

The background of the slide is a collage of five images: a riverfront cityscape with a bridge, a dense urban skyline with tall buildings, a night view of a highway interchange with light trails, a coastal city with a large classical building and a beach, and a modern city skyline with the Burj Khalifa.

# Indirect taxes – current trends across South Asia and UAE



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This report discusses the evolution of VAT and current trends of indirect taxes across South Asia and UAE. The countries selected for the purposes of this research include Bangladesh, India, Pakistan, Sri Lanka and UAE. These countries are in the process of reforming their tax systems for better and efficient collection of taxes. This report discusses the importance of indirect taxes and revenue collection, thresholds, tax rates, zero-rating, exemptions and various other areas of indirect tax administration along with recommendations to improve the same.

## ACKNOWLEDGEMENTS

**Iftikhar Qutub, Member, Federal Board of Revenue, Islamabad.** Over 15 years of experience in tax policy formulation from Second Secretary to Member in Federal Board of Revenue, nearly 14 years of experience in Tax Administration from Assistant Collector (Customs & Central Excise) to Chief Commissioner Inland Revenue (Income Tax, Sales Tax & Federal Excise). Qutub has extensive experience in drafting Sales Tax, Federal Excise and Customs Laws – drafted Federal Excise Act, 2005; Federal Excise Rules 2005; Value Added Tax (VAT) Bill 2010 and Reformed General Sales Tax (RGST) Bill 2011, Punjab Sales Tax on Services Act, 2012 and rules thereof and numerous other rules, regulations, notifications, circulars and general orders etc. He has also authored three books on social philosophy.

**Omer Zaheer Meer.** An experienced FCCA holding CFA Charter and anti-money laundering specialization. **Managing Partner at MLCC (pioneer ACCA practising firm in Pak).** Life member and third time serving Chairman Liaison Committee LTBA. Member Global Tax Forum ACCA, Chairman Taxation Committee ACCA and member Taxation & Finance Committee LCCI.

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ACCA believes there are key inherent tax principles that should underpin a good tax system. These include certainty, transparency, accountability, simplicity, efficiency and the recognition of human rights, among others.

At ACCA we also recognize that the countries in which our members work are all unique and their economies are at different stages of socio-economic development. It is imperative that we study the unfolding story of taxation in some of our most strategically important countries like Pakistan, Bangladesh, Sri Lanka, the UAE and India and begin to document the trends of Indirect taxes in these states.

Why Indirect taxes? Because all the evidence suggests that taxes such as sales tax and VAT are now generally seen by governments as simple to implement and provide a large fiscal return for minimum effort, sometimes politically speaking also; the governments of these countries, for right or wrong reasons are very challenged when it comes to increasing the tax to GDP ratio through direct taxes.

This report *Indirect taxes – current trends across South Asia and the UAE* attempts to look at the increasing reliance states are placing on sales tax by looking at the spectrum of tax rates as well as legislative, regulatory and administrative requirements. The report provides many talking points for stakeholders through intra-regional comparisons.

ACCA members in the countries featured in the report are working in diverse employers in the private sector, from large

multi nationals to MSMEs; sometimes managing indirect taxes is a huge challenge in economies that have large undocumented sectors, symptoms of bribery and corruption, and bureaucratic procedures in very large agencies. ACCA members have to navigate the entire landscape of a taxation system that is constantly evolving; like for example in countries of the UAE where a lack of taxation has been the region's main economic incentive to attract foreign direct investment, expert talent and economic tourism, but the rapid decline in both the demand and subsequent price of oil has huge implications for the future development budgets of the UAE states where we are now seeing a commitment by UAE and GCC countries to implementing VAT in 2018, here again ACCA members in UAE enterprises will play a vital role by supporting the financial management steps in accounting, planning and compliance of the new VAT laws.

This report has been produced through a successful collaboration between ACCA and EY Pakistan.

It represents a unique regional outlook of the indirect tax landscape that ACCA members and other stakeholders have to navigate routinely.

Managing taxation is a core area for finance professionals and businesses and so I am delighted to be able to share this report with you.

**Helen Brand OBE**  
**Chief executive**  
ACCA

A handwritten signature in black ink, which appears to read 'Helen Brand'. The signature is fluid and cursive, with a large initial 'H'.



South Asia and the UAE is an environment with many similarities and challenges, South Asia especially can trace its business legislative frameworks back to the days of the British rule of the Indian subcontinent. But fast forward 70 years and the economies of Bangladesh, Pakistan, Sri Lanka, The UAE and India are driving global economic growth, provide a workforce of over 1.5 billion people and have some of the highest economic growth rates in the world. The full potential of this region is yet to be realized but one thing is certain that with economic growth the divisions between the have and the have nots is widening, economies still require state funds to lead development both social and non-social which means governments face a common challenge of ever increasing expenditure budget and raising fiscal revenues to meet budgetary expenditures and to correct economic disparities.

Democracies in this regional are still evolving and political leadership is balancing the need to raise more and more fiscal revenues and vested interests. When it comes to taxation governments across the region have been deliberately weak in raising direct taxes which has repercussions for their vested interest groups but have instead scaled up their dependency on indirect taxes which on paper tick off the equality and simplicity boxes.

The EY team is involved in providing assistance to clients for making compliance with both federal and provincial tax laws,

while also aiding the tax authorities to apply the said laws in an equitable and fair manner. EY's taxation team works across industries in the private sector. As tax intermediaries the EY team is working on two coal faces, meeting the demands of the taxation authorities at both federal and provincial levels, again something we see across the region as growing countries devolve the taxation collection methods and the second coal face is that of meeting clients demands for minimising compliance risk and tax incidence.

This report *Indirect taxes – current trends across South Asia and the UAE* is an attempt to document the facts around rates, thresholds, administrative practices across the region and then attempt to draw some conclusions from the trends. Part of the message of the report will come from the dialogue the report initiates with finance professionals and other stakeholders. Indirect taxes are here to stay and are rapidly becoming the bread and butter fiscal tool for government revenues in this region. More than any other taxes both Sales Tax and VAT are woven into the transactions of all businesses. I hope the report will also send a message to the business community that ever growing taxation regimes can be managed with the support of finance professionals and no one country is unique in adopting indirect taxes.

**Muhammad Awais**  
**Tax Partner**  
EY Pakistan

A handwritten signature in black ink, appearing to read 'Muhammad Awais'.

<b>AP</b>	Andhra Pradesh	<b>NBT</b>	Nation Building Tax
<b>AT</b>	Advertisement Tax	<b>PEC</b>	Primary Education Cess
<b>BCD</b>	Basic Custom Duty	<b>PADL</b>	Ports & Airports Development Levy
<b>BAGL</b>	Betting and Gaming Levy	<b>SAD</b>	Special Additional Duty
<b>BT</b>	Betting Tax	<b>SBC</b>	Swachh Bharat Cess (Clean India Cess)
<b>CD</b>	Customs Duties	<b>SC</b>	Service charges
<b>CENVAT</b>	Central [government] Value Added Tax	<b>SD</b>	Stamp Duty
<b>CGST</b>	Central GST	<b>SED</b>	State Excise Duties
<b>CST</b>	Central Sales Tax	<b>SGST</b>	State GST
<b>CT</b>	Corporate Tax	<b>SHEC</b>	Secondary / Higher Education Cess
<b>CVD</b>	Countervailing Duty	<b>SRF</b>	Stamp and registration fees
<b>EC</b>	Education Cess	<b>ST</b>	Service Tax
<b>ED</b>	Excise Duty	<b>STL</b>	Share Transaction Levy
<b>ENT</b>	Entertainment Tax	<b>STS</b>	Sales Tax on Services
<b>ET</b>	Entry Tax	<b>TDE</b>	Tax and Duty on Electricity
<b>FED</b>	Federal Excise Duty	<b>TOGP</b>	Tax on Goods and Passengers
<b>FGST</b>	Federal General Sales Tax	<b>TORJ</b>	Tax on Raw Jute
<b>FTT</b>	Foreign Travel Tax	<b>TOSC</b>	Tax on Sugarcane
<b>GCC</b>	Gulf Cooperation Council	<b>TOV</b>	Motor Vehicle Tax or Road Tax
<b>GDP</b>	Gross Domestic Produce	<b>UP</b>	Uttar Pradesh
<b>GST</b>	General Sales Tax	<b>VAT</b>	Value Added Tax
<b>HY</b>	Haryana		
<b>IGST</b>	Integrated GST		
<b>IMF</b>	International Monetary Fund		
<b>IT</b>	Income Tax		
<b>KN</b>	Karnataka		
<b>LT</b>	Luxury Tax		
<b>MODVAT</b>	Modified Value Added Tax		
<b>MSST</b>	Motorspirit Sales Tax		
<b>MT</b>	Municipal Tax		

Given the importance of VAT, this study discusses its features and the problems commonly faced by South Asian countries.

Tax is an instrument used to generate revenue and to regulate national economies. The primary purpose of taxation is to finance government expenditures. However, taxes are also used for other purposes, which may include: changing societal behaviours, preventing the concentration of wealth, and redistributing it for the benefit of the whole community through development and welfare programmes. In developing countries, governments provide tax exemptions and concessions, including zero-ratings, allowable deductions and reduced rates to promote industrial growth, attract investments, reduce unemployment and support economic activities in particular regions/sectors or for specific demographic segments or classes of people.

Taxes are broadly divided into two categories, ie direct and indirect. Tax that is levied on a person or legal entity's income/profits and is generally paid by such person/legal entity directly to the government, can be classified as a direct tax. Alternatively, tax that is levied on

goods and/or services and charged to the person who consumes such goods and/or services can be classified as an indirect tax and is indirectly paid/born by the consumer, while collected and deposited in the government treasury by the supplier.

In many developing countries, the contribution of VAT in total tax collections is increasing over time. This can be owing to an increase in unemployment or low per capita income as well as to innate features of VAT that make it less prone to tax evasion than income taxes, which are easier to evade/avoid. The governments of Bangladesh, India, Pakistan and Sri Lanka have intensified their focus on strengthening their taxation systems, while putting more emphasis on VAT collections. Given the importance of VAT, this study discusses its features and the problems commonly faced by South Asian countries. Further, the United Arab Emirates (UAE) is in the process of introducing VAT and may benefit from the developments made in the VAT systems of various other countries.



**Collection of taxes creates administrative complexities for governments, besides increasing enforcement and compliance costs.**

In the Indian subcontinent, indirect taxes were first introduced by the British as excise duties to protect British machine-made products, which were costlier than Indian products. Similarly, after the independence of Pakistan and India in 1947, these countries introduced customs duties to protect their local products against imports that were cheaper than their local versions. Over time, however, indirect taxes started playing an important role in the growth of gross domestic product (GDP), as discussed in Chapter 4 of this report.

Collection of taxes creates administrative complexities for governments, besides increasing enforcement and compliance costs. Likewise, providing too many exemptions in order to stimulate economic growth is bound to minimise the tax proceeds and hence adversely affect tax's main purpose of providing government with revenue. Moreover, indirect taxes such as VAT and sales tax may reduce consumer spending, which reduces business revenue, thereby counterbalancing the advantages of economic growth and reduced unemployment.

The adverse effects of indirect taxation can be mitigated by setting a single rate while keeping that rate as low as possible. The reduction in rate may be compensated for by levying it across the board on all types of sale/purchase transactions, thereby expanding the tax base, so that a low burden of taxation can be levied on a large population of taxpayers. In order to ensure neutrality and non-interference with market processes, VAT has to be applied uniformly to all sectors of the economy. However, items of basic necessity may be kept exempt.

