

**REPORT ON THE SERVICES PROVIDED BY THE CUSTOMS,
EXCISE, AND VAT COMMISSIONERATE OFFICE, RAJSHAHI**



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Submitted by

Group 'C'

Dept. of Law and Land Administration

University of Rajshahi

Submitted to

Md. Imran Hossain

Assistant Professor

Dept. of Accounting and Information Systems

University of Rajshahi

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Participant of Group 'C'

Name	ID NO
Dipto Podder	1710917137
Maksuda Saleh Nur	1710917138
Nur A Ashik	1711017139
Aklima Akter	1712417140
Shah Md. Nahian Ul Karim	1711117141
Easir Arafat	1710917142
Shakib Hasan Nahin	1711017145
Joachim Joni Marandy	1710617146
Md Milon Mia	1710617147
Rahul Kumar Pantho	1710917148
Shaila Reza	1712317149
Anik Sarker	1711017150
Jannatun Nyema Akanda Jana	1712017151
Md Ashikur Rahman	1710917152
Sajjadul Islam Rakib	1711017153
Shawlin Nahar	1612317104
Kousar Rahman	1610817148

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ACRONYMS

BIN	Business Identification Number
ECR	Electronic Cash Register
GST	Goods and Services Tax
NID	National Identification Number
SD	Supplementary Duty
TEC	Taxation Enquiry Commission
TIN	Taxpayer's Identification Number
VAT	Value Added Tax
VOSC	VAT Online Service Centers

Introduction

Definition of VAT

“VAT is a tax on which the value of an article has been increase stage of its production.” --The Oxford Dictionary. So, we can define it in this way, VAT is a simplified and transparent system of law which is indirect in nature and the charge is levied on the value addition of goods and services at each stage of production and circulation. It is known in some countries as "Goods and Services Tax (GST)". The system of VAT is often erroneously compared to the system of Sales Tax. But it's not right. Because in case of later, the charge is levied not on the value addition but on the total cost of goods and services. So, we shouldn't mix these two.

Origin of VAT

If we trace out the origin of VAT, then we will see that the concept was first introduced by F. Von Siemens, a German industrialist. He proposed it as a substitute for German Turnover Tax. But the modern variation of VAT was first implemented by France in 1954. Gradually various other countries also adopted this system in their state economy. However, in Bangladesh, the first initiative for introducing VAT was first taken in 1979 by the Taxation Enquiry Commission (TEC). We can't deny the pioneering role of World Bank for the introduction of VAT. Final version of Value Added Tax Act was promulgated on 31 May, 1991 as a presidential order which was passed by the parliament on 9 July, 1991. This Act was in vogue for a long period in Bangladesh. Gradually a new Act was introduced on VAT in the name of "Value Addition Tax and Supplementary Duty Act, 2012". This Act was supposed to be implemented from 1st July, 2017 but it was finally enforced from 1st July, 2019. This new Act took some reformation into the previous one.

History of VAT system in Bangladesh

Value Added Tax (VAT) in Bangladesh was introduced in 1991 replacing Sales Tax and most Excise Duties. The Value Added Tax Act, 1991 was enacted that year and VAT started its passage from 10 July 1991. In Bangladesh, 10 July is observed as National VAT Day. The standard rate of VAT is 15%. Applicable rate of VAT in case of import and supply is 15% and in case of export is 0%.

Advantages of VAT

From the viewpoints of my personal observation along with my team members, I get several advantages of VAT which are following:

1. Encourage personal savings and investment
2. It has more potential revenue
3. Helps make up for revenue lost due to income tax evasion
4. Includes the entire retail price within its scope
5. Brings all transactions into the tax net.
6. Applied as control mechanism
7. Equitable and transparent

Disadvantages of VAT

Unequal distribution of VAT rate

The value added tax has been criticized because it relies on personal end user, which is a burden. VAT is regressive in nature. It affects poor people more than the rich people because they spend more portion of their income. Difficulty of administration: Collecting revenue from VAT is difficult and costly, because it is difficult to administer and collect. And the calculation of value added tax is very much complicated and difficult to different stages of people. Increasing inflation: VAT increases inflation. In developing countries, some businessmen search for opportunities to raise prices and introduction to VAT certainly offers such an opportunity. Unequal ratio of VAT in various firm: Industries which are labour intensive have heavy direct impact of tax than industries which are capital intensive. Increasing tendency of VAT avoidance: Certain industries have more tendency to avoid VAT, for example (small scale services) particularly where cash transaction predominate and VAT may be criticized for encouraging this.

