest cities of Bangladesh (Dhaka, Chittagong, Rajshahi, and Khulna) and economic activities are also just as concentrated in the largest metropolitan areas (World Bank. 2007). Nonetheless, collection of property taxation has remained rather insignificant in these areas. The main reason identified by Nenova (2010), was the weak property tax framework in South Asia, where high taxes for land registration and transfer discourage formal property declaration or promote underreporting of property prices. Her findings show that “[r]egistration fees in Bangladesh recently were cut by 1.0 percent, although they remain high, overall at 10.2 percent. Simple reforms can have a big impact. Bangladesh can encourage formal property transactions by further reducing the registration fees and stamp duties (3 percent and 5 percent of the property value, respectively)”.

There are three types of land-related property taxes in Bangladesh – one local tax (holding tax) and two other central taxes (land development tax and immovable property transfer tax) [CARE Bangladesh 2003; Stotsky and Yücelik 1995]. Holding tax is currently being collected by the local governments at different strata of public administration–City Corporation, Municipality (Pourashava in vernacular language), or Union Council (Union

Parisad in vernacular language). In accordance with the provision of Article 60 of the Constitution of the People's Republic of Bangladesh, local government bodies have been provided, under law to be enacted by the Parliament, the power to impose taxes for local purposes, to prepare their budgets and to maintain funds. Legal sources of collecting this holding tax by local governments include the Local Government (City Corporation) Act 2009, the Local Government (Pourashava) Act 2009 and the Local Government (Union Parisad) Act 2009.

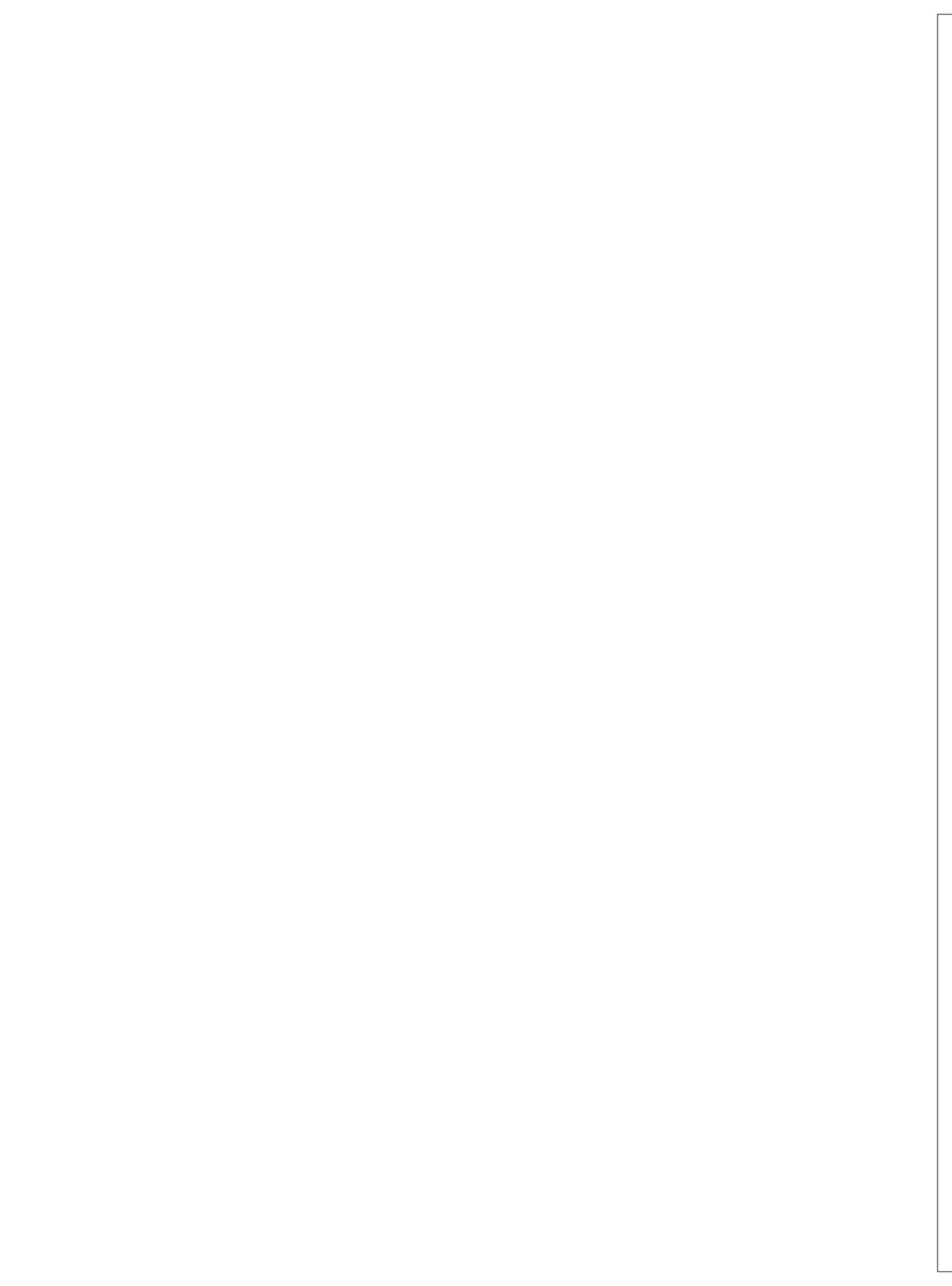
The Land Reform Board (LRB) in the Ministry of Land (MOL), through Upazilla (sub-district) Land Offices and Union Tehsil¹ offices, collects the Land Development Tax (LDT) under the Land Development Tax Ordinance 1976. The LDT refers to land revenue and other taxes (development and relief tax, and local rates) previously collected in a scattered manner under different tax statutes. The Department of Land Registration in the Ministry of Law, Justice and Parliamentary Affairs collects the Immovable Property Transfer Tax (CARE Bangladesh 2003). Immovable Property Transfer Tax consists of non-judicial stamp duty under the Stamp Act 1899 and capital gain tax under the Income Tax Ordinance 1984. Here, immovable property mainly includes land in urban and rural areas. But capital gain tax on rural agricultural land is usually exempted. 'Land revenue' provides only 0.52 percent of total taxes (BDT 6.08 billion targeted in the budget of 2012-13), and revenue from 'stamp duty (non-judicial)' is around 2.38 percent of total taxes (a BDT 27.85 billion target has been set in the 2012-13 budget). The share of 'immovable property transfer tax' in total income tax is about 7.5 percent, which is about 0.93 percent of total tax (NBR's Annual Report 2008-09). Agricultural income tax is related to agricultural produce from land or any nearby building used for agricultural outhouse or storehouse. Since agricultural income tax is within the ambit of overall income taxation of a taxpayer, and there is no separate statistics on the tax on agricultural income, it is difficult to evaluate its impact on employment or labor-migration. In Bangladesh, any person having other taxable income in addition to agricultural income is usually supposed to pay agricultural income tax, because the normal initial exemption limit for total income for a 'pure cultivator' will be BDT 50 thousand more. Because of absence of any enforcement concerning rural inhabitants by the income tax department, there is no effective tax on the agricultural income.