It is commonly observed that despite some reform efforts over the past decades, application of VAT in the countries under study remains complex, mainly owing to the dissimilarity of regulations for various industries. This results in a misallocation of resources and thus creates an unfair tax burden on enterprises that are not allowed benefits from special schemes; and, furthermore, it introduces disincentives for business formalisation. Increased legislation may lead to increased complexity and cumbersome compliance costs. Such complexity and costs may be compensated by introducing fair tax administration practices that would tend to foster trust between taxpayers and the government in the context of fair application of law. In practice, the countries under study have to go a long way yet to set up such model tax administrations. Governments in these countries have introduced a number of changes to their tax laws to simplify tax systems and improve overall revenue collection. In 2005, India replaced its old sales tax law, which did not offer input tax credit. In 2011, the Sri Lankan government unified its VAT rate at 11%. Bangladesh is also working towards the introduction of new VAT legislation to be in line with the international standards. In the UAE, VAT is likely to be introduced on 1 January 2018 with a rate expected to be as low as 5%. Pakistan's case is somewhat different. Pakistan's VAT system has made substantial departures from the classic VAT system, largely owing to politically influenced economic considerations. Moreover, on the transfer of powers in 2010 from federal government to the provinces for the levying and collection of sales tax on services, much legislative, administrative and regulatory complexity was created for the federal and provincial governments, besides an escalation in compliance costs for the taxpayers.



# 1. The history of VAT

VAT has primarily been used to increase revenues through seamless economic documentation, but still in some countries VAT has been used either to replace excise taxes or to rationalise the rates of income tax downward.

Excise duty on the sale of certain goods was introduced in the 17th century by Britain to generate revenue in addition to the customs duty levied on imports. Such taxes took various forms in Europe and America until the dawn of 20th century. Initially, excise duty was levied on the manufacturing and production of goods, but it could only be collected when goods were physically removed from the licensed factory area. This was difficult to administer because it entailed deploying tax collectors in factories to ensure compliance. Although the clearance timings were regulated with strict 'watch and ward' (ie continuous surveillance) efforts, evasion of excise duty remained relatively easy because there was no cross-check on sales invoices and the connivance of taxpayers with excise officials could not be fully prevented. To address this issue, a German businessman, Wilhelm Von Siemens, came up with the idea of VAT in the 1920s. VAT is a multi-stage tax with a single-stage effect where the taxpayer acts as an agent in the overall tax collection and payment system. The idea was built into a system by the so-called father of VAT, Maurice Lauré, who was then the joint director of the French tax authority. VAT was implemented in

France in 1954 as a single-tax substitute for multiple distortionary turnover taxes. VATs were introduced in the 1960s in Côte d'Ivoire, Senegal and Brazil. In 1965 VAT was not yet a worldwide success, as most general consumption taxes were retail sales taxes, which were in fact upfront multi-rate taxes without any backward linkage with the supply chain of goods, commencing from intra-territory production and sale of goods or the point at which foreign imports entered the country. VAT's expansion was limited to fewer than 10 countries in the late 1960s.

By 1989, 48 countries, primarily located in Western Europe and Latin America, besides a handful of developing countries, had attempted to adopt VAT. The rapid spread of VAT in Europe was driven first by the fact that it was a prerequisite for membership of the European Union (EU, previously the European Economic Community, EEC) and, secondly, by the reality that VAT was the only system that could help the EU to regulate intra-European trade without any import or export of tax transfers. Its spread has further accelerated since then with support from the International Monetary Fund (IMF) because VAT records not only document



A commonly cited disadvantage of VAT is that it can be regressive in nature, a problem associated with most types of indirect taxes.

the economy but also progressively eliminate equity issues, thereby promoting the globally accepted goals of economic justice and fair play. VAT also has an inbuilt objective feature of regulating its own enforcement, minimising the possibilities of tax concealments or tax evasions. VAT has now been implemented in more than 167 countries, where it generally accounts for nearly one-quarter of the total tax receipts. In most of the countries, VAT has primarily been used to increase revenues through seamless economic documentation, but still in some countries VAT has been used either to replace excise taxes or to rationalise the rates of income tax downward. The latter reduces opportunities for evasion or avoidance to which income taxation is usually vulnerable because of its very character of manipulability of assessment.

VAT is often regarded as 'self-policing and self-regulating tax domain' as it is levied, collected and paid on every transaction throughout the supply chain. Businesses often appoint consultants or hire in-house tax experts to comply with VAT and other tax laws. A well-designed VAT system can raise revenue on a stable and sustainable basis and this is why the decision to introduce VAT has often been made. According to the destination principle, exports are normally zero-rated with a clear entitlement for reimbursement of input VAT involved in their production. Imports are normally subject to VAT, which is collectable along with other border duties and taxes. This is so simply because VAT is a consumption tax and is paid in the territory where VAT-able goods and services are actually sold to the ultimate user. Since the corresponding input tax on exports is adjustable/refundable, VAT does not affect the competitiveness of international trade. Further, VAT is less susceptible to fraud than other taxes because even if it is evaded at one stage of the supply chain, the tax already deposited to the government kitty at previous stages of supply chain remains intact. With the increase in the application of IT-enabled VAT monitoring of each stage of tax payments, the likelihood of VAT evasion can be reduced. Moreover, economists

generally take the view that VAT encourages savings and investments because it is a tax on consumption (expenditure) and not on income (as such). VAT is more pro-growth than an income or corporate tax. VAT rates (standard) in the countries under study are not high when compared with international standards. The average VAT/sales tax rate for Bangladesh, India, Pakistan and Sri Lanka is 14.37% as compared with the global average of 15.61%. (KPMG 2016).

A commonly cited disadvantage of VAT is that it can be regressive in nature, a problem associated with most types of indirect taxes. Normally, to address this problem, multiple rates of VAT are charged, and various exemptions applied, even though such provisions have an adverse impact on the effectiveness and efficiency of VAT as a model consumption taxation system. Exemptions inevitably make the application of VAT narrower and for this reason are commonly limited to basic food, health, education and charities.

The regressive nature of VAT is usually a greater issue for developing countries, where a significant proportion of the population lives in poverty, than for developed ones. For this reason, many developing countries have adopted multiple VAT rates (a detailed analysis is provided in the Table 4.6 in Chapter 4) with the lower rates applying to necessities such as food and utilities and the exemption of a broad range of goods and services to promote greater prosperity. The countries under consideration in this report have been actively trying to reform VAT.

Enforcement of VAT laws in a developing country can be a challenge, particularly when there are a number of large informal sectors. In the countries under study (except for the UAE), as in other developing countries, the major portion of VAT is collected by a few large taxpayers from their consumers. Despite undertaking reform efforts, these countries (other than the UAE) have not been able to implement VAT properly. As a result, VAT in the region functions as a highly misapplied tax that distorts consumption and production decisions.

VAT in Bangladesh functions as a highly differentiated tax and profoundly affects both consumption and production decisions.

### **BANGLADESH**

Bangladesh was established on 16 December 1971 after the separation of East Pakistan from West Pakistan. Soon after, under the 1972 constitution, it became a parliamentary democracy. With a population of 161 million, Bangladesh is one of the most densely populated countries in the world. Geographically, it is almost surrounded by India with a small border with Myanmar in the southeast. Per capita annual income of Bangladesh was \$972.88 in 2015 (Trading Economics<sup>1</sup>).

Bangladesh has been moving towards a market-based economy with real GDP growth averaging around 6% between 2003 and 2008. It fell in 2009 but returned to 6% and remained constant from 2010 to 2013. Bangladesh had a 5.53% inflation rate as at September 2016 (Trading Economics<sup>2</sup>). The fiscal deficit/surplus as a percentage of GDP was calculated to be -3.1% in 2014, whereas, in 2015, this figure was -4.7% (Ministry of Finance Bangladesh 2016). Its tax: GDP ratio was 9.14% in the year 2015.

The main government tax organisation in Bangladesh, responsible for tax administration ever since the country's independence, is the National Board of Revenue (NBR). It was created by President's Order No. 76 of 1972 and it operates under the Internal Resources Division of the Ministry of Finance. The administration of both direct and indirect taxation falls under the purview of NBR.

Bangladesh has been actively pursuing reforms in its VAT system since the mid 2000s. It legislated new VAT laws based on international standards in 2012, although their implementation has been postponed. VAT in Bangladesh has a narrow base because of a long list of items eligible for exemptions or reduced rates. As a result, VAT in Bangladesh functions as a highly differentiated tax and profoundly affects both consumption and production decisions. As of 2016, the VAT rate for Bangladesh is 15% compared with the global average of 15.61%.



<sup>1</sup> <http://www.tradingeconomics.com/bangladesh/gdp-per-capita>

<sup>2</sup> <http://www.tradingeconomics.com/bangladesh/inflation-cpi>

Defying expectations, the Indian GDP for 2015 was worth US\$2,073.54bn, which amounts to almost 3.4% of the world economy.



## INDIA

India is a region historically associated with ancient trade routes and massive empires. It has been a commercial and cultural hub for much of its long history. This South Asian nation, the seventh largest country by area and the second most populated nation, with more than 1.29bn people, divided into 29 States and seven Union Territories, is the largest democracy in the world. The true strength of the country comes from the diversity of its people. Its per capita income for 2015 was \$1,805.58.

India gained its independence from British colonial rule on 15 August 1947; the country is currently governed under the 1950 Constitution, which came into force on 26 January 1950.

Originally, an agro-based economy, India has come a long way in moving towards a more service-based economic model. The largest contribution to the GDP comes from services at 53%. Defying expectations, the Indian GDP for 2015 was worth US\$2,073.54bn, which amounts to almost 3.4% of the world economy.

Today, India is the fastest growing major economy in the world, as measured by the International Monetary Fund (IMF). According to the Economic Survey 2015–16 conducted by the Ministry of Finance, the Indian economy will grow more than 7% in 2016/17. It is a very fast rate when compared with the projected global growth rate of 3.6%, or even 6% as expected for China.

The Indian taxation system is divided into a three-tier system among the central, state and local government bodies for the levying and collection of tax revenues.

This results in five distinct categories of indirect taxes:

1. taxes that are levied, collected and retained by central government, eg customs duties (CD) and betting tax (BT)
2. taxes that are levied, collected and retained by individual states. eg VAT [Intrastate sales tax on goods] and entry tax (ET)
3. taxes that are collected and retained by the state governments but levied by the central government,, eg CST [Interstate sales tax on goods] and SRF (stamp and registration fees, excluding duties applicable on bills of exchange, cheques, promissory notes, etc. and inheritance of agriculture land)
4. taxes that are levied and collected by central government but apportioned to the states, eg AT (advertisement tax charged on adverts in newspapers) and taxes on transactions in stock exchanges and futures markets (excluding stamp duty (SD))
5. taxes that are levied and collected by the central government and shared between the central and state governments, eg ST [sales tax on services] and CENVAT (excise duties) on all goods except (i) alcohol-based medicinal and toilet preparations, and (ii) alcohol for human consumption and narcotics.

Overall control and direction of taxation resides with the Department of Revenue working under the Ministry of Finance. The Central Board of Direct Taxes (CBDT) is in charge of direct taxation whereas the Central Board of Excise and Customs (CBEC) is in charge of Indirect Taxation. The rate of ST is 14% and rate for CST is 2%.

All states have their own separate tax departments to deal with taxes, referred to as 'Excise and Taxation departments' or 'Commercial Taxes departments'. These departments are involved in the administration and collection of various taxes, including VAT. The standard VAT rate in the various states ranges from 12.5% to 15%, depending on the state economy and its budgetary requirements.



**GST will replace most of the prevailing indirect taxes being levied at central or state level, therefore significantly simplifying the indirect tax model.**

The taxation of services began in 1994 when Service Tax was introduced under the general residual entry 97 in the Union List. In 2016 taxes are imposed on both consumption and production, and on the basis of both the origin and destination of goods and services. In addition to Central Sales Tax (CST), VAT and Service Tax (ST), there are several other indirect taxes that make compliance cumbersome. To overcome this complexity, reduce the compliance cost for businesses operating nationwide, and increase foreign direct investment by making the taxation process transparent, the Indian government proposes to replace the existing systems with a General Sales Tax (GST).

GST is defined as tax on the supply of goods and services or a mix of the two. GST is not one tax but a set of 38 taxes comprising 29 state GSTs (SGSTs), seven Union territories taxes, one central GST (CGST) and the Integrated GST (IGST), which have all been standardized to look like a single tax.

GST will replace most of the prevailing indirect taxes being levied at central or state level, therefore significantly simplifying the indirect tax model. This was originally proposed to be introduced in 2016 but has been postponed till late 2017.