Value Added Tax in Bangladesh

Features of VAT in Bangladesh

1. VAT is imposed on goods and services at import stage, manufacturing, wholesale and retails levels;
2. A uniform VAT rate of 15 percent is applicable for both goods and services;
3. 15 % VAT is applicable for all business or industrial units with an annual turnover of Taka 2 million and above;
4. Turnover tax at the rate of 4 percent is leviable where annual turnover is less than Taka 2 million;
5. VAT is applicable to all domestic products and services with some exemptions;
6. VAT is payable at the time of supply of goods and services;
7. Tax paid on inputs is creditable/adjustable against output tax;
8. Exports are exempted from VAT;
9. Cottage industries (defined as a unit with an annual turnover of less than Taka 2 million and with a capital machinery valued up to Taka 3,00,000) are exempt from VAT;
10. Tax returns are to be submitted on monthly or quarterly or half yearly basis as notified by the Government.
11. Supplementary Duty (SD) is imposed at local and import stage under the VAT Act, 1991.

Exemption from VAT

The exempted goods and services have been mentioned in the first schedule of the Value Added Tax and Supplementary Duty Act 2012. There are two parts in first schedule. Part one consists goods exempted from VAT and part two consists services exempted from VAT. As per section 26 exempted supplies, or exempted imports under Value Added Tax and Supplementary Duty Act 2012, any supply or import specified in the first schedule shall be exempted supplies from VAT. And any supply relating to a right or option to receive an exempted supply shall also be an exempted supply from VAT. However, subject to any limitation or condition specified in the notification in the official Gazette, the Government may exempt importation or supply of any goods or class of goods or rendering of any service from VAT. The National Board of Revenue (NBR) may also by special order subject to the limitation and condition, exempt importation or taking delivery of any goods and receiving of any service for implementation

from VAT against any international or bilateral agreement on reciprocal basis. By special order, the Board may exempt import or supply of any taxable goods or rendering of any taxable service from VAT specifying the reason under Value Added Tax and Supplementary Duty Act 2012

Part 01: Goods exempted from Value Added Tax

All goods mentioned in the Second Schedule of the Narcotics Control Act, 2018 for production or manufacture in Bangladesh and the first schedule of customs Act, 1969 following goods:

- Rectified spirit, foreign liquor, denatured spirit, Methyl Alcohol, native liquor etc.
- Live horses, asses, mules and hinnies
- Live tree plants, vegetable, live tree plant seeds, fruits etc.

Part 02: Services exempted from Value Added Tax

1. Basic services for living:

- a) Preparation and cultivation of agricultural land;
- b) Irrigation in agricultural land;
- c) Activities of pesticides and insecticides in agricultural land;
- d) Storage and preservation of agricultural goods (except cold storage and warehouse);
- e) Packing or sorting or cutting of food grains, vegetables etc.;
- f) Preservation and distribution of agricultural seeds (except cold storage and warehouse);
- g) Preservation and warehousing of meat of animals and birds (except cold storage and warehouse);
- h) Gathering of fish, aquatic species and aquatic resources;
- i) Preservation and warehousing of fish, aquatic species and aquatic resources (except cold storage and warehouse).