The study by CARE Bangladesh (2003) has discussed land taxation in Bangladesh as a supplemental issue in relation to land policy and administration in Bangladesh. Bhowmik and Bala (2010) have mentioned the changes in property-related capital gain tax regime in a particular fiscal year (2010-11). Focused study dealing with property taxation in Bangladesh is almost non-existent, barring some anecdotal commentaries published in periodicals and dailies that do not actually reflect a sound idea regarding existing property

¹ Lowest union-level revenue unit comprising several mouza (revenue village).

taxation system in Bangladesh. For instance, Ahmed (2007) has argued in favor of “the critical need for introducing this taxation not only with a view to making this a potent source of revenue for urban financing, but even more importantly, to correct the severely distorted incentives for resource allocations and also to moderate the spiraling urban land prices,” although there is holding tax per se. In a recent World Bank document (Doing Business 2013–Economy Profile: Bangladesh), property tax of Bangladesh is mentioned as municipal tax, which is paid once with a statutory tax rate of 10 percent on tax base of rental value; as a percentage of profit the rate is 9.2 percent (World bank, 2013).

Thus, the knowledge gap is quite large and significant. The ongoing study aims to bridge this gap with a view to providing some policy direction in this regard.



SECTION-II

Conceptual / Theoretical and Analytical Framework

2.1 Theoretical perspective

The impact of property tax on small enterprise development is expected to be appraised using a theoretical lens of the deterrence model of tax. The deterrence model (developed and adopted by Michael Allingham and Agnar Sandmo (1972) drawing directly from Gary S. Becker (1968)), following the familiar economic analysis of punishment, implies that tax penalties should be severe enough that taxpayers expect the costs of noncompliance to exceed the costs of compliance (Doran, 2009).

The approaches to research to be followed are the mixed methods, employing the data collection associated with both quantitative and qualitative forms of data. However, due to absence of published sources, quantitative data will be gathered through field survey by using questionnaire from a purposive sample of 50 to 100 small firms. Text data are to be collected from key informant interviews, case studies and focus group discussion.

2.2 Definitions of Key Concepts and Constructing Parameters

Property tax: This is obviously a tax on property; however, the property does not include only land. But as envisaged in the research design, it would cover primarily land-related property taxes.

Small firm: In the context of rural area in Bangladesh, small firm covers any temporary or permanent establishment to run a business on a regular or seasonal basis.

2.2.1 Hypothesized Relationships between Parameters

In Bangladesh, land acquisition for constructing a permanent establishment for operating a business venture by a small firm is not a frequent event. But an organized market, where

many small firms operate, is usually a government property. The vacant land may be leased to small firms against a periodic rent, where they may run their business on a specific hatbar (market day) or even they may be allowed to establish a permanent establishment for longer-term contract. In urban area, the type of business operations is almost daily except a pre-declared holiday. In rural area, it is infrequent but at a regular interval. However, there is regularity in presence by small firms. Since there are no such previous studies, the implications of taxes/fees/tolls/rates on small firms are yet to be predictable. But on the experience survey, it is observed that if all the authorized taxes are properly being collected by a local government, it would cause severe impacts. Usually, the local governments are reluctant for political reasons (or for largely funded by central government) or incapable in imposition and collection of all property-related taxes they are allowed to do under their statutes. Following are some important statutory taxes under the local government Acts, of which very few are really collected or if collected, the gravity is usually bearable:

- Tax on annual value of land and buildings;
- Tax on transfer of immovable property;
- Tax on application for erection or re-erection of building;
- Tax on professions, trades and callings;
- Tax on animals;
- Tax on vehicles other than motor vehicle and boats;
- Fees for markets; and
- Fees for granting license, sanctions or permits.