A well-designed GST will simplify and rationalise the current indirect tax regime, eliminate tax cascading caused by taxation of tax, and reduce the compliance issues that have developed in the current indirect tax system. Furthermore, taxation of complex transactions and dealing with emerging situations have become difficult. GST provides an opportunity to rectify distortions and replace them with an efficient and simplified tax system.

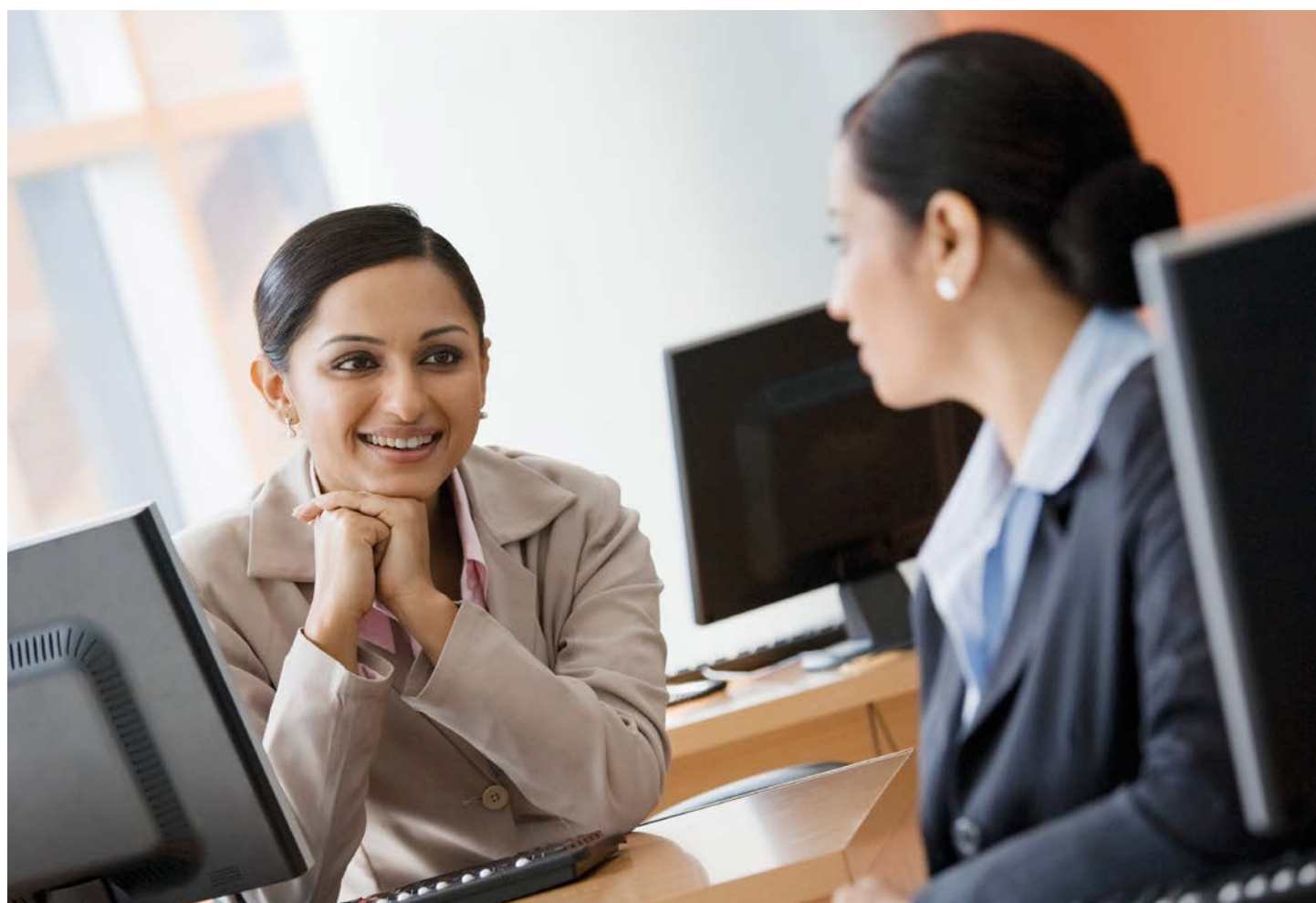
Constitutional changes were required to implement GST as the states did not have the powers to levy a tax on the supply of services or on imports, whereas the central government could not levy tax on the supply of goods within a state. These constitutional amendments have been enacted through the Constitution (122 Amendment) Bill, 2014 passed by the Indian Parliament in August 2016 and will

be applicable from 1 April 2017. Significant features of GST are as follows.

- GST will apply to all goods and services except alcohol for human consumption, electricity and real estate.
- GST will apply only on a destination basis.
- IGST will be levied on Interstate transactions of goods and services.
- GST can be levied on a given base by both the central government and the states concurrently.
- GST will apply to the full supply chain including leases or any other arrangement.
- The GST Council will administer GST and make policies for this. The Council will determine the tax base, rates, allocation of tax base among the states, administrative structure and compliance procedures, and the like.
- The laws, regulations and procedures for the levying and collection of CGST and SGST will be harmonised to the maximum extent possible.
- A common threshold exemption will be established for GST.
- A compounding option (ie a flat rate without credits) will be available to small taxpayers below a certain threshold. The compounding scheme will be optional.
- The list of exempted goods and services will be kept to a minimum.
- GST will replace CENVAT (the central government's VAT), Duties of Excise (medicinal and toilet preparations), additional duties of excise (goods of special importance), additional duties of excise (textiles and textile products), Countervailing Duty (CVD), Special Additional Duty (SAD), Service Tax (ST), VAT, CST, Purchase Tax, Luxury tax (LT), Entry tax (ET), AT, BT and Central and State Cesses and surcharges, insofar as far as they relate to the supply of goods or services.

**Exports will be zero-rated but importation of goods will be subject to both BCD and IGST.**

- Entertainment tax (ENT) will be subsumed in GST, but taxes on entertainment at panchayat (local assembly), municipality or district level will continue.
- SD, typically imposed on legal agreements by each state, will continue to be levied by the states.
- Tobacco products will be subject to Excise Duty (ED) in addition to GST.
- Petroleum and petroleum products will become subject to GST on a date to be notified by the GST Council.
- For an initial period of two years or as further extended by the Council, a non-VATable Additional Tax, not exceeding 1%, on the inter-state supply of goods will be levied and collected by the central government and assigned to the originating state.
- Exports will be zero-rated but importation of goods will be subject to both BCD and IGST.
- Input tax credit of the various streams of GST cannot be cross-utilised, except in specified circumstances of inter-state supplies or for payment of IGST. No input tax credit of additional tax is available.
- The withdrawal of Entry tax/Octroi is proposed across India.
- States will retain the autonomy to set their tax rates under GST within 2%.
- States will be compensated by the central government for any loss in revenues for five years.
- In the GST Council, the central government will have a one-third representation and all states combined will have two-thirds representation, through their ministers.
- The Council will not pass directions but instead make recommendations. It is unclear whether the decisions of the Council will be binding in the event of any dispute.



Pakistan, with its population of more than 190m, achieved 4.24% GDP growth in fiscal year 2014/2015, which was the highest rate since 2008/2009.

## PAKISTAN

Pakistan emerged as an independent country on 14 August 1947, but it has a history of over 5,000 years, being the home of the Indus Valley civilisation. Pakistan is a diversified country in culture, landscape and climate. Geographically, Pakistan is located in South Asia and is bordered by India, China, Afghanistan, Iran, the Arabian Sea and the Gulf of Oman.

Pakistan, with its population of more than 190m, achieved 4.24% GDP growth in fiscal year 2014/2015, which was the highest rate since 2008/2009. In 2014/15 the total tax revenue of national and provincial governments was around 12.4% of GDP. The country's per capita income for 2015 was \$1,152.14 (Trading Economics<sup>3</sup>).

In Pakistan, federal as well as provincial governments are competent to levy various types of tax. The responsibility for collecting taxes for the federal government has been assigned to the Federal Board of Revenue (FBR), a semi-autonomous federal agency, whereas recently established provincial revenue authorities are responsible for the collection of sales tax on services. Federal government has implemented both types of tax, ie direct and indirect, including income tax, general sales tax on goods, customs duty and excise duty. Under the 18th Amendment to the Constitution of Pakistan made in 2010, the responsibility for collecting sales tax on services along with certain other taxes was devolved to the provincial governments.

The scope of direct taxes is very limited as 61.7% of the total population of Pakistan lives in rural areas (Trading Economics<sup>4</sup>) and around 38.8% of households are below the poverty line (Multi-Dimensional Poverty in Pakistan<sup>5</sup>). So in order to meet the operational and developmental needs of the government, indirect taxes, especially sales tax, contribute heavily to overall revenue collection. The major reason for reliance on sales tax is because of a large undocumented economy and capacity issues within the taxation system, besides structural problems that have created multiple bottlenecks in government efforts to broaden the tax base.

The Sales Tax Act was introduced in the Federal Legislation on 30 March 1951. By virtue of the Finance Act 1990, the Sales Tax Act 1951 was completely replaced by the Sales Tax Act 1990. This complete change was made to simplify the legislation in order to increase tax collection and to meet the needs of the country's growing economy.

Sales tax is collected at both federal and provincial levels. At the federal level, GST is levied on goods, whereas, at the provincial level, sales tax is levied on services. The Federal government also levies sales tax on services rendered in the Islamabad Capital Territory. Currently, the standard sales tax rate is 17% on goods and 13% to 16% for services, depending on the province.

3 <http://www.tradingeconomics.com/pakistan/gdp-per-capita>

4 <http://www.tradingeconomics.com/pakistan/rural-population-percent-of-total-population-wb-data.html>

5 [http://www.pk.undp.org/content/pakistan/en/home/library/hiv\\_aids/Multidimensional-Poverty-in-Pakistan.html](http://www.pk.undp.org/content/pakistan/en/home/library/hiv_aids/Multidimensional-Poverty-in-Pakistan.html)

Sri Lanka was able to maintain a stable growth of 4.9% and 4.8% in real GDP during the years 2014 and 2015 respectively, while maintaining an average inflation rate of 0.9% in the year 2015.

## SRI LANKA

Sri Lanka is commonly known as the pearl of the Indian Ocean and has always remained a sovereign state with territorial integrity. It boasts of a history of over 2,500 years, rich in cultural and historical heritage, which can still be found in various parts of the country. Some of its ancient ruins also relate to ancient monarchies during which basic systems of taxation existed for the maintenance of the kingdom. Between 1505 and 1948 Sri Lanka was invaded by Portuguese, Dutch and British and it remained a British colony from 1815 to 1948, during which English taxation laws were gradually introduced into the legal structure of Sri Lanka. The first Republican Constitution was introduced in 1972 and currently Sri Lanka is governed under the second Republican Constitution – the Constitution of the Democratic Social Republic of Sri Lanka came into force in 1978. The current administration is in the process of introducing constitutional amendments and reforms.

Sri Lanka was able to maintain a stable growth of 4.9% and 4.8% in real GDP during the years 2014 and 2015 respectively, while maintaining an average inflation rate of 0.9% in the year 2015. An overall fiscal deficit of –7.4% of GDP in the year 2015 was recorded in Sri Lanka (Central Bank of Sri Lanka 2016). The country's per capita income for 2015 was \$3,637.54 (Trading Economics<sup>6</sup>).

Income Tax was introduced in Sri Lanka in 1932 and the first assessment was conducted for the period of 1931/32. In 1933, the Income Tax Department was renamed as the Department of Income Tax, Estate Duty and Stamps, following the amalgamation of the Estate Duty and Stamps offices with the Income Tax department. Sri Lanka, as a unitary state, does not constitutionally or statutorily recognise the devolution of indirect taxes.

