Private Investment-Budget Issues

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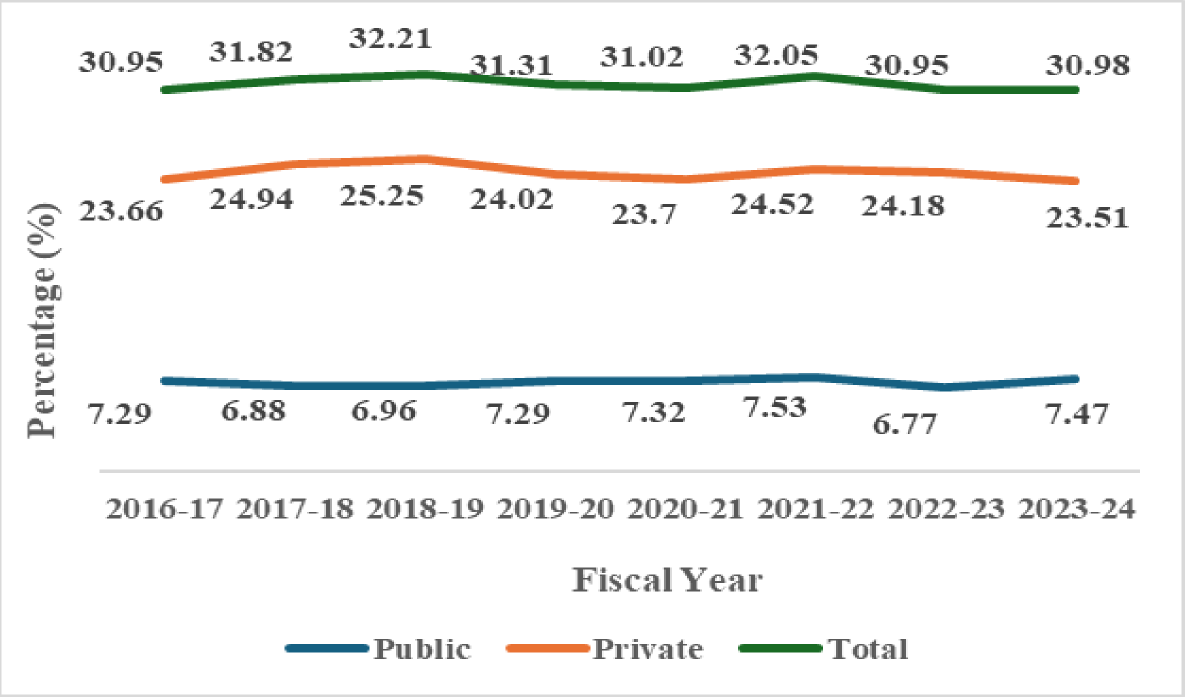
Investment as a Percentage of GDP

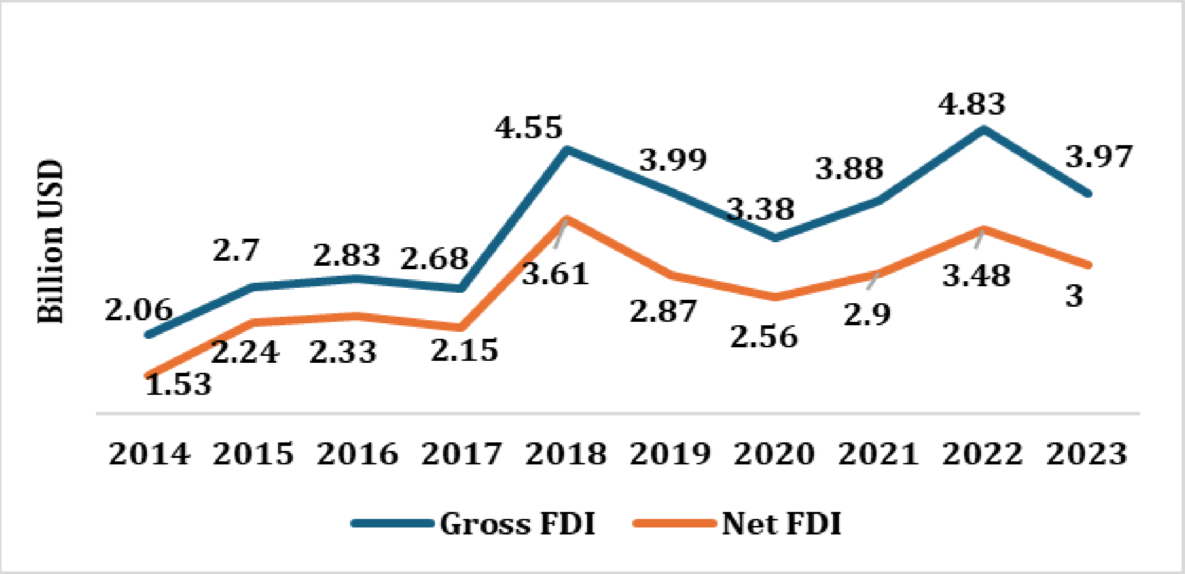
Private sector investment in Bangladesh has stagnated at around 23-24% of GDP since last several years. 8th FYP Targets were 36.59%.