2.3 Research Questions

Based on the hypothetical relationships to be investigated, the following research questions will need to be addressed:

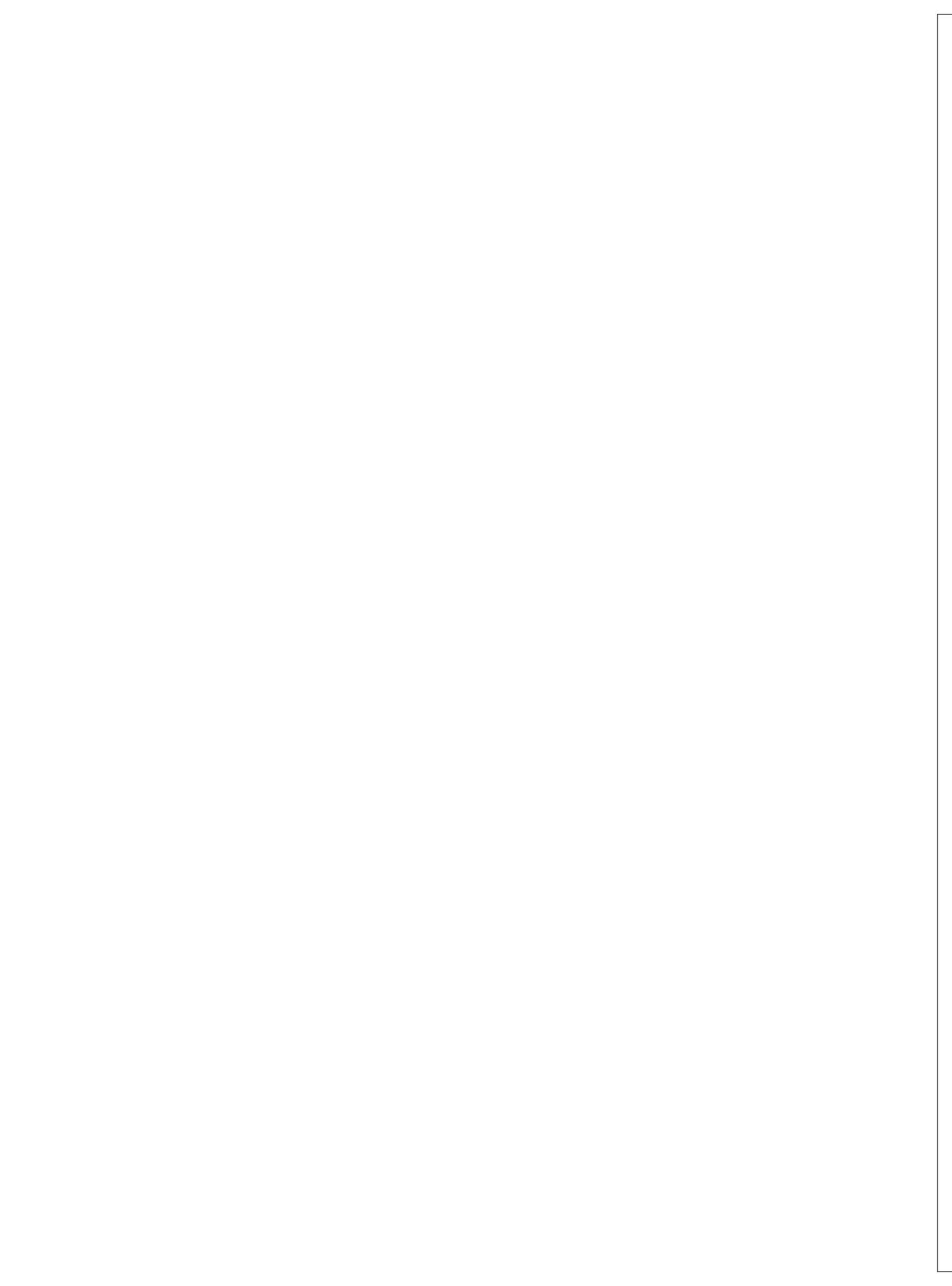
- i. What is the rationalization of industrial estate tax incentives for the enterprise development?
- ii. What is the tax differential for different types of industrial estate locations?
- iii. What are the factors due to which firm's avoid to register for property tax?

- iv. What are the criteria of land acquisition (Land Tenure) and ownership (property rights) system of small enterprises?
- v. What are the issues of dual ownership of land?
- vi. What is the impact of industrial estate tax/Urban immovable property tax on the firm's (registered for property tax) sales, productivity/revenues and growth of small enterprises (contribution to employment generation) in different industrial areas.

2.4 Level of Analysis

Bangladesh is a small country and ruled under a uniform jurisdiction. Due to resource constraints as well as limited accessibility, perhaps it may not be possible to conduct analyses beyond national level. The service sector in Bangladesh is very diverse and difficult to cover adequately given the study limitation. Hence, the analysis will be limited to the manufacturing sector. As mentioned above, the study will follow Industrial Policy's definition for SME; hence cottage and micro enterprises will not be covered in the study.

Although the volume of property taxation is very limited in Bangladesh, it is still not being properly collected by the appropriate authorities. Consequently, there are a number of problems with respect to property taxation on small firms, particularly with respect to undervaluation, absence of self-assessment scheme, discretionary exemptions, favored treatment to some groups for personal reason or incapability of administration due to lack of efficient and dedicated revenue officers, etc. Based on survey findings in terms of revenue performance of property taxes, revenue assignment among different tiers of government (central, city corporation, municipality, and union council), revenue collection, and patterns of land acquisition, ownership and control, the depth and breadth of the problems will be found out with reference to differences in various aspects of the firms such as size, age, revenue volume, productivity, self-managed/employee-managed, etc. Due to secondary data constraints and given the limitation of using a nationally representative sample, it is hardly possible to apply any analytical model for measuring any impact of property taxation on SME development.