The Sri Lankan tax system has both direct and indirect taxes. All the taxes other than income tax are considered to be indirect taxes. Some of them are VAT, Nation Building Tax (NBT), Customs Duties (CD), Excise Duty (ED), Stamp Duty (SD), Cess, Ports and Airports Development Levy (PADL), Betting and Gaming Levy (BAGL) and Share Transaction Levy (STL). The total tax revenue of the country was 12.1% of the GDP in the year 2015 (Central Bank of Sri Lanka 2016).

Indirect taxes are more prominent than direct taxes in Sri Lanka, where nearly 81% of the tax revenues come from indirect taxes (Central Bank of Sri Lanka 2016). VAT, as the primary indirect tax in the country, contributes approximately 16% to the total tax revenue (Central Bank of Sri Lanka 2016). VAT came into force on 1 August 2002 by Act No. 14 of 2002 and this replaced the GST, which was an indirect tax imposed on the consumption of goods and services prior to the introduction of VAT.

Section 154G of the Constitution of Sri Lanka gives provincial council the right to levy Turnover tax on retail and wholesale business/ license taxes and stamp duty on transfer of property. Statute however needs to be passed in Parliament.

The current administration has presented a Bill to amend the existing VAT law with the intention of expanding the tax base by reducing the existing VAT thresholds, available tax exemptions and zero-rated supplies. An attempt made by the administration to increase the VAT rate to 15% from the current rate of 11% was, however, prevented temporarily by an interim order issued by the Supreme Court of Sri Lanka in July 2016 until such time as the legislation takes effect by way of an amendment to the existing law.



UAE has a favourable business climate and a dynamic entrepreneurial environment owing to political stability, a low crime rate and the financial sector's overall soundness and recovery since the 2009 Dubai financial crisis.

## THE UNITED ARAB EMIRATES

The United Arab Emirates (UAE) is a federation consisting of seven monarchies, namely, Abu Dhabi, Ajman, Dubai, Fujairah, Ras Al-Khaimah, Sharjah, and Umm al-Qaiwain, which was established in December 1971. Each Emirate is governed by an absolute monarch and all monarchies together form the Federal Supreme Council. The Federal Supreme Council selects the president and vice president for five-year terms with no limit on the number of terms they serve. The UAE, having a federal government, leaves most decision-making power to the emirates. The government has executive, legislative and judicial branches; with the executive branch having most of the operational and managerial powers. The basis of political power is traditional and hereditary. Although the governmental institutions are modern in form, the most important decisions are made by the ruling families of the different emirates.

Abu Dhabi is the largest city as well as the national capital, and serves as the financial, communications and transportation centre of a major petroleum-producing area. Dubai is the main trading centre of the entire Gulf and has the principal port facilities of the UAE. It also has the busiest airport and has several large commercial enterprises. The UAE has the seventh largest oil reserves in the world while its natural gas reserves are the world's 17th-largest.

Before the discovery of oil in the 1950s, the UAE was a group of low-income emirates under the protection of the British. Oil brought rapid growth and modernisation to the area and the late Sheikh Zayed bin Sultan Al Nahyan, ruler of Abu Dhabi and the first President of the UAE, oversaw the development of the Emirates by steering oil revenues into healthcare, education and infrastructure. UAE has a favourable business climate and a dynamic entrepreneurial environment owing to political stability, a low crime rate and the financial sector's overall soundness and recovery since the 2009 Dubai financial crisis. Barriers to trade are quite low and regulations support open market policies.

The financial sector provides a wide range of services while the capital market is open and competitive. Large oil revenues have kept the government budget in surplus and public debt below 15% of GDP. Per capita income in the UAE for 2015 was US\$39,543.71 (Trading Economics<sup>7</sup>).

The UAE has decided to implement VAT at the rate of 5% from 1 January 2018 and has recently established the Federal Tax Authority under federal law number (13) of 2016 for this purpose. Under this policy, however, 100 basic food items, health care, education, bicycles and social services will be exempted. The decision to implement VAT came after strong deliberations with the IMF in the face of a sharp decline in oil prices. The IMF strongly recommended diversification of government revenues and reduction of subsidies. Public services need to be taxed in order to generate the revenues to fund them and prevent government borrowing, which could be harmful in the long run. Indirect taxes seem the most viable option as other taxes such as ITs or CTs may be difficult to collect. Moreover, direct taxes may be considered as a disincentive to businesses considering investment in the region, which may reduce GDP growth. There is no federal tax legislation on the taxation of corporations in the UAE except for businesses involved in oil and gas exploration and production companies, branches of foreign banks and certain petrochemical companies under specific government concession agreements.

Moreover, VAT is unlikely to cause inflation for most citizens as basic necessities will be exempt from its ambit. The bulk of the average monthly spend by families in the UAE is for rents, food, health care and education, which will not be affected. VAT will not pose any burden on those who do not shop regularly for high-end goods. Nonetheless, it is predicted that a hike in the cost of financial services may hit ordinary people.

According to analysts, a single-digit VAT rate could generate revenues in the range of 2% of GDP. If implemented effectively, the introduction of the VAT could fill the large fiscal buffer and address the consequences of the sharp decline in oil prices.

Tax collection in South Asia is critical for the development of the region. Every country in the region is trying to adopt an organisational structure according to its needs.

According to the World Economic Forum, tax collection in South Asia is critical for the development of the region. Every country in the region is trying to adopt an organisational structure according to its needs.



Apart from the powers of federal government to levy indirect taxes, the Constitution of India provides the right to levy and collect indirect taxes by the states on subjects within their given jurisdiction. Similarly, the 18th Amendment to the 1973 Constitution of Pakistan introduced in 2010 gives provincial authorities the right to levy sales tax on services within their jurisdiction, while retaining the powers of the federal government to levy sales tax on

goods. In Sri Lanka, section 154G of the Constitution gives the provincial council the right to levy Turnover tax on retail and wholesale business, license tax and stamp duty on transfer of property, however, the respective statutes need to be passed by the Parliament. Whereas, Bangladesh has a more centralised system, where only federal government has the right to impose and collect taxes.

Tables 3.1 and 3.2 show the indirect taxes levied by federal as well as provincial/state authorities across the South Asian region.



**Note:** India comprises 29 states, in order to avoid repetition, laws related to VAT/Sales Tax of 4 states have been covered.

**TABLE 3.1:** Indirect taxes levied by Federal/Central authority

INDIRECT TAX	SCOPE	RELEVANT LAWS
 <b>BANGLADESH</b>		
VAT on goods and services	Whole of Bangladesh	<ul style="list-style-type: none"> <li>Value Added Tax and Supplementary Duty Act 2012</li> </ul>
ED	Whole of Bangladesh except of areas falling under Export Processing Zones	<ul style="list-style-type: none"> <li>Value Added Tax and Supplementary Duty Rules 2016</li> </ul>
 <b>INDIA</b>		
ST	Whole of India, except the state of Jammu and Kashmir	<ul style="list-style-type: none"> <li>Service Tax Rules 1994</li> <li>Service Tax Credit Rules 2002</li> <li>Service Tax (Advance Rulings) Rules 2003</li> <li>CENVAT Credit Rules 2004</li> <li>Export of Services Rules 2005</li> <li>The Service Tax (Registration of Special Categories of Persons) Rules 2005</li> <li>Service Tax (Determination of Value) Rules 2006</li> <li>The Taxation of Services (Provided from Outside India and Received in India) Rules 2006</li> <li>Works Contract (Composition Scheme for Payment of Service Tax) Rules 2007</li> <li>Dispute Resolution Scheme Rules 2008</li> <li>Service Tax Dispute Resolution Scheme 2008</li> <li>Service Tax (Provisional Attachment of Property) Rules 2008</li> <li>The Service Tax (Publication of Names) Rules 2008</li> <li>Service Tax Return Preparer Scheme 2009</li> <li>Service Tax (Removal of Difficulty) Order, 2010</li> <li>Point of Taxation Rules 2011</li> <li>Place of Provision of Services Rules 2012</li> <li>Service Tax (Compounding of Offences) Rules 2012</li> <li>Service Tax (Settlement of Cases) Rules 2012</li> <li>Service Tax Voluntary Compliance Encouragement Rules 2013</li> <li>Relevant amendments, notifications and clarifications</li> </ul>

INDIRECT TAX	SCOPE	RELEVANT LAWS
 <b>INDIA</b>		
CENVAT Also known as Central/ Union Excise Duty (previously MODVAT)	Whole of India	<ul style="list-style-type: none"> <li>• Central Excise and Salt Act 1944</li> <li>• Additional Duties of Excise (Goods of Special Importance) Act 1957</li> <li>• Finance Act 1978</li> <li>• Customs, Excise &amp; Service Tax Appellate Tribunal (Procedure) Rules 1982</li> <li>• Central Excise Tariff Act 1985</li> <li>• Consumer Welfare Fund Rules 1992</li> <li>• Customs and Central Excise Duties and Service Tax Drawback Rules 1995</li> <li>• Central Excise Valuation (Determination of Price of Excisable Goods) Rules 2000</li> <li>• Central Excise (Appeals) Rules 2001</li> <li>• Central Excise (Removal of Goods at Concessional Rate of Duty for Manufacture of Excisable Goods) Rules 2001</li> <li>• Central Excise (Advance Rulings) Rules 2002</li> <li>• Central Excise Rules 2002</li> <li>• CENVAT Credit Rules 2004</li> <li>• Authority for Advance Rulings (Customs, Central Excise and Service Tax) Procedure Regulations 2005</li> <li>• Central Excise (Compounding of Offences) Rules 2005</li> <li>• Central Excise (Removal of Difficulties) Rules 2005</li> <li>• Central Excise (Settlement of Cases) Rules 2007</li> <li>• Central Excise (Determination of Retail Sale Price of Excisable Goods) Rules 2008</li> <li>• Pan Masala Packing Machines (Capacity Determination and Collection of Duty) Rules 2008</li> <li>• Chewing Tobacco and Unmanufactured Tobacco Packing Machines (Capacity Determination and Collection of Duty) Rules 2010</li> <li>• Clean Energy Cess Rules 2010</li> <li>• Relevant amendments, notifications and clarifications</li> </ul>
CST	Sale between two or more states	<ul style="list-style-type: none"> <li>• Central Sales Tax Act 1956</li> <li>• Central Sales Tax (Registration and Turnover) Rules 1957</li> <li>• Relevant amendments, notifications and clarifications</li> </ul>
 <b>PAKISTAN</b>		
FGST	Whole of Pakistan	<ul style="list-style-type: none"> <li>• Sales Tax Act 1990</li> <li>• Sales Tax Rules 2006</li> <li>• Sales Tax Special Procedures Rules 2007</li> <li>• Sales Tax Special Procedure (Withholding) Rules 2007</li> <li>• Relevant amendments, notifications and clarifications</li> </ul>
FED	Whole of Pakistan	<ul style="list-style-type: none"> <li>• Federal Excise Act 2005</li> <li>• Federal Excise Rules 2005</li> <li>• Relevant amendments, notifications and clarifications</li> </ul>
CD	Whole of Pakistan	<ul style="list-style-type: none"> <li>• Customs Act 1969</li> <li>• Customs Rules 2001</li> <li>• Relevant amendments, notifications and clarifications</li> </ul>
STS (Federal)	Islamabad	<ul style="list-style-type: none"> <li>• Islamabad Capital Territory (Tax on Services) Ordinance 2001</li> </ul>
 <b>SRI LANKA</b>		
VAT on goods and services	Whole of Sri Lanka	<ul style="list-style-type: none"> <li>• Value Added Tax Act 2002</li> </ul>
NBT	Whole of Sri Lanka	<ul style="list-style-type: none"> <li>• Nation Building Tax Act 2009</li> </ul>
ED	Whole of Sri Lanka	<ul style="list-style-type: none"> <li>• Excise (Special Provisions) Act 1989</li> </ul>