2. Social welfare-oriented services:

- a) Medical and health services provided by government;
- b) Medical and health services provided by private bodies;
- c) Education and training provided by government;
- d) Activities for preventing environmental pollution;
- e) Such rehabilitation activities not conducted on commercial purpose;
- f) Such social development activities not conducted on commercial purpose;

- g) Old home/rehabilitation center and child care organization;
 - h) Research activities conducted with government finance (except consultancy firm and supervisory firm and survey organization);
 - i) Government and nongovernment destitute home.
3. Services relating to culture:
- a) Broadcasting and telecasting in radio and television (except video cassette shop, video game shop, video and audio recording shop, advertising agency, publicity of advertisement and broadcast of advertisement through satellite channel);
 - b) Printing and publication of book, newspaper, magazine and government gazette (except printing and binding organization);
 - c) Art works, cultural activities, unprofessional sports and competition of unprofessional sports (except sports organizer, film studio, film show (cinema hall) and film distributor);
 - d) Access fee to library, all types of museum, art gallery, zoo, botanical garden (except lessee (izard));
 - e) Organizer of cultural events (except community center, organizer of entertainment cultural events with foreign artistes, sports organizer, renter of sound and lighting instruments)
 - f) Shooting club, all types of social, cultural and sports related club (except lessee and hotel and restaurant, decorators and caterers, commodity center, sweetmeat shop, cinema hall, beauty parlor, health club and fitness center, renter of sound and lighting instruments, audio cassette shop, video game shop, video and audio recording shop, those social clubs where membership fee is over Taka 10,000);
 - g) Entrance fee of fair and exhibition relating to agricultural goods or orchard or firm, animals and birds, fish, aquatic animals and aquatic resources, wild animals and forest resources, art, literature, technology, engineering etc. (except lessee and hotel and restaurant, decorators and caterers, community center, sweetmeat shop, cinema hall, beauty parlor, health club and fitness center, giving and facilities of the renters of sound and lighting instruments).
4. Services relating to finance and financial activities:
- a) Accepting deposit and savings by banks or financial institutions;
 - b) Life insurance policy;
 - c) Stock and security exchange organization.

5. Transportation services:
 - a) Services of passenger transportation (except air-conditioned/air-cooled bus, launch and railway service, rent-a-car);
 - b) Services of goods transportation (except the services of shipping agent, freight forwarders, transport contractors and courier service);
 - c) Air-lines (except the organization renting out chartered aircraft and helicopter);
 - d) Ambulance service (engaged in the transportation of patient and dead body).
6. Personal service
 - a) Services provided by journalists, actor, singer, performer in radio and television, writer, professional sportsman, dancer, translator, astrologer, typist, marriage register, match-making organization, plumber, wood worker, mason and electrical worker (except consultancy firm and supervisory firm, survey organization and immigration advisor.
 - b) Researcher relating to education matters, researcher relating to technical matters, services provided by computer experts (except consultancy firm and supervisory firm and survey organization);
 - c) Services provided by harbor pilot including pilots of internal waterways, drivers of all types of transportation;
 - d) (d)Services provided by designers (except architect, interior designer or interior decorator, graphic designer, engineering firm, consultancy firm and supervisory firm).
7. Other services:
 - (a) Services provided to all types of religious rituals, functions, places and establishments;
 - (b) Services of postal communication (except courier service and express mail service);
 - (c) All types of charity and scientific service activities provided in public interest;
 - (d) Stevedoring activities;
 - (e) Manual laundry (except the services provided in hotel, mechanized laundry and dry-cleaning activities).
 - (f) Food for work (FFW) and taka for work (TFW) program conducted by Union Parishad;
 - (g) Land sale or transfer and its registration (except land developer organization and real estate organization).

VAT Contribution in Bangladesh

The government earned Tk 202,312 crore in the last fiscal year (FY2018-19), in which the VAT contribution was Tk 78,694 crore, or 38.89% of the total revenue, according to the NBR. The VAT share on total NBR revenue remained at about 35% over the last couple of years, said the NBR data. The government collects VAT from four main sources: imports, local production, wholesale, and retail sale. Among the heads, VAT from imports contributes almost 40% of the total collection, while local trade and production contribute the rest 60%. The revenue board chief recently said the NBR was going to introduce VAT law and working for bringing businesses under the VAT automation so that they could ease VAT collection and raise the tax income. Musharraf said the tax to GDP ratio was 7.23 in 1991, the year the NBR introduced the VAT, he said, adding it increased to nearly 10% now. “The tax-GDP is still lower than other developing countries,” he said, adding that the country needed more revenue to graduate the country to upper level. The revenue target of the current fiscal year is Tk325,600 crore, with Tk1,17,672 crore coming from VAT.