FDI as a share of GDP has remained below 1%. Vietnam attracts more than US$ 15 billion in FDI annually, whereas Bangladesh secures only around USD 3 billion.

FDI is mainly confined to **retained investment**, where FDI were interested included in the **controlled list**, which needs a long procedure of permission and approvals.



Source: Bangladesh Bank



Source: Bangladesh Bank

Core Findings from the White Paper

Political backing to **BIDA to develop** it as single organization & main vehicle to attract investment, but **Regulatory unpredictability, inadequate infrastructure, & stringent tax** policy are some of the major concerns raised by local and foreign investors.

Investment registration figures could not give the real investment figures

Policy inconsistencies and change of decisions.
Post-investment services for the existing investors, new investors need different treatment

Chambers & a large number of associations working in the country as an intermediary between government & private business, not succeed enough to make govt accountable to play impartial role specially for SMEs.

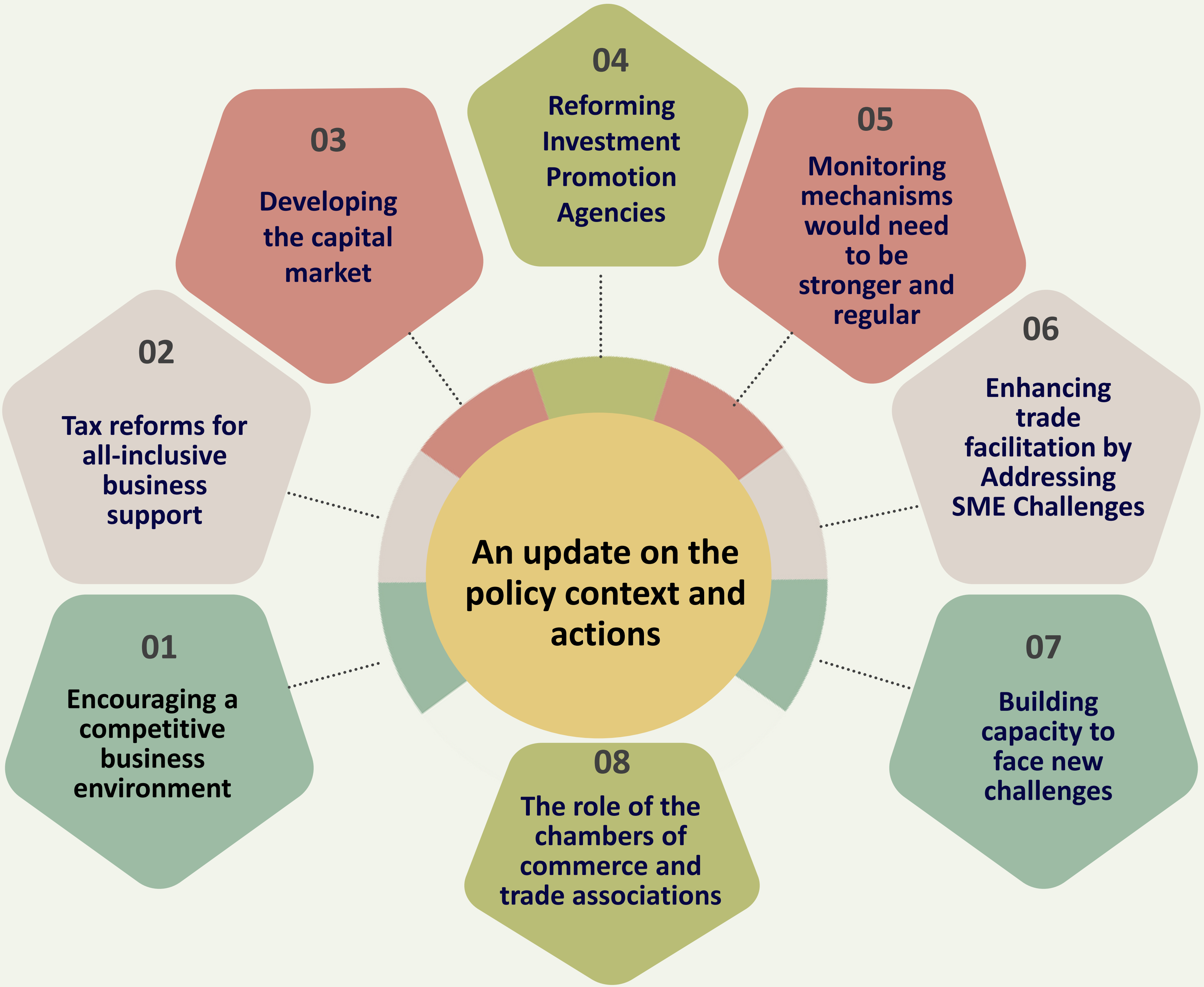
Frequent litigation for customs issues remained at a sub-judicial stage for long.
No separate commercial court to deal with contract enforcement, arbitration act- weak legal system support for investors.