SECTION-III

Key Results and Findings

3.1 Results of the survey

The primary survey conducted under the research program 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 specialized 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 subsidized 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.

3.1.1 Firm Characteristics

3.1.1.1 Registration status

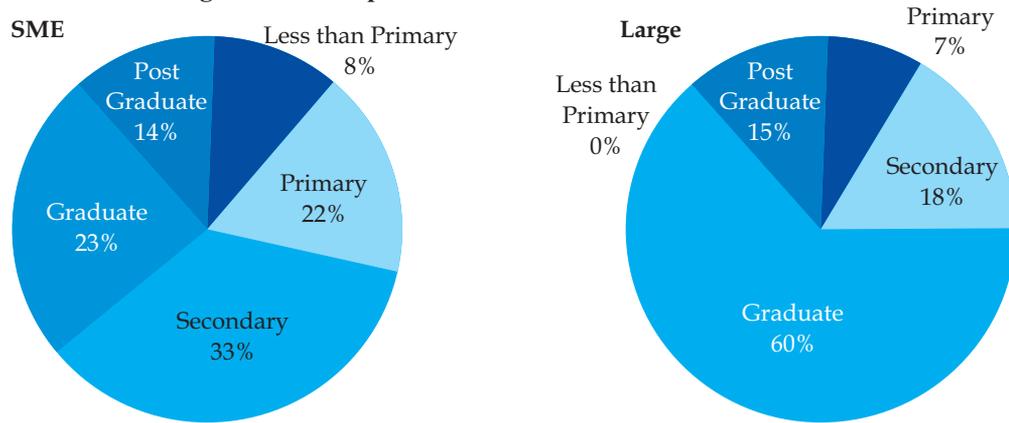
Out of 262 firms surveyed only 4 firms are found to be non-registered. These firms belonged to the SME category. About 50 per cent of the firms are found to be registered with City Corporations which issue trade license. The other authorities which are entitled to give registration are Upazilla Parishad, Union Parishad, 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 1: Number of Enterprises Surveyed by Location

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

Source: CPD Primary Survey, 2013

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 1: Educational Background Of Proprietors

Source: CPD Primary Survey, 2013

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 2: 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

Source: CPD Primary Survey, 2013

3.1.1.2 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 3: 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

Source: CPD Primary Survey, 2013

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 4: 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

Source: CPD Primary Survey, 2013

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 5: 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

Source: CPD Primary Survey, 2013

3.1.1.3 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 6: 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

Source: CPD Primary Survey, 2013

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, and financial considerations of staff, are 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.

3.1.1.4 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.

3.1.2 General Tax Behavior

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.

3.1.2.1 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 7). 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 8). 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

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

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.

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 8). 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 7: 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 8: Responses with Regard to Payment of Different Kinds of Taxes

	Response	Percent (out of total 252 tax payers) Response
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 during KIIs and FGDs. In general, firms located in Dhaka are better tax compliant compared to those 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 7). 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 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 9: 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

3.1.2.2 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 criticized on many grounds. About 80 per cent of survey-respondents either strongly or moderately agreed that structure of tax was not favorable 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

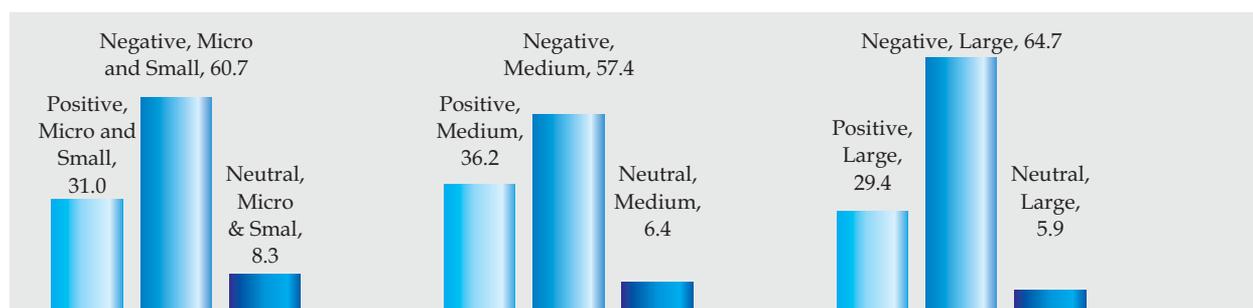
properly (Table 10). A large division in responses indicates issues and concerns from both sides with regard to determination of tax payable income/sales, amount of taxes, settlement of taxes etc.

Table 10: 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 1). 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 11). Because of weaknesses and in efficiencies 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 12). Overall, there is scope for improving the existing tax structure, tax administration and tax collection processes in order to make them business friendly.

Figure 1: Perception of Entrepreneurs of Various Sized Enterprises on the Existing Tax Structure

Source: CPD Primary Survey, 2013

Table 11: 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 12: 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

3.1.2.3 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 13 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 13: 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 14, 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 'unauthorized' payments (Table 14). 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 14: 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 15). 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 16). 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 15: 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 16: 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

3.1.2.4 Willingness to Formalize

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. Curiously, 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 17). 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 formalize does not seem to be associated with enjoying tax benefits.

