

Estimate of Revenue Foregone on Customs Duty in Bangladesh

Results from a preliminary exercise

This note is a preliminary estimate of the revenue foregone under customs duty because of the various exemptions provided on imports. The estimates are intended as an input into the policy process that seeks to balance revenue raising measures, trade and tariff policy, and competitiveness. The estimates are preliminary because of data limitations. While the size of the revenue foregone can be roughly estimated, data on the reason for the exemptions was not available. Thus, targeted policy recommendations cannot be provided at this stage.

Total estimated revenue foregone for Customs Duties was Tk 171 billion in FY16. This constituted about 1 percent of GDP and 11.7 percent of taxes collected by NBR in FY16.

The Revenue Foregone is estimated by calculating the difference between the ‘Benchmark’ Revenue and the Actual Revenue Collected. The ‘Benchmark’ Revenue is calculated by applying the ‘Benchmark’ Tariff Rates. Consequently, the estimates of the Revenue Foregone is fundamentally dependent on the assumption of the ‘Benchmark’ Tariff/Rates. Any duty paid imports on which the effective rate of duty was less than the statutory tariff rate are taken as being accorded special treatment. More information on the methodology is provided in the Annex-A.

Detailed Results: Estimated revenue foregone for Customs Duty is shown in Annex-B Table 1. Revenue foregone for 2015-16 is Tk 171 billion which is 1 percent of GDP and 11.7 percent of NBR tax collections in FY16. Note that the revenues foregone were 28.8 percent higher than the revenues collected from customs duty that is captured in the database. The highest revenue foregone is for imports under the statutory rate of 10 percent followed closely by the imports under the 5 percent and 0 percent category. These four together contribute 56% of the revenue foregone.

Annex-B Table 2 shows that within the HS Code 2-digit commodity groups, the major contributors to the revenue foregone are the following:

- HS code 27, major commodity contributing 16 percent of the estimated foregone CD revenue is fuel, especially furnace oil (HS code 27101911);
- HS code 85: electrical machinery contributing 15 percent of the foregone CD revenues;
- HS code 84: mechanical machinery including boilers accounting for around 13 percent of the estimated foregone CD revenues;
- HS code 15: cooking oils contributing around 12 percent of the foregone CD revenues.

Conclusion: The estimates on revenue foregone assume that similar categories of goods at least at the four-digit level should be taxed at the same rate. It is found that even under the same 8-digit HS code categories different imports were taxed differently which indicates a special treatment in the case of certain imports. Due to lack of data on the specific exemption code that is applied, it is not possible to specify the reason why a certain special treatment was applied. However, the revenue foregone would be able to give the government a first estimate of the potential revenue out there. These estimates are not an endorsement of raising tariffs to address the foregone revenue rather than an input into the policy process that seeks to balance revenue raising measures, trade and tariff policy and competitiveness. This note is a preliminary attempt to estimate the size of the

problem. If further data on income tax and VAT exemptions actually provided are made available a more detailed analysis including the other taxes collected on imports can be made and a richer set of policy recommendations could be provided. Annex-C provides a list of the specific data requirements requested from NBR.

Annex-A: How is the Revenue Foregone Calculated?

The Revenue Foregone is estimated by calculating the difference between the ‘Benchmark’ Revenue and the Actual Revenue Collected. The ‘Benchmark’ Revenue is calculated by applying the ‘Benchmark’ Tariff Rates. Consequently, the estimates of the Revenue Foregone is fundamentally dependent on the assumption of the ‘Benchmark’ Tariff/Rates.

Usually, the customs datasets provide details on ‘special’ treatment of certain categories of imports whereby less than the usual duty is applied. In the present case, such data was not provided. Thus, an alternative approach was followed to identify any potential special treatment. Any duty paid importation on which the effective rate of duty was less than the statutory tariff rate is taken as being accorded special treatment. To estimate the revenue foregone, we then apply the Benchmark Statutory Tariff Rate on the same importation to arrive at the Benchmark Customs Duty. The Benchmark Statutory Tariff Rate was chosen as the maximum rate applied under each HS 4-digit classification. The assumption being that any lower Duty Rate than the Benchmark under each 4-digit category/classification applied to a good being imported is likely to be the result of special treatment.

