

Suggested Talking Points of Mr. Md. Sabur Khan, President, DCCI at the Seminar on "Utilization of benefit under VAT Act" organized by SME Foundation. (January 30, 2013 at 11:00 a.m. Venue: Seminar Room, SME Foundation, Dhaka)

BISMILLAHIR RAHMANIR RAHIM,

Hon'ble Chief Guest **Mr. Md. Ghulam Hussain**, Chairman, National Board of Revenue;

Distinguished Guests and Participants;

Representatives of media both print and electronic;

Ladies and Gentlemen;

Assalamu Alaikum and very Good Afternoon

On behalf of Dhaka Chamber of Commerce and Industry (DCCI) and on my own behalf it is a great honour and privilege for me to speak in the today's seminar on "**Utilization of benefit under VAT Act**" organized by SME foundation.

- Small and Medium Enterprises (SMEs), the life blood of Bangladesh Economy has been contributing about 25% of GDP to the value addition in manufacturing sector in Bangladesh. We believe that SMEs are critical to our future economic prosperity. It is imperative that we listen to the voice of SMEs and ensure we are putting in place the right frameworks (legal, regulatory, taxation, competition policy and financing) to encourage entrepreneurship and make it easier for SMEs to focus on what they are in business to do.
- Value Added Tax or VAT is an indirect consumption tax which is paid by consumer. Since introducing in 1991, VAT became one of the most important tools in revenue earning. In FY 2012-2013, 40 percent revenue has already been generated from VAT, 15 percent from Import duty, 17 percent from supplementary duty, 27 percent from income tax and 1 percent from other sources during July-November. From this statistics it can be realized that major revenue of the government is collected from VAT.
- At present 15 percent rate of VAT is existed which is very high for the SMEs. This rate is comparably low in other countries of the world. Even in our neighboring country, India the VAT rate is 12.5%; in Sri Lanka it is 12%; 5% is in Japan and UK; and in United States this rate is 10.25%. The rate of VAT should be reduced to 10 percent from existing 15 percent.
- There are a lot of distortions in the existing VAT system. These are tariff value, truncated value base, maximum retail price-based value, price declaration, advance trade vat (ATV) at import stage, definition of services, deduction of VAT at source etc. Price declared by the VAT-payers and approved by the VAT authorities was the basis of VAT under the Value Added Tax Act, 1991 in most of the cases but under the new proposed VAT Act 2012 transaction value will be the basis for imposition of VAT. This will be in conformity with the best international practices.

- Truncated value base and tariff value are the major distortions under the present VAT system. These distortions hinder the operation of input tax credit mechanism across business activities, which is a standard VAT system. Under the proposed new VAT Act 2012, there is no provision for tariff value and truncated value base. This will help to develop a standard VAT system in the country.
- Small and medium enterprises have been encouraged under the new Act. Any enterprise with Tk. 2.4 million or below annual turnover will remain out of the purview of the new VAT system. Thus, small enterprises will not require complying with VAT procedures. Establishments with an yearly turnover exceeding Tk. 2.4 million but not exceeding Tk. 8.0 million will require to pay 3 percent turnover tax. This will allow them to compete with large-scale enterprises.
- Under the present system, 3 percent turnover tax is to be paid by enterprises the yearly turnover of which do not exceed Tk. 7.0 million. Only few types of establishments enjoy cottage industry benefits under some conditions presently. So, Tk. 2.4 million lower level exemption threshold will be of great advantage to the small enterprises under the new Act. They will not require complying with any VAT procedures. Moreover, presently, turnover tax payers are not allowed to import but the new law allows them to import.
- Advance Trade Vat (ATV) at import stage is completely controversy with VAT law. So ATV should be abolished.
- The new VAT Act will come into full effect from hopefully July 2015. Before this, some preparatory works like automation of the VAT management system and education of the tax payers and tax collectors should be required to have revenue and business friendly VAT system in the country so that there no scope of distortion.

Dhaka Chamber of Commerce and Industry (DCCI) is the largest and most active Chamber of the country and act as the private sector representative. DCCI is always in favour of the activities that are necessary for the development of private sector and national economy. About 80% of DCCI members are Small and Medium Enterprises. It has playing an important and active role in the development of SME in Bangladesh I assure all types of cooperation from DCCI.

I do not like to prolong further. I would once again thankful to you all for being with us.

Thank you all once again

Allah Hafez

**Md. Sabur Khan
President, DCCI
January 30, 2013**