Table 17: 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

3.1.3 Impact of Property Tax on Enterprise Development

3.1.3.1 Property Tax Compliance

Out of 262 respondent firms (85.1 per cent small and 14.9 per cent large), around 37.8 per cent have been found to be property tax compliant (36.3 per cent of SMEs and 46.2 per cent of large firms; 67.6 per cent in BSCIC areas and 32.9 per cent in outside of BSCIC zone). Out of respondent firms (37.0 per cent of total), SMEs pay annual property tax at around USD 2.50 to USD 1,560 with an average of USD 60, whereas large firms pay annual property tax at around USD 40 to USD 875 with an average of USD 260 (overall range is around USD 2.50 to USD 1,560 with an average of USD 100). 82.4 per cent of the reporting firms (only 99 firms reported) pay either commercial or industrial property tax. However, no large firm pays residential property tax (18 large firms reported). Conversely, 17 SME firms reported that they pay residential property tax (21 per cent of the SME respondents). This implies informal nature of the SMEs. It should be noted here that residential property tax is related to land on which the residential building is established. However, it has no relation with the nature of business operating in it.

3.1.3.2 Property Tax Valuation

About three-fourth of the respondent firms (response rate was 87.0 per cent of total) have mentioned value of properties as the criteria used for imposition of property tax.

Table 18: Criterion Used for Imposition of Property Tax

Criterion	Freq.	% of Responses
Value of land only	55	24.1
Value of land & building only	77	33.8
Value of land, building & machinery only	38	16.7
Number of employees	2	0.9
Annual sales / turnover	18	7.9
Annual fixed amount	38	16.7
Total responses	228	100.0
Non Response	34	13.0 (% of total)

Source: CPD Primary Survey, 2013

3.1.3.3 Capacity of Property Tax Administration

97.3 per cent of total firms have responded to the question related to the capacity of the tax administration. Only 22.4 per cent of them have perceived the capacity of the property tax administration as either very poor (1.2 per cent) or poor (21.2 per cent).

Table 19: Property Tax Administrative Capacity

Response	SMEs (%)	Large Firms (%)	Total (%)
Very poor	1.4	0.0	1.2
Poor	23.2	8.6	21.2
Somewhat strong	28.6	25.7	28.2
Strong	37.7	62.9	41.2
Very strong	9.1	2.9	8.2
Total Response	100.0 (220)	100.0(35)	100.0(255)
Non Response	1.3(3)	10.3(4)	2.7 (7)

Note: figures in parenthesis represent the total number of firms

Source: CPD Primary Survey, 2013

3.1.3.4 Impact of Property Tax

Of the respondent firms, 28.0 per cent (28.8 per cent of SMEs and 23.7 per cent of large firms) think that property tax payment plays an important role in selecting location for their business. However, 34.0 per cent respondent firms (32.3 per cent of SMEs and 42.5 per cent of large firms) think that the type of property a firm operates affect its decision to develop/expand the business. 26.0 per cent of the firms responded that the land ownership of a firm helps in business for following reasons:

Table 20: Benefits of Having Owned Land

Reasons	SMEs (%)	Large Firms (%)	Total (%)
Owner of the land doesn't need to give rent and consequent production cost decreases	21.0	5.6	17.5
Operation in owned land helps the growth and expansion of business and vice versa	24.2	50.0	30.0
Marketing and acceptance of business increases in industrial area and developed area	17.7	16.7	17.5
Access to formal credit would be easier in case of owned land	11.3	0.0	8.8
Stability of business	4.8	16.7	7.5
Operation become easier	17.7	11.1	16.3
Laborer could be inhabited	3.2	0.0	2.5
Total	100.0	100.0	100.0
Responses rate as % of total	22.9 (51)	43.6 (17)	26.0 (68)

Note: Total number of response in parenthesis

Source: CPD Primary Survey, 2013

3.1.3.5 Land Acquisition and Transaction Costs

136 firms (51.9 per cent of total) provide their responses (of which 54.7 per cent of 223 SMEs and 35.9 per cent of 39 large firms gave responses) on the issues regarding land acquisition cost. The respondent firms think that they do not own the land for their business due to following reasons:

Table 21: Reasons for Not Owning Land

Reasons	SMEs (%)	Large Firms (%)	Total (%)
Lack of capital	74.1	56.3	72.3
Lack of suitable place	16.8	12.5	16.4
Excess price of land	4.2	--	3.8
Lack of saleable land	1.4	12.5	2.5
Favorable low price of BSCIC leased land	--	6.3	0.6
Not decided yet/ will buy in future	2.1	6.3	2.5
Condition of business is adverse	--	6.3	0.6
Not interested to buy/ renting is better	1.4	--	1.3
Total	100.0	100.0	100.0

Source: CPD Primary Survey, 2013

Three supplementary questions were asked to the firms concerning procedural complexity, cost involved and transparency of process in acquisition of land. 100 per cent response and high negative perception were evident from their response. 92.7 per cent (91.9 per cent of SMEs and 97.4 per cent of large firms) think that the procedure of land acquisition in Bangladesh is complex; 84.0 per cent (83.0 per cent of SMEs and 89.7 per cent large firms) think that the procedure of land acquisition involves high cost; and 96.2 per cent (95.5 per cent of SMEs and 100.0 per cent of large firms) think that corruption is rampant in land acquisition process.