**TABLE 3.2:** Indirect taxes levied by Provincial/State authorities

INDIRECT TAX	SCOPE	RELEVANT LAWS
 <b>INDIA</b>		
VAT	Within a state	<p>Every state has its own law.</p> <p>Finance Act 2005 introduced state-level VAT all over the country but some states did levy VAT before the Finance Act 2005 in a limited capacity. Relevant laws are given below.</p> <p><b>AP</b></p> <ul style="list-style-type: none"> <li>• Andhra Pradesh Value Added Tax Act 2005</li> <li>• Andhra Pradesh Value Added Tax Rules 2005</li> <li>• Relevant amendments notifications and clarifications</li> </ul> <p><b>HY</b></p> <ul style="list-style-type: none"> <li>• Haryana Value Added Tax Act, 2003</li> <li>• Haryana Value Added Tax Rules 2003</li> <li>• Relevant amendments, notifications and clarifications</li> </ul> <p><b>KN</b></p> <ul style="list-style-type: none"> <li>• Karnataka Value Added Tax Act 2003</li> <li>• Relevant amendments, notifications and clarifications</li> </ul> <p><b>UP</b></p> <ul style="list-style-type: none"> <li>• Uttar Pradesh Value Added Tax Act 2008</li> <li>• Relevant amendments, notifications and clarifications</li> </ul>
 <b>PAKISTAN</b>		
STS (Provincial)	Punjab	<ul style="list-style-type: none"> <li>• Punjab Sales Tax on Services Act 2012</li> <li>• Punjab Sales Tax on Services Rules 2012</li> <li>• Relevant amendments, notifications and clarifications</li> </ul>
	Sindh	<ul style="list-style-type: none"> <li>• Sindh Sales Tax on Services Act 2011</li> <li>• Sindh Sales Tax on Services Rules 2011</li> <li>• Relevant amendments, notifications and clarifications</li> </ul>
	Khyber Pakhtunkhwa	<ul style="list-style-type: none"> <li>• Khyber Pakhtunkhwa Finance Act 2013</li> <li>• Khyber Pakhtunkhwa Sales Tax on Services Special Procedure (Withholding) Regulation 2015</li> <li>• Relevant amendments, notifications and clarifications</li> </ul>
	Balochistan	<ul style="list-style-type: none"> <li>• Balochistan Sales Tax on Services Act 2015</li> <li>• Relevant amendments, notifications and clarifications</li> </ul>



UAE is widely considered to be 'tax free' and there are no indirect taxes per se. Even so, municipal or service taxes are charged in some of the emirates.



There is no federal tax legislation on the taxation of corporations in the UAE except for oil and gas companies and subsidiaries of foreign banks; each emirate has its own tax. UAE is widely considered to be 'tax free' and there are no indirect taxes per se. However, municipal or service taxes are charged in some of the emirates. In Dubai, a 10% municipal tax (MT) is charged on hotel revenues and entertainment. In all the emirates with the exception of Abu Dhabi, income from renting commercial premises is taxed at a rate of 10%, and income from renting residential premises at a rate of 5%. Customs or import duties are levied at the rate of 5% but certain goods, such as medicines, most food products, capital goods and raw materials for industries are exempt from such duties. Imports by free zone companies are also exempted unless products move outside the zone. As a Gulf Cooperation Council (GCC) member state, the UAE applies a Common Customs Law and a Unified Customs Tariff with a standard Customs Duty (CD) rate of 5% of goods' cost, insurance and freight value, except for tobacco, alcohol and goods subject to

CD at the rate of 0%. All products of the non-GCC countries are subject to tax at the rate of 5%. There are as yet no consumption taxes or VAT in the UAE, but individual emirates may charge levies on certain products such as liquor and cigarettes and on certain services such as those provided in the hospitality industry. For example, import of alcohol is taxable at the rate of 50% when bringing it into the country, a further 30% tax is charged on purchase of alcohol (legally with a liquor licence) for home consumption. In Dubai, a sale registration fee of 1% of the sale value of land is imposed on the seller, payable to the Dubai Land Department.

In the UAE, five (Dubai, Sharjah, Abu Dhabi, Ajman and Fujairah) out of the seven emirates have issued Income Tax Decrees for corporate tax. These decrees are only applicable to businesses involved in oil and gas exploration and production companies, branches of foreign banks and certain petrochemical companies under specific government concession agreements. The rates at which corporate tax is charged range from 50% to 55%.



Indirect tax revenue comprises the revenue generated through various indirect taxes, which is collected through an intermediary body such as the companies and retail stores that act as collecting agents.

VAT has several characteristics worth noting. It is often said that VAT is better for economic growth than income taxes because of its effect on savings and labour supply. VAT is not levied on earnings till such earnings or savings are spent to purchase goods and services, whereas income tax is levied on earnings as they are earned. VAT therefore tends to encourage savings, leading to increased investment and economic growth. Also, VAT does not generally affect people's decisions about whether to work more or not, while the so-called progressive income tax system is believed to create reluctance among the people to do more work and earn more because it exposes them to a higher tax burdens (loss of income).

Indirect tax revenue comprises the revenue generated through various indirect taxes such as VAT, Per Unit Tax (PUT) or GST and so forth, which is collected through an intermediary body such as the companies and retail stores that act as collecting agents.

According to a World Bank's report on Global Economic Prospects, January 2015

edition., tax collection in South Asia is critical for the region. It further adds that South Asia has one of the lowest tax revenue collections while it is inhibited to just under 40% of the population of the world.

The Table 4.1 below shows indirect tax revenue collections across the South Asian region for last five years. If we look at the indirect tax collection for India, it has gone up from \$176.12bn in 2011 to \$232.29bn in 2015. Similarly in Pakistan, indirect tax revenue has gone up from \$11.1bn in 2011 to \$14.89bn in 2015. One can observe the same trend in Bangladesh, with collections increasing from \$5.6bn in 2011 to \$8.3bn in 2015.

VAT revenue also showed an upward trend from 2011 to 2015. In India, it exceeded \$87bn in 2015, rising from \$62.6bn in 2011. Likewise, in Bangladesh, it was \$3.9bn in 2010, but reached over \$6bn in 2015. On the other hand, in Sri Lanka, VAT suddenly dropped from \$1.9bn in 2013 to \$1.6bn in 2015, after reaching its highest level in 2014 at over \$2bn.



**TABLE 4.1:** Year-to-year trend of collections of indirect taxes (in US\$ billions)

INDIRECT TAX	2015	2014	2013	2012	2011
 <b>BANGLADESH</b>					
VAT	6.286	5.779	4.861	4.560	3.992
Excise Duty	0.119	0.152	0.120	0.060	0.039
Export Duty	0.004	0.005	0.005	0.004	0.004
Import Duty	1.915	1.692	1.745	1.679	1.537
<b>Total</b>	<b>8.323</b>	<b>7.628</b>	<b>6.730</b>	<b>6.303</b>	<b>5.572</b>
 <b>INDIA</b>					
ST	33.681	27.031	22.658	18.268	15.237
CENVAT	32.181	29.303	30.047	27.146	29.545
CST	0.405	0.378	0.336	0.333	0.302
CD	31.474	28.692	28.253	27.975	29.140
SRF	15.311	14.528	13.480	12.519	11.638
VAT & MSST	87.177	82.083	71.871	67.359	62.619
SED	15.685	14.559	14.771	14.074	13.238
TOV	6.779	6.503	6.057	5.618	5.385
TOGV	3.388	2.795	2.617	2.188	2.426
TDE	3.891	3.869	3.794	3.241	3.738
OT	2.313	2.269	2.176	2.343	2.852
<b>Total</b>	<b>232.285</b>	<b>212.010</b>	<b>196.059</b>	<b>181.064</b>	<b>176.119</b>
 <b>PAKISTAN</b>					
FGST*	10.82	9.869	9.009	9.375	7.432
FED	1.590	1.424	1.332	1.462	1.663
CD	2.481	2.385	2.375	2.302	2.007
<b>Total</b>	<b>14.89</b>	<b>13.673</b>	<b>12.711</b>	<b>13.139</b>	<b>11.102</b>
 <b>SRI LANKA</b>					
VAT	1.682	2.132	1.964	2.078	1.996
Supplementary duty	1.249	2.413	2.399	2.156	1.914
Nation Building Tax	0.345	0.345	0.321	0.351	0.315
Excise Duty	3.811	1.988	1.965	2.027	1.810
Import Duties	1.012	0.628	0.652	0.725	0.705
<b>Total</b>	<b>8.099</b>	<b>7.507</b>	<b>7.300</b>	<b>7.336</b>	<b>6.741</b>

\* These figures pertain to federal collection.

The tax-to-GDP ratio gives policymakers and analysts a metric that they can use to compare tax receipts from year to year.

#### INDIRECT TAXES AS A PERCENTAGE OF GDP

When analysing data, both ratios and numbers are important because numbers might tell one story and ratios another. For example, the indirect tax revenue has been rising in Sri Lanka since 2011, but its percentage of GDP is almost stagnant. The tax-to-GDP ratio gives policymakers and analysts a metric that they can use to compare tax receipts from year to year. In most cases, because taxes are related to economic activity, the ratio should stay relatively constant. Generally, optimising tax rates does not necessarily maximise Gross Domestic Product (GDP). Many economists more or less agree that high taxes are not good for economic growth unless they are adopted for a time-limited period to minimise socio-economic inequalities and achieve a sustainable, rational and equitable redistribution of income.

Although Bangladesh's GDP is growing in absolute terms, this growth is not being translated into a higher tax-to-GDP ratio over 2011–15. In Bangladesh the ratio of tax to GDP is going down, and the reason is that a large sector of the Bangladeshi economy consists of small businesses that are currently outside the tax net. The current taxation system is unable to cope with the demands placed on it by the high growth in GDP. The GDP of Bangladesh has increased by 69% since 2011, whereas indirect taxes have grown by only 28%. By preventing tax evasion, legal loopholes and complexities, indirect tax revenue could be enhanced in line with the increase in GDP.

Since 2011, the Indian government has placed more reliance than previously on taxes as a source of income, as evident from the slight increase in tax-to-GDP ratio, which increased by 1% over 2011–2015. Indirect taxes have become especially important, as is reflected in the ratio of indirect tax to total tax, with the share of indirect taxes increasing by 2% over 2011–2015. The government has periodically increased the tax rates to boost the revenue generated from the indirect tax regimes. Indirect taxes, therefore, grew in value about 32% from 2011.

Like India, Pakistan also relies heavily on indirect taxes. Looking at indirect tax collected by federal and provincial governments jointly, 41.5% of its federal tax revenues in 2014/15 and almost 57% in 2015/16 were contributed by indirect taxes (Ministry of Finance 2016, ). Since the ratio of indirect tax to total tax has increased over 2011–2015, it can be inferred that Pakistan is shifting the emphasis of its taxes towards making indirect taxes the main source of tax revenue.

Sri Lanka has shown both an absolute and a relative increase in Indirect tax revenue, total tax revenue and GDP over 2011–2015. This increase has been achieved despite a decrease in the VAT rate, which shows that the tax base and tax collection have been improved by government intervention and that the tax machinery is working better than previously.