Social transitions (labour standard and safety related issues).
Digital transition(half-hearted), green transition (circular economy, carbon emission).

Domestic investors are interested in importing primary & intermediate raw materials than **establishing linkage** with the domestic SMEs.

Tax issues are complex, creating high tax burden, discouragement for the taxpayers main reasons for low return submission.

Availability and certainty of public services, implementation gaps, investment in renewal energy and address uptake challenges, governance issues, eroded business confidence


An update on the policy context and actions
01
Encouraging a competitive business environment
02
Tax reforms for all-inclusive business support
03
Developing the capital market
04
Reforming Investment Promotion Agencies
05
Monitoring mechanisms would need to be stronger and regular
06
Enhancing trade facilitation by Addressing SME Challenges
07
Building capacity to face new challenges
08
The role of the chambers of commerce and trade associations

Recommendations for the Budget & Beyond

- Tax structure depends on Indirect Tax(34% direct while 66% is indirect). TIN holders have been increased (1,20, 89,075, as of April 22, 2024) but Return Submission still is far from the target(59%). RJSC registration is 2.88 lac(Dec 2023), only Return Submission is 24, 381(or 8.45%).
  - All **business transaction** would need be automated-size of the **informal economy** be reduced-single digital interface by CB
- About 63% of the total income tax are coming from TDS, considering withholding tax it becomes 83%. Of which 58% is minimum tax considered as final.(clause 163, Income tax Act 2023). Tax refund is not automatic and takes longer time . Because of these BDT 81 605 crore taka investment loss, employment loss is about 0.36 million (Three Lacs sixty thousand employment), working capital loss is about 14,000 crore taka.
  - A clear Refund policy for instant refund
- In case of VAT around 60% VDS is accounted under reduced rate(10 types of reduced rate such as; Exempted, 0%, 1.5%, 4%, 5%, 7.5%, 10%, 12%, 15%.
  - Uniform rate lower and VAT Credit established
- Sectoral : Bonded Warehouse Facilities, - Bond facilities to partial exporters and non-traditional sectors.
- **Alternatives of CI:** - Replace with productivity-linked support mechanisms.
- **Sector-Specific SD Reforms**: - Fair SD policies to reduce dependency on heavily taxed industries(Illicit products can enter the market)
- **Implementation of National Tariff Policy 2023**

LDC Graduation

- Customs tariff and taxes rate would need to be revisited where **WTO-MFN rates(14.7%)** need to be revisited before graduation.
    - Study Group on Tariff Rationalization: BD's Tariff commitment(LXX) to the WTO **covers** **<u>955 HS lines</u> in <u>HS2012</u>** <u>v</u>ersion, of which **763 HS lines** fall under WTO agriculture products, **192** on non-agriculture. The study group(following Custom Act 1969 for Fy2021-22 showed that **6 HS lines where CD exceeded** the bound rate) addressed in the budget FY 2022-23. However, **60 HS lines where CD and SD** together exceed Bound rate. CD& SD considered as Ordinary Custom Duty(OCD) and RD, AIT, AT as ODC(other duties & charges, **GATT Article II(b)**). In that respect RD may be imposed **@ 2.5% and CD up to the Bound level**(as declared by BD during submission of pre-Uruguay Round Schedule-which is basically the import license fee, i.e 2.5%). **SD imposed on some import products**, were not included in the **ODC column**. Because of these, sum of tariff binding rate and ODCs of BD may exceed total duty imposed on number of products which should be reduced and would need to be completed by the next two Budget. Further study required in these case

- SD(1275, Tk 10042 crore, 2022-23) & RD(3,543, rev collection Tk 4739 crore) need to be withdrawn at import stage to make this taxes trade neutral. Designing the tax revenue collection target taking care of these issues. It means we need to put focus on Direct Tax.

- **Minimum value or tariff value** would need to be withdrawn where **Customs Valuation Rules 2000** will be applicable for customs tax determination process.
- **Mixed duty** on daily necessary item import can be implemented through Customs Act.

Thank You

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