However, according to responses by 88.5 per cent firms (88.8 per cent of SMEs and 87.2 per cent of large firms); following are the major problems/issues that land markets create for their business (in accordance with ranking):

Table 22: Land Market Related Barriers with Regard to Business

Response	Ranking by Firms*		
	SME	Large	Total
Lack of sufficient land nearby/ lack of suitable land/ lack of land/ vacant land is difficult to find	1	56.3	72.3
Complicated rules and regulation/ ignorance on procedures	2	12.5	16.4
Lack of sufficient money/ lack of money	3	--	3.8
Bribery and corruption	4	12.5	2.5
Overall harassment/ harassment and cheating of brokers / local extortion/ harassment	5	6.3	0.6
Administrative complication/ problem by Govt. officials	7	6.3	2.5
Expensive/ increase in expense/ overpriced land	6	6.3	0.6
Political effect	9	--	1.3
Nepotism	8	100.0	100.0

**Based on percentage of response.
Source: CPD Primary Survey, 2013*

Other problems related to land market that affect business include (according to ranking): difficult to over-root nearby slum; lack of power/manpower; surroundings; lack of government patronage; powerful owner of land; have to provide compensation; and loss of time. However, an insignificant fraction (1.1 per cent of responses) does not need any acquisition of land also.

3.1.3.6 Property Tax Compliance Costs

On an average 38.1 per cent firms (36.2 per cent of SMEs and 48.7 per cent of large firms) have responded (with high response rate) positively with respect to queries on accounting and property tax. Individual issue-wise responses are as follows:

Table 23: Positive Response on Queries on Accounting and Property Tax

Positive Response on Queries on Accounting and Property Tax	Small Firms (%)	Large Firms (%)	Total (%)
Do you maintain any books of accounts and/or other documents?	38.9	56.4	41.5
Do you submit any document to the authority collecting property tax?	37.6	53.8	40.0
Do you hire any tax professional for paying property tax?	28.5	38.5	30.0
Do you think the property tax is burdensome on your business?	39.8	46.2	40.8

Source: CPD Primary Survey, 2013

Of the surveyed 262 firms, 38.9 per cent (36.8 per cent of SMEs and 51.3 per cent of large firms) have mentioned their time needed for property tax accounting (in terms of annual man-hour). Formal time keeping is rare in case of SMEs. Even for large firms that were surveyed, quite a few firms have mentioned their annual man-hour count for handling tax related issues including property tax. One such firm was recorded from the survey that has a year round full time employee for tax accounting.

Out of respondent firms (40.5 per cent of total), SMEs incur average extra cost of around USD 29 per annum for property tax accounting, and large firms incur average extra cost of around USD 57 for the same (overall average of USD 35).

3.1.3.7 Property Tax Administration Experiences

A significant number of respondent firms (85.2 per cent of SMEs and 87.2 per cent of large firms) identify following problems they have faced in relation to property tax (in accordance with ranking):

Table 24: Problems Faced by Firms in Relation to Property Tax

Response	Ranking by Firms*		
	SME	Large	Total
No problem for non-payment or payment at a little amount	1	1	1
Frequent asking for increased volume of tax	2	4	2
Discretionary valuation of property by taxmen	3	2	3
Frequent asking for submission of various documents	4	5	4
Absence of self-assessment scheme	5	3	5
Absence of dedicated revenue officer for collection of property tax	6	6	6
Frequent visits of taxmen causing business disturbance	7	6	7

**Based on percentage of response.
Source: CPD Primary Survey, 2013*

It is interesting to note here that most frequent problem that the firms faced was 'no problem for non-payment of tax'. It clearly indicates the enforcement related weakness in collection of property tax. Conversely, it is also evident from second highest response (Table 24) that tax officials pay their routine visits to firms and frequently asked small entrepreneurs for their incremental contribution to taxes. This is because the taxmen have their individual targets of collection and they try use limited bargaining capacity of small enterprises. That is why this not the second frequently faced problem by large firms. However, the real impact of this practice in raising tax turnover is rather low or insignificant.

3.1.4 Summary of Key Findings from Survey Data

- Overall land and property tax related issues appear to affect large firms more than SMEs.
- Value of land is the basis for Property tax
- Capacity of property tax authority is 'strong' - perception of large firm entrepreneurs. SME entrepreneurs opined the same to be 'somewhat strong'
- Half of the Large firm owners mentioned that operation in owned land helps the growth and expansion of business, while one in every four SME owners feels the same
- Lack of capital and lack of suitable location are two defining factors for not owning a land
- Land acquisition remains challenging because of procedural complexity, involved cost and transparency in the process

3.2 Results of Key Informant Interviews

3.2.1 Valuation

Current property tax is rarely based on actual transaction value of the property. The land tax is determined by the government on the basis of survey on some ad hoc basis and a minimum deed value is usually prescribed and available in Tahsil Office. The official price list (or deed value) is not updated very regularly. It is found that usually a lower “shown price” of a land is mentioned compared to the actual paid price to avoid higher registration fee and incidental taxes. This makes a certain amount of “undisclosed” money earned by the seller from the illicit sale, or if the buyer has already certain amount of “undisclosed” money, s/he can use that in financing the land acquisition. In Bangladesh, Internal Resources Division under Ministry of Finance and Tahsil office under Ministry of Land are jointly responsible for valuation and assessment of land property as a part of the Central Government. Local government is also responsible partially at Upazilla level property tax.

However, when an entrepreneur may try to buy a land for his/her enterprise s/he may like to show a higher price of the purchased land. The higher price of land shown in the legal documents helps to access large credit from the commercial banks. As a result some entrepreneurs applied this trick.