An alternative approach is to apply the Statutory Tariff Rate as the benchmark rather than the Maximum Rate applied under each HS 4-digit classification. The issue with that approach is that the Statutory Tariff Rates may themselves embed a special treatment. In some countries, the benchmark is chosen to be the WTO bound rate which is usually higher than the applied rate in the country and the revenue foregone is calculated with respect to this rate.¹

We received two datasets at the 8-digit level of the HS code – one consisting of the list of statutory rates and special rates for each 8-digit HS Code, and the second data set included data on the actual volume and value of import and tax collection by type of tax. However, the import data does not have the crucial fields which is the exemption code applied if any for that import.

¹ The Indian Government calculates the revenue foregone with respect to the WTO bound rate.

Annex-B: Detailed results from the preliminary exercise

Table 1: Revenue Foregone for Customs Duty in FY16

Statutory Tariff Rate	CD Collection	Revenue Foregone	CD Collection	Revenue Foregone
	(Taka)	(Taka)	(% of GDP)	(% of GDP)
0	13,743,492	41,867,526,242	0	0.24
1	3,701,753,335	24,050,962,280	0.02	0.14
2	610,016,029	1,399,654,206	0	0.01
5	19,674,460,749	42,432,085,072	0.11	0.24
10	31,147,732,143	44,640,452,799	0.18	0.26
25	68,501,548,497	11,283,530,775	0.4	0.07
500	6,356,814,210	3,178,407,424	0.04	0.02
750	370	0	0	0
2,000	1,672,496,722	2,090,621,116	0.01	0.01
3,500	169,989,118	48,568,320	0	0
4,500	921,621,724	0	0.01	0
Total	132,770,176,389	170,991,808,234	0.77	1.00

Table 2: Revenue Foregone for Customs Duty under 2-digit HS Code (2015-16)

HS2	Customs Duty	Revenue Foregone		HS2	Customs Duty	Revenue Foregone
1	4,022,831	338,522,645		51	10,203,265	144,467
2	5,322,793	10,230,636		52	100,672,048	4,031,525
3	1,110,452,608	20,092,269		53	1,449,966	1,442,265
4	990,950,804	3,067,696,449		54	1,210,469,568	80,712,515
5	18,162,882	3,529,685		55	836,844,606	810,350,744
6	4,000,266	-		56	135,481,064	38,624,339
7	545,384,276	6,589,964,310		57	85,415,362	937,473
8	5,108,052,682	585,939,334		58	213,377,280	1,612,899
9	2,198,556,805	2,486,371,155		59	348,450,926	35,990,548
10	1,074,701,846	3,852,497,585		60	106,698,780	-
11	220,852,077	316,251,999		61	178,959,446	5,413,035
12	157,821,969	165,454,760		62	351,485,119	5,421,333
13	42,376,018	734,978		63	459,072,171	23,873,384
14	50,582,690	78,420,326		64	484,849,267	25,342,212
15	424,146,831	20,573,345,385		65	27,261,031	535,202
16	18,574,688	-		66	111,882,077	3,452
17	1,805,430,279	2,235,031,578		67	10,903,212	-
18	131,462,587	1,856,962		68	242,501,500	128,977,319

19	1,106,250,265	350,041,849		69	966,640,350	203,058,704
20	148,603,341	1,918,160		70	1,025,746,824	336,612,549
21	985,610,153	494,796,415		71	84,722,977	18,426
22	21,565,347	20,249,226		72	8,616,101,156	3,421,104,097
23	923,730,800	5,553,493,958		73	4,075,863,628	3,508,988,666
24	31,437,168	162,989		74	752,869,320	15,080,846
25	7,925,154,704	3,643,364,397		75	3,276,708	531,985
26	344,443,410	6,502,979		76	1,343,025,974	1,072,412,290
27	18,121,905,314	27,691,576,029		78	127,427,457	745,035
28	901,793,329	1,040,575,270		79	567,690,146	554,294,716
29	1,917,148,512	2,694,726,073		80	10,694,444	-
30	137,145,093	1,908,227,295		81	31,404,993	1,075,372
31	101	5,045,091,046		82	303,720,369	45,389,606
32	1,306,905,915	1,497,056,381		83	653,811,020	182,393,034
33	1,364,608,568	122,760,444		84	7,668,006,457	21,724,585,794
34	899,811,922	565,976,643		85	17,792,905,522	25,364,061,937
35	302,119,531	99,224,865		86	157,804,332	2,419,448
36	8,950,954	49,166,384		87	16,778,882,925	3,520,158,377
37	95,626,302	425,871,179		88	158,673	14,539,786
38	2,049,556,812	3,665,425,410		89	171,934,093	1,016,075,377
39	5,503,608,762	2,120,916,969		90	853,846,872	2,820,136,860
40	2,383,749,353	1,826,207,983		91	62,884,380	2,874,904
41	14,148,554	3,493		92	7,622,260	112,388
42	170,946,489	3,227,336		93	111,729,674	3,448,450,608
43	46,513	363		94	741,857,284	671,535,026
44	556,121,877	366,851,024		95	338,862,911	6,119,295
45	1,267,895	-		96	752,184,368	151,462,110
46	4,628,257	-		97	2,149,881	1,909,074
47	0	-		98	0	-
48	2,380,126,106	987,323,187				
49	322,921,929	1,235,571,783				
50	9,586,497	-				