Registration (Procedure, Requirement, Necessity)

Online VAT Registration in Bangladesh

The registration Online VAT has formally begun from on March 15, 2017 with the expectation that the people of the country will now pay Value Added Tax (VAT) online for the growth of the country. NBR (National Board of Revenue) started the online VAT registration in Bangladesh on March 15 informally. Any Businesses will be able to take online VAT registration very easily now. Any businesses can collect VAT registration online from now. No one can collect VAT Registration manually from tax offices. All will have to register electronically. The introduction of electronic VAT registration is expected to end the hassle of having to visit the tax offices to collect BINs (Business Identification Number). Following documents required for getting VAT registration certificate online;

Online VAT Registration for Proprietorship Business:

- Name of the Proprietor
- NID/ Passport
- Name of Business
- TIN Certificate

- Business Address
- Bank Information
- Nature of Business

Online VAT Registration for Partnership Firm:

- Name of Partnership Firm
- TIN Certificate of Partnership Firm
- Business Address
- Bank Information
- Nature of Business
- Information of all partners including portion of capital, NID/ Passport.

Online VAT Registration for Limited Company:

- Name of the Company
- Incorporation Number
- TIN Certificate of the Company
- Business Address
- Bank Information
- Nature of Business
- Information of all Director's including percentage of share, NID/ Passport.

Now they will get it instantly by filling up the application form online. Businesses, particularly those with no internet access, will get support from VAT Online Service Centers (VOSC) to sign up for registration and re-registration. VAT plays a vital role in our daily life as well as great source of revenue collection of our country. Now it is very important for Bangladeshi business owner. All over the world VAT plays essential responsibility for government revenue field. More or less 130 countries are doing exercise VAT in the world. Our government is extremely insensitive in collection of VAT from all applicable sources. In Bangladesh the part of the VAT is rising progressively.

VAT Return

A return is a report which is a regular report on the sales and services subject to VAT. In a return the tax liability is mentioned.

A VAT return must be submitted to the authority monthly. But it can be submitted quarterly or semiannually.

It can be submitted in any specified place by the concerned authority.

VAT Administration

When the Board appoints certain officials for the purpose of effective application of VAT laws and rules, these officials are known as Value Added Tax Authorities. They hold the sole responsibility to execute the provision relating to VAT applicable in Bangladesh. They also have some functions like identification of assesses, computation, collection of vat and other relevant taxes, receiving application in this regard and appeal, setting the appeals, imposition of fines and penalties for offences etc.

There are two types of vat authorities and they are Administrative authorities and judicial authorities.

The Power and Functions of Administrative Authorities:

National Board of Revenue (NBR):

National Board of Revenue is constituted under the National Board of Revenue Order, 1972 and given the highest authority under the Ministry of Finance. It is e body consisting of a chairman, member, officers, secretaries.

It has the power to declare and explain the scope of taxable goods and services, to determine the rate of vat and quantum of vat, to direct the method and timing regarding the payment of vat, to declare any goods and services exempted from vat, to appoint officials and give necessary guidelines, to determine the time and procedure for registration of VAT

Commissioner, VAT:

The commissioner is appointed by the NBR and exercise the authority conferred him by law and the authority while controlling the sub-ordinates under his jurisdiction and territory. He has the power to determine and collection of vat, control the affairs between Joint and Additional Commissioner VAT, has the right to summon, to enter any place of production, guidelines regarding the use of stamp, and has the power to seize the forfeitable goods where the value of these goods exceeds Tk. 15 lacs.

Deputy commissioner, VAT:

Deputy Commissioner is also appointed by the NBR works under the supervision of Commissioner or Joint Commissioner and do the same work as the Commissioner can do but can seize the forfeitable goods where the value doesn't exceed not more than Tk. 5 lacs.