The price of land is increasing and in many cases they are no longer affordable for SMEs. The usage pattern of land is changing very fast in Bangladesh, particularly in rural and peri-urban areas. The agricultural lands are now being used for industrial and commercial purposes. However, the land survey is not regular and thus the owners are not paying taxes for them as agricultural land is exempted from tax (up to 25 bighas).

Currently local government tax and capital gain tax and VAT are collected against transfer of property. In general, the Local Government (City Corporation, Cantt. Board, Municipal area, Zilla parishad and/or Union parishad) collects 1 per cent tax on deed value of non-agricultural lands. The central government also collects capital gain tax at source at 2 per cent rate. The sellers have to pay 1.5 of VAT for the sale of the property. Besides that, different fees are applicable for mortgage, registration of transferred/leased/trust deed of property.

3.2.2 Administration Capacity

The property tax collection is very irregular in Bangladesh. Usually the land related property tax is paid by the owner after five to ten years. Since the rate is very low neither the collector nor the owner finds it necessary to pay it on an annual basis. Usually the tax is paid at the time of land buying and selling or transfer of ownership otherwise.

During the time of buying and selling, the registration fee and incidental property tax (non-judicial stamp, rent of the land, capital gain tax etc.) of the land are determined on the basis of land price. The fee and taxes are legally required to be paid by the sellers. However, it is found that the buyers usually pay this fee and taxes in practice in the name of the seller. This is for lack of knowledge on the parties involved in the transaction process and the tax administrators' unwillingness on verifying everything, especially the issue of tax payment, in compliance with legal formalities.

Overall awareness and knowledge level about the property tax and overall tax system in Bangladesh is low among the SMEs. They have to rely on lawyers or local agents for this.

The union council has a number of locations listed as haats/bazaars. Some of these haats/bazaars are leased out by the Government to the private entities against a yearly payment (often based on a tender). These private entities are responsible for collecting tolls/rents from the entrepreneurs who assemble in that haat/bazaar to sell their products. There is a government circular which clearly mentions how much toll/rent can be collected from a shop. However, in most cases this rent is determined by the notional "ability" of the shopkeeper perceived by the collecting agents. This can be higher or lower (usually lower) than the official rate.

There is a list of such haats/bazaars prepared by the local government. However, in a number of areas new haats/bazaars have emerged to meet the local demand. However, updating such a list is not regular; as a result the local government is missing revenue. Usually these haats/bazaars are managed and maintained by the respective "bazaar committee". The rent, paid by the shopkeepers is not burdensome and determined by the mutual understanding. The rent is used to maintain and development of the bazaar. A portion of the rent also goes to government's revenue portfolio. However, rents are collected in the form of unrequited payment to the government. In a sense, one could assume it equivalent to tax as the bazaar does not get any direct benefit from the government for the payment.

It was found there is a growth in economic activities in the rural part of Bangladesh. A wide range of economic activities including small manufacturing, goldsmith, beauty parlor, and mobile shops (sales and service) can be observed during the last decade or so. However, these enterprises are not under the tax system. These economic activities mostly remain outside the official tax net (although they are supposed to pay annual VAT @ BDT 3,000 in FY2013-14). They are operated in both residential houses (can be termed as cottage industries) or in privately owned rented shops. In these cases property tax is rarely enforced.

The KIIs in an urban area (which is a growing industrial and commercial place situated just outside the capital (Dhaka) have stated that the municipal corporation leases out the local bazaar to a private entity on an annual basis upon payment of a gross rent (based on tender). This private entity is responsible for collecting tolls/rents from temporary shops. This rent is paid on daily basis. The rate of rent per entity is more-or-less fixed and determined by the toll/rent collectors on the basis of affordability of the shopkeeper.

The local transports (auto-rickshaws and rent-a-car) parking is also leased out similarly. This rent is paid by the auto-rickshaws and rent-a-car on daily basis. The rate of rent per vehicle is determined by toll/rent collectors.

3.2.3 Record-keeping

Licensed small entrepreneurs have some record-keeping requirement for verification by the higher administrative/licensing authorities or tax authorities. But property tax is so infrequent that financial recording and reporting costs in relation thereto are almost insignificant. In rural/peri-urban areas, even the receipts of toll/rent are not given by the collectors.

3.2.4. High Compliance Costs

In urban areas, the compliance cost in relation to property tax is to some extent visible. But in other areas the toll/rent paid by small entrepreneurs/businessmen are so minimum, that in no way it is an issue of attention. The local government representative has opined that the rent rate (equivalent to property tax) for shop-owners (temporary) in rural haats/bazaars is not burdensome for the entrepreneur. The rent collector does not provide any receipts upon payment of such tolls/rents. The shopkeepers and the auto-rickshaw owners in urban areas who are paying toll/rent do not find it burdensome.

However, acquisition of land, particularly land without dispute, is very difficult in Bangladesh. For that reason, there are other costs paid to local land and Tahsil offices to make the land free of dispute (finding the previously registered real owner, owners of the surrounding lands, outstanding land rents, types of land – null or agricultural, etc.). These costs are not so burdensome in financial figure, but other psychic costs might be more penalising.

3.2.1 Anti-commercial Bias in Tax Rates

Since property tax rates are usually low enough to give any discomfort to the owners of small enterprises, it is hardly hampering commercial operations. There are no

differentiated property tax rates for owner occupied and rented properties. The value of tax depends on the value of and/or the purpose of use of the property. However, there are some sorts of discriminations among shopkeepers (e.g., sellers of low-value commodities vs. sellers of high-value commodities) by charging same amount of toll/rent without considering the sales volume.