Annex-C: Data requirements for a full coverage of the tax expenditures

Income Tax Wing

Goal: The goal of this exercise is to capture any exemption/deduction/remission, etc. that reduces the tax or duty payable. Please see the bottom of the document for a typical result.

Note: Ideally taxpayer-wise data should be made available.

Income Tax (Personal Income Tax and Corporate Income Tax)

– Ideally taxpayer wise data from Tax Forms from the latest year for which all tax returns have been filed.

Inventory of Incentives

1. List of all tax incentives as per the Income Tax Act.
2. List of any special regimes under the Income Tax such as for Small Business, Exporters, etc.
3. List of tax incentives and other exemptions for Special Economic Zones or Export Processing Zones, etc.
4. List of any SROs granting tax incentives not included in the list above.

Data

1. Total of all exempt income as declared in the tax return
2. Total of all Rebates or Tax Credits as shown in the tax return
3. Total of all Deductions from taxes as shown in the tax return
4. Same as above but broken down by Sector/Category of Industry
5. Total of all Specific Incentives - Allowable Deductions
6. Same as above but broken down by Sector/Category of Industry
7. Total of all the discretionary tax incentives provided by the minister
8. Same as above but broken down by Sector/Category of Industry
9. Any other exemption/deductions/rebate not included above
10. Same as above but broken down by Sector/Category of Industry
11. Total Income Tax Collections for one year

VAT Wing

Goal: The goal of this exercise is to capture any exemption/deduction/remission, etc. that reduces the tax or duty payable.

Note: Ideally taxpayer-wise data should be made available

Value Added Tax

– Ideally taxpayer wise data from Tax forms covering one full tax year for which data is available

Inventory of Incentives

1. List of all Exemptions and Zero Ratings as per the VAT Act.
2. List of any special regimes under the VAT for Small Business. Exporters, etc.
3. List of tax incentives and other exemptions for Special Economic Zones or Export Processing Zones, etc.
4. List of any SROs granting tax incentives not included in the list above.

Data

1. Supply-Use Tables or Input-Output Tables – latest version
2. List of all Exemptions, Zero Ratings and any other special treatment under VAT
3. Total of all VAT Exempt supplies as declared in the tax return
4. Same as above but broken down by Sector/Category of Industry
5. Total of all VAT Zero-rated supplies as declared in the tax return (including exports)
6. Same as above but broken down by Sector/Category of Industry
7. Total of VAT zero rated supplies for exports
8. Total VAT Collections for one year – Please include Import VAT

Cost of Tax Incentives July 2015- June 2016 [EXAMPLE]				
		Local Currency	Share of total revenue (%)	Share of GDP (%)
Income tax	Total	48,880,857,373	14.68	2.69
	Income Tax Act exemptions	225,857,373	0.07	0.01
	Discretionary incentives	48,655,000,000	14.62	2.67
Customs duties	Total	30,027,777,500	9.02	1.65
	Government	4,019,764,175	1.21	0.22
	Embassies	1,950,302,114	0.59	0.11
	International organizations	10,841,782,788	3.26	0.60
	NGOs	67,914,425	0.02	0.00
	Other	13,148,013,998	3.95	0.72
VAT (import)	Total	48,815,145,833	14.66	2.68
	Government	4,668,965,941	1.40	0.26
	Embassies	298,734,553	0.09	0.02
	International organizations	15,557,431,734	4.67	0.86
	NGOs	121,900,000	0.04	0.01
	Other	28,168,113,605	8.46	1.55
VAT (Domestic)				
Non tax Revenue	Total	1,670,876,305	0.50	0.09
Total		129,394,657,011	38.87	7.11