Superintendent, VAT:

This authority is also appointed by the NBR and works under the supervision of Assistant Commissioner, Vat. They are mainly engaged in VAT assessment, recovery and other relevant activities and has the same power as the Deputy commissioner can do. they can seize the forfeitable goods where the value of these goods doesn't exceed not more than Tk.1 lac

Judicial Authority

There are two authorities in VAT office one is administrative authority and one is judiciary authority. The most important things of this judicial authority are if anyone not satisfied about the decisions of the administrative authority to then he can move for appeal to the judicial authority. So, we can understand that the main judicial authority is the appellate tribunal. Now I will show the power function formation etc. Of appellate tribunal.

The formation of Appellate tribunal:

According to the section 196(1) of the customs Act,1969, Government constitute an Appellate tribunal which is known as customs, excise, and value added tax Appellate Tribunal and consist of as many technical and judicial member. For being the members of judicial authority there need some qualifications.

Qualification of the members of the Appellate Tribunal:

- (a) **Qualifications to be a Technical member:** A technical member shall be a person who held [or is holding] the post of member of the board or has held [or holding] the post of commissioner of customs and Excise or any equivalent post for at least two years.
- (b) **Qualification to be a Judicial member:** The judicial member are the persons who has at least ten years judicial services as a District and session judge and who has held the post of Bangladesh civil services (judicial) for three years and if an advocate wants to be a Judicial member then he must an advocate at least ten years in a court and this court must be not lower than a court of District and Sessions court.

Commissioner (Appeal), VAT: They are appointed by the NBR and work under the direct control of the board. They are directed the Board to perform their judicial functions in respect of specified areas, persons or classes of persons as the case may be. The aggrieved assesses may appeal to them against the decisions of the Additional Commissioner or any VAT officer below the rank.

Power and functions of the appellate Tribunal:

- (I) According to the section 196C of the customs Act,1969, the power and functions of the Appellate Tribunal may be exercised and discharged by Benches constituted by the president from amongst the members thereof.
- (II) The Appellate Tribunal may, after giving the parties to the appeal, an opportunity of being heard, pass such orders thereon as it thinks fit, confirming, modifying or annulling the decision or order made earlier.
- (III) The order of the Appellate Tribunal is consistent as to be the final order.
- (IV) The Appellate Tribunal has the power to regulate its own procedure and the procedure of the Benches thereof in all matters arising out of the exercise of its powers and of the discharge of its functions, including the places at which the Benches shall hold their sittings.
- (V) The Appellate Tribunal shall, for the purpose of discharging its function, have the same powers are as vested in a court under the code of civil procedure, 1908 (Act V of the 1908), when trying a suit in respect of the following matters, namely-
 - (a) Discovery and inspection;
 - (b) Enforcing the attendance of any person and examine him on oath;

- (c) Compelling the production of books of account and others documents;
- (d) Issuing commissions

Offences and Penalties

Description of Offence and Imposable Penalties

1. Failing to apply for A registration, even if it would have been necessary to apply under this Act. Punishment is minimum taka 10,000 maximum of Taka 20,000 thousand.
2. Failing to submit any return within the specified date. Punishment is minimum of taka 10,000 thousand and a maximum of Taka 20,000 thousand.
3. Failing to inform the Value Added Tax Officer about any changes regarding registration.
Penalties is a minimum of Taka 5,000 thousand and a maximum of Taka 10,000 thousand.
4. Failing to comply with any warrant. Penalties is a minimum of Taka 10,000 thousand and a maximum of Taka 20,000 thousand.
5. Failing to preserve documents, electronic cash register or Point of Sales (POS) Software or computer cited. Penalties is a minimum of Taka 20,000 thousand and a maximum of Taka 50,000 thousand.
6. 6. Violation of any other provisions of this Act Penalties is minimum of Taka 10,000 thousand and a maximum of Taka 30,000 thousand. And Section 37(3) provides, if any Registered service provider or Vat Deducting Authority fails to deposit tax or fine or other dues to the government treasury within prescribed time, shall have Paid the unpaid Tax liability together with 2% percent per month as additional interest.