**TABLE 4.2:** Year-to-year GDP, total tax & indirect tax collections





FACTOR (US\$ BILLIONS)	2015	2014	2013	2012	2011
 <b>BANGLADESH</b>					
Indirect tax revenue <sup>8</sup>	9.572	10.041	9.129	8.459	7.486
Other taxes including direct tax	8.265	6.358	4.904	4.34	3.676
Tax Revenue*	17.837	16.399	14.033	12.799	11.162
GDP	195.090	172.885	149.990	133.356	115.279
 <b>INDIA</b>					
Indirect tax revenue	232.285	212.010	196.060	181.065	176.118
Other taxes including direct tax	116.752	106.028	97.178	93.932	96.727
Tax Revenue	349.037	318.038	293.238	274.997	272.845
GDP	2,008.130	1,861.088	1,728.087	1,687.897	1,672.541
 <b>PAKISTAN</b>					
Indirect tax revenue	14.89	13.673	12.711	13.139	11.102
Other taxes including direct tax	17.41	13.964	13.209	12.942	10.862
Tax Revenue	29.871	25.257	23.550	23.779	19.957
GDP	243.383	231.150	224.646	213.755	177.407
 <b>SRI LANKA</b>					
Indirect tax revenue <sup>9</sup>	6.850	5.094	4.902	5.180	4.828
Other taxes including direct tax	3.532	3.041	2.983	3.044	2.189
Tax Revenue	10.382	8.135	7.885	8.224	7.017
GDP	80.028	74.924	68.434	65.293	56.726

\* Includes both NBR + NON NBR revenue






8 Include revenues collected from VAT, Excise Duty Import Duty, Export Duty (Source: Bangladesh Economic Review 2015)

9 Include revenues collected from VAT, Supplementary Duty, Nation Building Tax, Excise Duty and Import Duties (Source: Ministry of Finance - Annual Report 2015)

**TABLE 4.3:** Year-wise contribution of Total & Indirect Taxes to GDP

RATIO OF	2015	2014	2013	2012	2011
 <b>BANGLADESH</b>					
Indirect tax to total tax	53.66%	61.23%	65.06%	66.09%	67.07%
Other tax to total tax	46.33%	38.77%	34.94%	33.91%	32.93%
Tax to GDP	9.14%	9.49%	9.36%	9.60%	9.68%
Indirect tax to GDP	4.91%	5.81%	6.09%	6.34%	6.49%
 <b>INDIA</b>					
Indirect tax to total tax	66.55%	66.66%	66.86%	65.84%	64.55%
Other tax to total tax	33.45%	33.34%	33.14%	34.16%	35.45%
Tax to GDP	17.38%	17.09%	16.97%	16.29%	16.31%
Indirect tax to GDP	11.57%	11.39%	11.35%	10.73%	10.53%
 <b>PAKISTAN</b>					
Indirect tax to total tax	49.85%	54.14%	53.97%	55.25%	55.63%
Other tax to total tax	58.28%	55.29%	56.09%	54.43%	54.43%
Tax to GDP	12.27%	10.93%	10.48%	11.12%	11.25%
Indirect tax to GDP	5.12%	4.89%	4.60%	5.07%	5.13%
 <b>SRI LANKA</b>					
Indirect tax to total tax	65.98%	62.62%	62.16%	62.98%	68.80%
Other tax to total tax	34.02%	37.38%	37.84%	37.02%	31.2%
Tax to GDP	12.97%	10.86%	11.52%	12.60%	12.36%
Indirect tax to GDP	8.56%	6.80%	7.16%	7.93%	8.51%

**TABLE 4.4:** Yearly average rates for conversion of various currencies to US\$

COUNTRY	CURRENCY	2015	2014	2013	2012	2011	2010
 <b>BANGLADESH</b>	Taka	79.3151	78.8668	79.3823	83.2514	75.2283	70.8242
 <b>INDIA</b>	Rupee	64.1226	61.0131	58.5230	53.3784	46.6076	45.6826
 <b>PAKISTAN</b>	Rupee	102.7398	101.0212	101.5368	93.3845	86.3303	85.1499
 <b>SRI LANKA</b>	Rupee	135.9017	130.5871	129.1225	127.5654	110.5139	113.1311
 <b>UAE</b>	Dirham	3.6729	3.6730	3.6730	3.6730	3.6730	3.6729

Tax administration analysis now suggests that the VAT registration threshold should be carefully determined by balancing collection costs against the marginal value of additional tax gains, optimising the tax take in relation to the costs of collection.

### SALES TAX THRESHOLDS






In order to reduce collection costs and compliance costs, most of the VAT laws contain different 'tax-free thresholds' that exempt small businesses and small enterprises from mandatory registration and operation under the VAT system. Such thresholds are generally necessitated by the overall character of the national economy and product mix or the composition of the domestic market. These registration thresholds were not initially well received. When VAT was originally introduced on the world stage, the general view was that under the ideal VAT, the threshold should be zero (Richard Miller Bird, 2007). This view was in line with optimal taxation theory, which stated at the time that differentiation of tax liability based on business size violates production efficiency. A commonly cited disadvantage of establishing a registration threshold is the loss of potential revenue. However, in view of the pyramidal nature of the business market structure, the fear of loss of revenue from firms below the exemption threshold was tempered by the need to ensure that small-sized businesses with tiny business activities should not be subjected to the complexities of compliance with VAT. This tax can be more conveniently, efficiently, transparently and productively collected from organisations conducting larger transactions. Tax administration analysis now suggests that the VAT registration threshold should be carefully determined by balancing collection costs against the marginal value of additional tax gains, optimising the tax take in relation to the costs of collection.

Almost every country under consideration for this report sets a different threshold for taxable supplies or services. It is pertinent to mention the importance of the threshold because it shows how favourable a country is for businesses. If a state sets a relatively low threshold for taxable goods, it is likely to reduce the growth and sustainability of small businesses in the country. On the other hand, this also allows small businesses to escape into the shadow economy, thereby hindering the collection of potential tax revenues that could be derived from such businesses.

The threshold determines how favourable the business environment is in a country. The lower the threshold, the lower the incentives for small businesses to flourish. On the other hand, the higher the threshold for registration of tax, the greater the incentive for small businesses to invest in growth, benefiting the country.

The threshold for registration varies from country to country in the South Asian region. According to the Value Added Tax and Supplementary Duty Act 2012 (Bangladesh) and Sales Tax Rules 2006 (Pakistan), both Bangladesh and Pakistan have thresholds based on annual revenues. Sri Lanka has thresholds based on quarterly and annual revenues. It is proposed in the UAE that only businesses that meet a certain minimum annual turnover requirement have to register for VAT. This is based on the first phase of implementation of VAT in the UAE, whereas in the second phase it is planned that it shall be mandatory for all companies to register for VAT.

**TABLE 4.5:** Country-wise indirect tax thresholds

INDIRECT TAX	PURPOSE	THRESHOLD US\$
 <b>BANGLADESH</b>		
VAT on goods and services	Registration	100,864 (8m Takas)
 <b>INDIA</b>		
ST	Registration	15,595 (1m Rupees)
CST	Registration	None
VAT	Registration	Varies from state to state Generally, 7,798 (0.5m Rupees) for voluntary registration and hotel/restaurant 1,560 (0.1m Rupees) for manufacturer 15,595 (1m Rupees) for baker 77,976 (1m Rupees) for other persons
CENVAT	Registration (only for small-scale Industries, otherwise no threshold applies)	233,927 (15m Rupees) & above
 <b>PAKISTAN</b>		
FGST	Registration	48,667 (5m Rupees)
 <b>SRI LANKA</b>		
VAT on goods and proposed services	Registration	Above 22,075 (3m Rupees) per quarter, or 88,299 (12m Rupees) per annum
NBT	Registration	22,075 (3m Rupees) per quarter, or 183,956 (25m Rupees) per quarter for any local agricultural produce in the preparation for sale
 <b>UAE</b>		
VAT	Registration	Compulsory registration for businesses with turnover above 1,021,033 (Dh3.75m) per year Optional registration for businesses with turnover between 509,155 (Dh1.87m) and 1,021,033 (Dh3.75m)

Just as there are different thresholds set for registration for VAT or other sales taxes in various countries of the region, similarly, there are different tax rates.

### TAX RATES

An increase in the VAT rate of a country always attracts public attention, it usually generates public commotion and often becomes an important factor for election campaigns. Many people believe that a rise in the VAT rate will have an adverse effect on aggregate consumption and will eventually weaken economic growth by reducing aggregate demand (consumption) and gross national product. Similarly, rationalisation or reduction in the VAT rate is sometimes taken as a valid economic argument for strengthening growth by stimulating aggregate consumption, and this argument is used more vehemently in recessionary phases of economic cycles.

Being a tax on the turnover of businesses, VAT has very intricate nexus with GDP. Fluctuations in GDP always affect VAT receipts. Most economists believe that an unsatisfactory VAT-to-GDP ratio is the result of defects in the tax design, unjustified number of concessions (exemptions), administrative inefficiencies and the permeation of an anti-tax culture in society. So, to increase the ratio of VAT to GDP, weaknesses in these areas must be methodically addressed.

Still some economists insist that the effect of VAT rates on aggregate consumption and economic growth is limited. Although there is an immediate decline of aggregate consumption and economic growth after raising the VAT rate, there is also an immediate increase of aggregate consumption and economic growth before the increase that will offset the immediate negative effect after it. Other economists say that people should not fear the negative effect of a rise in VAT rate because the decline is only temporary. (Bumpei Miki, 2011)


Nevertheless, the effect on aggregate consumption is clearly negative because the rise in the VAT rate will take up more of people's disposable income. In addition to income effects, a change in the VAT rate has a substitution effect, which means that even if the government reduces the income tax rate in order to offset the decrease in people's income due to the rise of the VAT rate, aggregate consumption will change.




Thus, the effect of the change of the VAT rate on aggregate consumption and economic growth is easily understandable in theoretical terms, but it is difficult to grasp the implications of this effect in practice. In fact, aggregate consumption and economic growth are not determined by the VAT rate alone. It is argued that the aggregate consumption is both visibly and invisibly determined by a multitude of variable factors such as income, wealth, interest rates and the age distribution of the population.

Just as there are different thresholds set for registration for VAT or other sales taxes in various countries of the region, similarly, there are different tax rates. Below, Table 4.6 shows VAT/GST rates from 2011 to 2015 across the region covered in this research. Bangladesh has not changed the VAT rate on goods and services in this period, keeping it constantly at 15%, while Pakistan did change the GST rate on goods during the period. For the years 2010–2012, the rate was 16%, but was 17% for the years 2013–2015. Pakistan's GST rate on goods is higher than Bangladesh's VAT rate. Unlike Bangladesh, in Pakistan the provincial authorities have the power to impose a tax on services. Punjab has set up a standard rate of 16% on services, which is higher than the VAT rate on services established by Bangladeshi authorities, while Sindh, KPK and Balochistan have set standard rates of 14%, 15% and 15% respectively. On the other hand, Sri Lanka has set a very low VAT rate of 11% on goods and services, reduced from the 12% rate that applied up to 2014.



**TABLE 4.6:** Indirect tax rates

INDIRECT TAX	APPLICABLE ON	2015	2014	2013	2012	2011
 <b>BANGLADESH</b>						
VAT on Goods and Services (Standard rate)		15%	15%	15%	15%	15%
 <b>INDIA</b>						
ST (Standard rate, inclusive of PEC and SHEC of 2% and 1% of ST respectively, and SBC)	Value of taxable services	<ul style="list-style-type: none"> <li>1 Apr 2015 – 30 May 2015 12.36%</li> <li>1 Jun 2015 – 14 Nov 2015 14% [EC exempted]</li> <li>15 Nov 2015 onwards 14.5% inclusive of SBC of 0.5% [EC exempted]</li> </ul>	12.36%	10.3%	10.3%	10.3%
CENVAT (General rate, inclusive of PEC and SHEC of 2% and 1% of CENVAT respectively) Basic, Special, Additional, Contingent	Declared/assessable value of manufactured goods	12.5% [EC exempted]	<ul style="list-style-type: none"> <li>1 Apr 2014 – 28 Feb 2015 12.36%</li> <li>1 Mar 2015 – 31 Mar 2015 12.5% [EC exempted]</li> </ul>	12.36%	10.3%	10.3%
CST (Purchases by manufacturer, reseller or prescribed purpose qualifies for concessional rate of 2%)	Value of taxable goods	VAT rate	VAT rate	VAT rate	VAT rate	VAT rate
CD (Exclusive of EC)	Declared or assessed value	<ul style="list-style-type: none"> <li>BCD Maximum rate 10%</li> </ul>	<ul style="list-style-type: none"> <li>BCD Maximum rate 10%</li> <li>CVD 1 Apr 2014 – 28 Feb 2015 12%</li> <li>1 Mar 2015 – 31 Mar 2015 12.5%</li> <li>ACD – 4%</li> <li>EC – 3%</li> </ul>	<ul style="list-style-type: none"> <li>BCD Maximum rate 10%</li> <li>CVD – 10%</li> <li>ACD – 4%</li> <li>EC – 3%</li> </ul>	<ul style="list-style-type: none"> <li>BCD Maximum rate 10%</li> <li>CVD – 10%</li> <li>ACD – 4%</li> <li>EC – 3%</li> </ul>	<ul style="list-style-type: none"> <li>BCD Maximum rate 10%</li> <li>CVD – 10%</li> <li>ACD – 4%</li> </ul>