3.3 Results of Focus Group Discussions

3.3.1 Valuation

In Bangladesh, Government may fix a small property tax rate based on actual transaction value primarily considering the protection of existing revenue only. The Central Intelligence Cell (CIC) at NBR may find out the location specific real transaction value of various real estate properties at a regular interval and then those values may be prescribed and updated regularly. Digitisation of lands in Bangladesh and ensuring its online availability might be a good step to classify the lands and to sort out all pending disputes. Increasing formal taxpayers who will disclose all expenditures and asset acquisition at actual might be another steps to resolve valuation related problems.

3.3.2 Administrative Capacity

Competency of human resources in the tax administration and incentives for collection of taxes were mentioned as areas to improve administrative capacity.

3.3.3 Record-keeping

Digital mapping of all lands, mentioning the last transaction value mentioned in deed of registration, and linking the NID (National Identification) of the land owners could be a solution to improve record-keeping.

3.3.4 Compliance Costs

In some cases (particularly in BSCIC area), there is a possibility of double taxation on property because of dual administration. Otherwise property tax compliance cost is not burdensome in Bangladesh.

3.3.5 Anti-commercial Bias in Tax Rates

There is bias in doing commercial activities at residential houses through lower rate of property tax. However in case of small business operated commercial spaces property tax rates are also not burdensome.

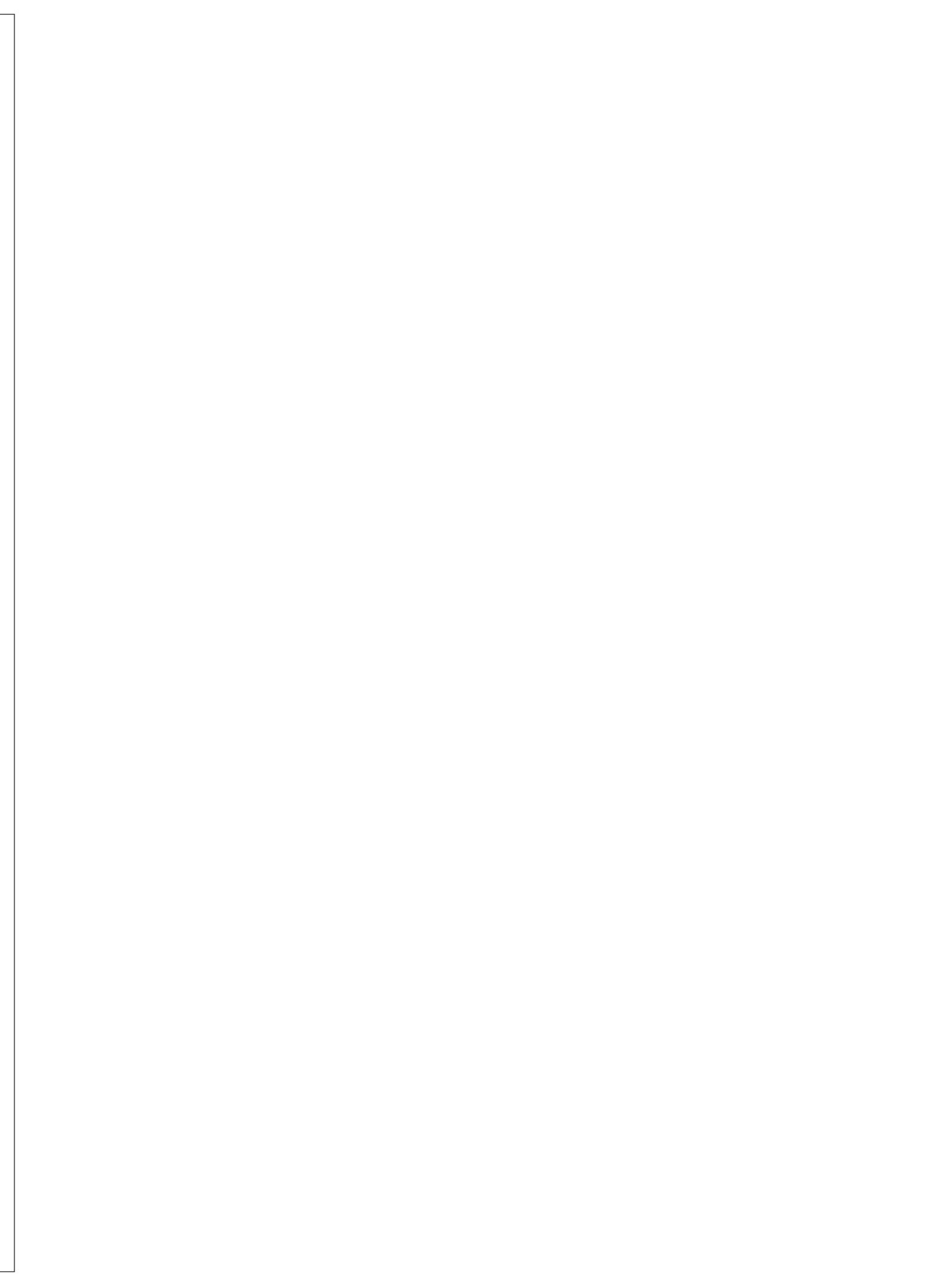
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