Findings on Authority

We went to Md Lutfor Rahman (Commissioner) Manos Kumar Barman (Joint Commissioner, Custom Excise and VAT Commissionerate) Rajshahi. Rajshahi Tax Zone is divided in 3 circles they conduct assessment, collection and Registration, Return Submission. They said Businesses are evading ECR system by saying they are obsolete and when the authorities raid them shopkeepers say that the machines are broken. We also came to know that still following traditional method for collecting VAT using Blue Form. Due lack of man power and bars from using advanced methods for collecting taxes ECR introduced in 2009 but only 35% are using in Rajshahi. They also said from 2012 new e-BIN is mandatory but 60% has update BIN rest

are still ongoing registration. From field level we understood that, authorities are very flexible in Rajshahi which is the main problem. Due to this flexible nature most shops are not providing original cash memo in prescribed form. It can be said authorities are constantly failing to fulfill their duties.

Findings on Seller and Buyer

This will show the real scenario of the existing VAT system's applied popular questionnaire method to find the answer. Blue receipt or VAT receipt: Blue receipt is an analog based receipt which is written in hand in by the seller one the other hand VAT receipt is a digital receipt which is printed by an ECR (the ECR must be operated by the seller).

When we asked the seller, we see 47% seller is giving receipt, 33% is not and 10% do not know what is it. 70% Of the seller using Blue receipt and 30% is using VAT receipt along with 47%. Valid receipt:

There is some primary step to ensure a valid receipt. They are: -

Justify the Business identification number (BIN). Name and address of the establishment. Amount of VAT. In traditional or blue receipt there would be 13-digit number in the BIN on the other hand there would be 9-digit number in the digital or vat receipt which is known as E-BIN. ECR (Electronic Cash Register): It is a system designed machine to enable to be sold in a retail outlet. The government of Bangladesh includes 13 business to use ECR compulsory.

Advantages of ECR: -

Track down the selling items.

Minimize errors of accounts.

Minimize time.

How an ECR works: -

It reads the content on a product label by a scanner. Check the price, add the price, track the stock of that products. All the work done automatically. Basically, it minimizes the risk of data error.

VAT included in the prices of essential goods: -

Maximum people (both buyer and seller) do not aware of included VAT of essential goods. But the 15% indirect tax is Included in the selling price of essential goods.

Awareness of Law relating VAT: -

In case of buyer only 56% people knows there is a law relating VAT, but 44% people do not know anything about it. In case of seller 73% people knows about VAT law and 27% people do not know about the VAT law. So, we tried our best to give them a brief of VAT law.

Despite all this people believe that, VAT is necessary for the development of our country.

Online VAT Payment

While conducting our field work, we've visited several offices regarding VAT. We talked with the officer and got some information. We also talked with buyer and seller. We discussed with them about the online VAT payment. But they weren't aware about the online VAT payment. Even the VAT field officers weren't clear about it Now it's time to know the online VAT payment system. The online VAT payment procedure is stated below. At first, we have to log in vat website and click on online registration tab Then we have to attach some important information and documents which we needed we have to allocated a temporary vat registration number. After that our account will be active. After all this procedure we will be able to pay vat via Internet. Online vat was first introduced to reduce the harassment of people. But for the lacking of manpower and other technical error the system has fail to gain its Status. So, I think that the authority should take the necessary steps to solve this problem and make this System more useful.

Concluding Remarks

The importance of the increase in domestic revenue is well recognized since the beginning of socioeconomic and infrastructural development in Bangladesh. Since more than 80 percent of total revenue comes from taxes, restructuring the tax system by introducing the VAT was thus critical. Bangladesh relies heavily on trade taxes. But studies of the tax structure of certain developing countries suggest that the economic cost of trade taxes are much higher than domestic consumption taxes. The trade taxes lead to the creation of inefficient domestic industries by penalizing exports. The tax structure (before introducing the VAT) was inelastic, unresponsive to the growth in overall economic activity. Taxes on agricultural income and

property incomes are negligible and poorly administered. Therefore, in order to ensure self-reliant growth and reduce external dependence, the domestic resource mobilization efforts in Bangladesh have to be graded up. So to keep pace with the ever-growing public expenditure (which is required to meet public needs) and make the resources available for development efforts, there is no substitute for a comprehensive tax reform. Such a reform should aim at raising revenue as well as eliminating the tax-induced distortions in the structure of the economy. The introduction of the VAT is the centerpiece of this reform effort.