INDIRECT TAX	APPLICABLE ON	2015	2014	2013	2012	2011
 INDIA						
VAT (Standard or Revenue neutral rates)	AP, KN & HY Value of goods not mentioned in any Schedules of the relevant Acts  UP Value of goods mentioned in Schedule V of the Act	<ul style="list-style-type: none"><li>• AP – 14.5%</li><li>• KN – 14.5%</li><li>• HY – 12.5%</li><li>• UP – 14.5%</li></ul>	<ul style="list-style-type: none"><li>• AP – 14.5%</li><li>• KN – 14.5%</li><li>• HY – 12.5%</li><li>• UP – 14%</li></ul>	<ul style="list-style-type: none"><li>• AP – 14.5%</li><li>• KN 1 Apr 2012 – 31 Jul 2012 14%</li><li>• 1 August 2012 onwards 14.5%</li><li>• HY – 12.5%</li><li>• UP – 14%</li></ul>	<ul style="list-style-type: none"><li>• AP – 14.5%</li><li>• KN – 14%</li><li>• HY – 12.5%</li><li>• UP – 14%</li></ul>	<ul style="list-style-type: none"><li>• AP – 14.5%</li><li>• KN – 13.5%</li><li>• HY – 12.5%</li><li>• UP – 13.5%</li></ul>
MSST (Standard rate)	Same as above	<ul style="list-style-type: none"><li>• AP – 21.33%, 32.55%</li><li>• KN – 19%, 30%</li><li>• HY – 4%, 16.4%, 20%, 25%</li><li>• UP – 17.23%, 26.55%</li></ul>	<ul style="list-style-type: none"><li>• Not available</li></ul>	<ul style="list-style-type: none"><li>• Not available</li></ul>	<ul style="list-style-type: none"><li>• Not available</li></ul>	<ul style="list-style-type: none"><li>• Not available</li></ul>
SED		Different slab rates based on liquor type, total alcohol content, narcotic substance type and place of manufacture etc.				
TOV & TOGV		Different slab rates based on gross vehicle weight, loading capacity, carrying capacity, unladen weight, laden weight, cost of chassis/vehicle. Different slab rates based on cost, unladen weight, horsepower, floor area, cubic capacity or seating capacity of the vehicle.				
TDE		Different slab rates based on consumer types				
SRF		Different rates for duties and fees for central and state levies, ie non-agricultural land, bills of exchange, cheques, promissory notes and other securities transactions, and transfer of agricultural land				
TOPSC		Different rates for duties and fees for central and state levies, ie non-agricultural land, bills of exchange, cheques, promissory notes and other securities transactions, and transfer of agricultural land				
 PAKISTAN						
FGST		17%	17%	16%	16%	16%
Punjab STS		16%	16%	16%	16%	16%
Sindh STS		14%	14%	16%	16%	16%
KPK STS		15%	15%	15%	17%	17%
Balochistan STS		15%	15%	15%	15%	15%
 SRI LANKA						
VAT on Goods and Services (Standard rate)		11%	12%	12%	12%	12%
NBT (Standard rate)		2%	2%	2%	2%	2%

The list of zero-rated and reduced-rate goods is extensive, reflecting a combination of distributional concerns and a desire to encourage consumption of particular goods.

### ZERO RATING, EXEMPTIONS AND REDUCED RATES

In practice, many goods and services are not subject to VAT at the standard rate in the countries under study. Some are zero-rated, some are subject to a reduced rate, some are subject to a higher rate and some are exempt. The distinction between zero-rating and exemption is that zero-rating allows registered businesses to reclaim the VAT on any inputs used in the production process. As a consequence, there is no component of taxation in the final price of any product entitled to zero-rating. Goods and services that are exempt are not subject to VAT when supplied, but the supplier of such goods and services cannot reclaim the VAT paid on purchases of inputs. VAT on inputs means that the sale price of the product includes a component of taxation, so it is higher than if it had been zero-rated. If a good or service is zero-rated, then it is subject to VAT, but the VAT rate is zero per cent. Contrarily, exempt goods and services are always tax-paid to the extent of input tax incidences.

The list of zero-rated and reduced-rate goods is extensive, reflecting a combination of distributional concerns and a desire to encourage consumption of particular goods. Exemption is anathema to the logic of VAT. It breaks the chain of tax and offsetting credit, leading to distortions of production patterns since taxes on inputs used in production cannot be reclaimed. Exemption can also create additional administrative and compliance burdens (and opportunities for tax avoidance) through the need to allocate input VAT between taxable and exempt outputs (credit being available for the former but not for the latter) for producers selling both.

In Bangladesh, the current VAT legislation is characterised by a narrow base and widespread use of presumptive taxation. Exempt products include a number of food items and raw materials. These include:

bovine animals, sheep and goats, live poultry, meat, milk and cream. Under the prevailing VAT Law in Bangladesh, the government can fix tariff values for certain items so that VAT is levied on a presumptive basis on some measurement unit rather than on the actual transaction value. For example, the tariff value for mild-steel products produced from re-rollable scraps is US\$51 (4,000 takas) per metric ton.

India has two types of VAT:

1. CENVAT, charged by the central government on goods manufactured in India, and
2. a state-level VAT charged on the sale of domestic and imported goods.

CENVAT functions as a production tax, paid by a manufacturer who then passes the cost onto customers. The standard CENVAT rate is 12%; however, there are also lower rates of 0% and 6%. Indian states are granted a constitutional right to levy VAT (formerly sales tax) only on goods supplied through retail and wholesale. State-level VAT is a highly differentiated tax, subject to exemptions and reduced rates. The standard VAT rate varies from 12.5% to 15% and the reduced rate from 4% to 5%, depending on the state, whereas gold, silver, precious stones and articles made of these materials are subject to VAT at the rate of 1%. The state determines the products eligible for exemptions and reduced rates. This increases compliance costs for businesses buying and selling goods across states. For example, in the state of Andhra Pradesh, more than 110 products are exempt and 500 are subject to a rate of 4%. These rates often differ at the sub-product category and similar types of goods are subject to different rates. Most industrial inputs are taxed at a reduced VAT rate of 4%–5%, which violates VAT design principles, as this tax provides credit for inputs used in the production of final goods.

The UAE has decided to implement VAT from 1 January 2018 but 100 basic food items, health, education, bicycles and social services will be exempted from the tax.

Like those of Bangladesh and India, Pakistan's Sales Tax laws also provide a number of exemptions. In Pakistan, most goods are subjected to a standard VAT rate of 17%. Nonetheless, a reduced rate of 0%–5% is applied to five industrial products: textiles (including jute), carpets, leather, sports and surgical goods. Further, various food and healthcare products are exempt from the tax. The exemptions are listed in Table 4.7.

Sri Lanka, on the other hand, applies a single standard VAT rate of 11%. The exemption of input tax is not appropriate in a VAT system as full credit is available for all inputs used in production. These provisions are probably a remnant from the pre-VAT sales tax legislation. As there is no documented evidence, it cannot be determined with certainty whether VAT exemptions have contributed to the growth of the sectors concerned. Although

the aim of the policy is to support economic growth, it has clearly created distortions, complicated tax administration and increased the scope for tax evasion.

The UAE has decided to implement VAT from 1 January 2018 but 100 basic food items, health, education, bicycles and social services will be exempted from the tax. At present, personal and household items brought into the country by non-residents of the UAE or by expatriates arriving to the country for the first time are often exempted from customs taxes and duties. In addition to that, national goods are exempted as per the unified customs tariff of the GCC. Merchandise returned to the country after being exported is also exempted.

Goods needed by charitable societies are treated according to the regulations and conditions specified by the executive bylaws.

**TABLE 4.7:** VAT exemptions and reduced rates

BANGLADESH	
Live animals and agricultural products	Others
Live bovine animals, live swine, live sheep and goats, live poultry	Sale of vacant land
Meat of bovine animals, meat of swine, meat of sheep and goats (fresh, chilled or frozen except wrapped and canned up to 2.5 kg)	Refined soybean oil and refined palm oil (for manufacturer)
Edible offal of bovine animals, swine, sheep, goats, horses, asses, mules or hinnies (fresh, chilled or frozen except wrapped and canned up to 2.5kg)	Software
Meat and edible offal of poultry (fresh, chilled or frozen except wrapped and canned up to 2.5kg)	Databases, operating systems, development tools (for importer)
Live fish (except ornamental fish)	Producer of films or photo studios/shops (earlier VAT rate was 7.5%)
Natural honey (except wrapped and canned up to 2.5 kg)	Goods or products sold online
Potato, tomato, onions, cabbages, cauliflowers, carrots, turnips, cucumbers and other vegetables (fresh or chilled except wrapped and canned up to 2.5kg)	Coaching centre
Live plants	Credit rating agency
Milk and cream, but not if concentrated or containing added sugar or other sweetening matter	Indenting agency
	Tenant of place or premises
	<b>Reduced Rates for Services ('truncated VAT')</b> 21 services are taxed at reduced rates of 1.5%, 2.25%, 4.5% and 9%
	<b>Special Treatment of Wholesalers and Retailers ('trade VAT')</b> Wholesalers and retailers are taxed at 1.5% of total sales, provided that they do not claim input credit



INDIA (AP)	
Exemptions	Reduced Rates
<b>Schedule I. Exempt Goods</b>	<b>Schedule III. Goods Taxable at 1%</b>
Agricultural implements, Fresh plants, Meat, Flesh of poultry, fish including dry fish, prawns, lobsters, crabs, shrimps and other sea food	Bullion, Specie, Platinum and other precious metals
Fresh milk and pasteurized milk other than UHT milk and skimmed milk powder, Lussi, buttermilk and separated milk	Precious stones, that is to say, Diamonds, Emeralds, Rubies, Sapphires and semiprecious stones and Pearls.
Vegetables and fruits other than those cured, frozen, preserved, processed, dried, dehydrated or canned; Sugar, Sugarcane	Articles and jewellery made of bullion or specie or any other precious metals, and jewellery embedded with precious stones and semi-precious stones
Un-processed tobacco	<b>Schedule IV. Goods Taxable at 4%</b>
Biscuits, beverages, confectionery & soft drinks, cotton fabrics, coconut, tender green coconut and copra, husk of pulses raw wool, paddy, groundnut and wheat bran cotton yarn in hank and silk yarn in hank curd	Flour, wheat flour (atta), milled refined and bleached wheat flour (maida), semolina flour (suji), gram flour (besan), vermicelli and semiya, coffee including coffee seeds, roasted seeds and coffee powder, cocoa powder, chicory, blended or French coffee
Handlooms, parts and accessories thereof and goods produced from handlooms, silkworm laying, cocoons and raw silk	Skimmed milk powder and UHT milk, rice bran including de-oiled rice bran, pulp of bamboo, wood, waste paper and bagasse
National flag, electrical energy Human blood and blood plasma	Vegetable oils, oil seeds, cotton seeds, , all kinds of cotton, crude oil, wheat. Fruit jams, jelly, fruit squash, fruit juices and fruit drinks but excluding aerated fruit drinks
Aids and implements used by handicapped persons, books, periodicals and journals, charcoal, betel leaves	Spices of all varieties and forms including cumin seed, aniseed, turmeric and dry chillies,
Garlic and ginger, spices used in cooking, including chilli powder	Preserved fruits, vegetables, meat, poultry, seafoods and fish sold in sealed containers. Cottage cheese ('paneer'), pickles, sauces, porridge, marmalade, honey, cashew nuts and kernels
Wrist watches, ceiling fans, table fans, wall fan, pedestal fans	Drugs and medicines, optical goods, medical equipment, Ayurvedic and homeopathic products
Sun-glasses, room coolers, instant geysers, transistors, sewing machines, food processors, microwave ovens	Tread rubber and other material used for re-treading of tyres, iron and steel, paper of all kinds and news print, LCD panels
	LPG/ CNG conversion kits
	All hardware of base metal or alloys and other hardware items, machinery, plant or laboratory equipment
PAKISTAN	
Live animals and agricultural products	Machinery and equipment for industries in select locations
Live animals and poultry; meat (sheep, goat, poultry) and fish whether fresh, frozen or preserved; eggs	Plant, machinery and equipment imported for setting up fruit processing and preservation units in Gilgit-Baltistan, Balochistan and Malakand Division up to 30 June 2019
Live plants, edible vegetables (except ware potatoes and onions), fruit and fruit juices whether fresh, frozen or otherwise preserved but excluding those bottled or canned	Plant, machinery and equipment imported for setting up industries in FATA up to June 30, 2019
Red chillies, ginger and turmeric excluding those sold in retail packaging and bearing brand names and trademarks	Construction materials for development of Gwadar EPZ infrastructure. Machinery, equipment and other project-related items, including capital goods, for setting up hotels, power generation plants, water-treatment plants and other infrastructure-related projects within 30 km of Gwadar
Sugar beet, sugar cane	

PAKISTAN	
Live animals and agricultural products	Miscellaneous
Milk and cream, concentrated or containing added sugar or other sweetening matter, flavoured milk, Yogurt, ghee, butter, desi ghee, cheese	Drugs and medical equipment including dentistry chairs, and medical, surgical, dental or veterinary furniture, etc.
Edible oils and vegetable ghee	Silver and gold in unworked condition and Monetary gold
Inputs and machinery for select Industries	Newspapers and books
Raw materials for the manufacture of pharmaceutically active ingredients	Glass bangles
High-efficiency irrigation equipment and green house equipment if used for agriculture sector	Erasers, exercise books, pens, pencils, pencil sharpeners, colours in sets
Machinery and equipment for marble, granite and gem stone extraction and processing industries	Sewing machines for household use
Components of energy-saving lamps	Bicycles, wheelchairs
Supply of domestically produced cotton seed meant exclusively for sowing	
Ingredients of poultry feed and cattle feed	
SRI LANKA	
Agricultural products	Machinery used for rice milling industry
Rice, rice flour, wheat, wheat flour, eggs, bread, liquid milk, fruit seeds, cardamom, cinnamon, cloves, nutmeg, pepper, desiccated coconuts, rubber, paddy and seed paddy, coconut oil or coco peat, coir fibre, grow pellets, grow bags, twist fibre	Machinery and equipment for manufacture of grain mixed bakery products
<b>Inputs and Machinery for Selected Industries:</b>	
Raw materials for the manufacture of spectacles and spectacle frames	Machinery and equipment for the use of leather and footwear industries, manufacture of bags and fashion jewellery
Raw materials for the manufacture of energy saving bulbs	Machinery used for the production of rubber or plastic products, sunglasses and perfumes
Import of machinery for import substitution sectors that also enjoy 5-year CT holidays – pharmaceuticals, milk powder, fabric and cement	Machinery used for construction industry
	<b>Miscellaneous:</b>
Yarn for textile industry; dyes for handloom industry	Drugs, Ayurvedic preparations and equipment used by the disabled
Agricultural machinery, animal and shrimp feed (excluding poultry feed)	Diamonds, pearls, precious or semiprecious stones, precious metals, gold coins; locally manufactured jewellery
Items and spares for the poultry industry	Books
Milk processing machinery	Computers and computer accessories
	Mobile phones
	Lightweight electrical and electronic items
	Telecommunications equipment

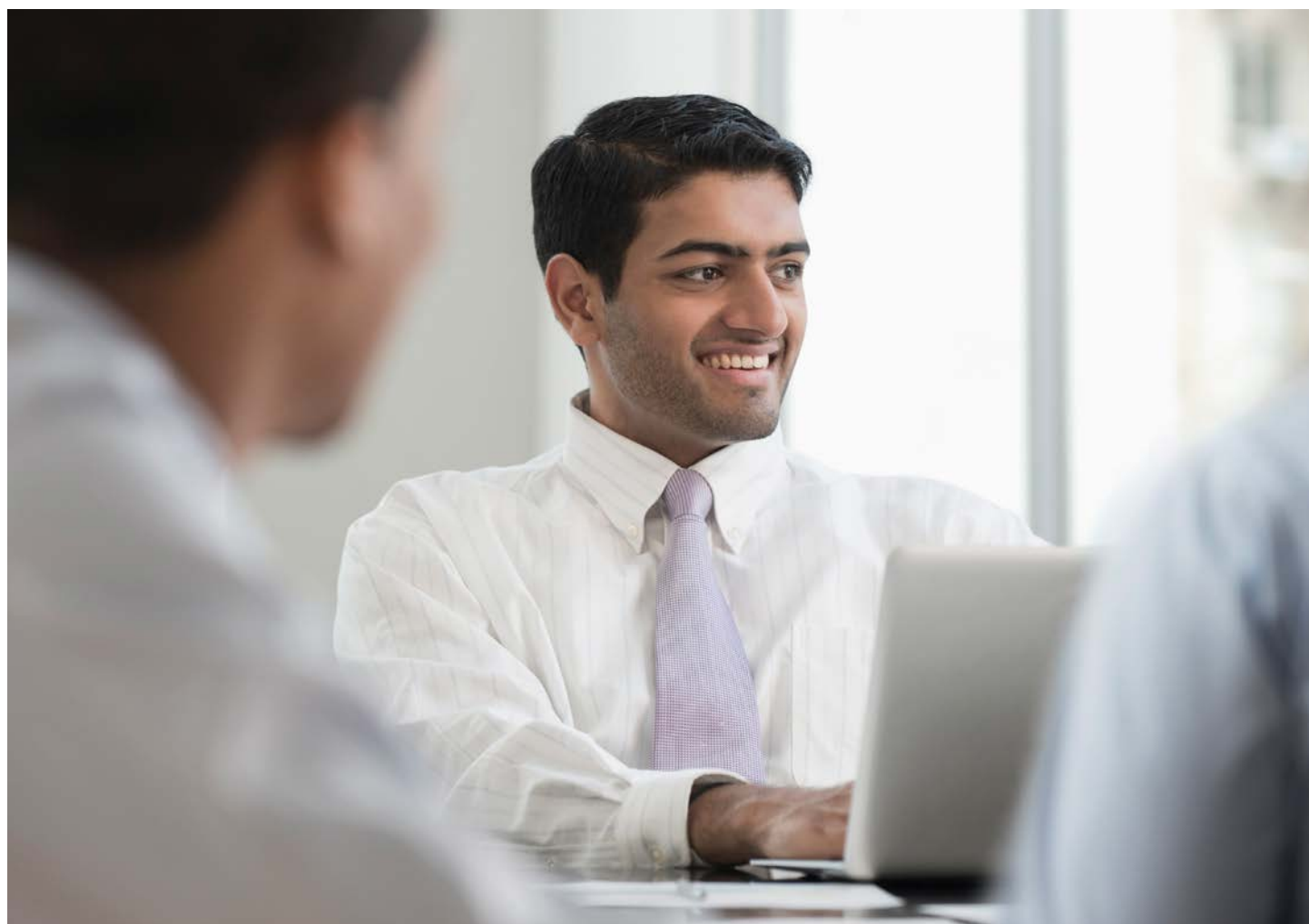
Administering and complying with the tax regulations in South Asia is becoming evermore complex with time and, consequently, these complicated laws facilitate tax avoidance and evasion.

Administering and complying with the tax regulations in South Asia is becoming evermore complex with time and, consequently, these complicated laws facilitate tax avoidance and evasion. Special schemes, reduced rates and exemptions for different sectors, locations, types of business or product, vague statutory language, and frequent amendments are some of the root causes of the complexity created by these regulations.

Governments in this region have a tendency to amend the tax regulations continually. They amend these regulations every year at the start of the new fiscal year or through Statutory Regulatory Ordinances (SROs) during the year. In 2014, Bangladesh made 18 amendments to VAT, while in the same year, Pakistan made 20 changes to Sales Tax laws. These changes, made in vague language, are likely to be exploited. For instance, in India, businesses have established their head offices in Jammu and Kashmir to qualify for area-based incentives while running their production outside the state.

These numerous changes, every year, often create hurdles not just for enforcement of tax regulations but also for the SMEs.

These frequent changes demand continuous monitoring by tax offices to avoid loopholes, and create an additional burden on already under-resourced tax administrations. On the other hand, the compliance cost for SME businesses increases as they have to keep detailed records and might have to be subject to frequent inspections and audits. According to Eichfelder and Valliancourt (2014), compliance cost can be up to 10% of turnover for small businesses. South Asian countries have much higher compliance costs than other regions of the world (Anna Reva, 2015). For example, in Pakistan medium-sized businesses make 47 payments and spend 594 hours each year complying with the often-changing tax regulations. Similarly in India, medium-sized businesses make 33 payments and spend 243 hours each year. In the UAE, companies make four payments and spend 12 hours each year. In Sri Lanka, medium-sized businesses make 47 payments and spend



**Vague legislative language, non-uniform tax rates and continuous amendments do not make their systems taxpayer-friendly.**

167 hours each year dealing with the tax regulations, while in Bangladesh, medium-sized businesses make 21 payments and spend 302 hours each year in complying with the tax regulations. On the other hand, in high-income OECD countries, businesses make 11.1 payments and spend on average 176.6 hours each year dealing with the tax regulations. The increasing involvement of tax administration often leads to abuse and corruption and even harassment and intimidation.

Paying taxes in South Asia is often associated with corruption. Inadequate training of tax officials, low levels of professional qualifications, low salaries, lack of incentives, poor use of IT systems and numerous loopholes in the legislation are the leading factors contributing to corruption. Moreover, taxes are paid by a minority of companies in South Asia. Most businesses either do not pay taxes or reduce their tax liabilities via various schemes. For instance, in Pakistan 118,000 entities are enrolled in the sales tax system, out of which 15,000 pay tax (IMF 2013). Similarly, in India, only 619,000 companies filed their CT returns for 2012/13 (46% of which reported losses or no gains and did not have to pay tax) (Anna Revva , 2015)). In Bangladesh, tentatively 16m –17m businesses are registered with the tax department but only 0.6m – 0.7m tax returns are filed.

Moreover, good taxpayers are likely to be pressured by tax authorities, who are under pressure themselves to achieve their revenue targets. Furthermore, VAT/GST refunds to exporters are deferred on occasion, mainly in the last quarter of the fiscal year. Such practices are common in the South Asian region, and this might have an adverse impact on the cost-competitiveness of domestic producers and on foreign direct investment.

The analysis above leads to a reconsideration of the approaches taken by the countries under study. Vague legislative language, non-uniform tax rates and continuous amendments do not make their systems taxpayer-friendly. These policies are increasing the hours spent on compliance for entities registered for sales tax, which compel them either to evade tax or to take their businesses somewhere else. Similarly, amnesty schemes make the system more complicated and leave room for tax evasion.

#### **PAYMENT METHODOLOGY AND DUE DATES**

The method of tax payments adopted by the South Asian countries under consideration is simple and convenient for the taxpayers. In all the countries under study, tax payments can be made either electronically or manually through cash, cheque or bank transfer.

The due date for filing VAT/Sales Tax returns in all the countries under consideration, except for Pakistan and Sri Lanka, is the 15th of every month; it is the 18th of every month in Pakistan and the 20th of every month in Sri Lanka.

#### **PENALTIES**



Tax authorities make use of interest and penalties as sanctions to influence taxpayers to comply with tax laws and to fulfil their tax obligations. Interest is imposed on taxes not paid within the time prescribed. The interest rate is based on various factors, including inflation and market/bank interest rate. Penalties are imposed as a percentage of the outstanding or omitted/evaded tax liability and vary depending on the seriousness and frequency of the offence.


Desk research did not indicate any developments in this area for UAE.




**TABLE 5.1:** Penalties and Interest for late payment of taxes

INDIRECT TAX	OFFENCE		
	FAILURE TO FILE DECLARATION OR PAY TAX ON TIME	TAX EVASION OR INCORRECT DECLARATION	OTHER OFFENCES
 <b>BANGLADESH</b>			
VAT and Supp. Dy.	\$126 (10,000 takas)	200% of the taxes evaded	
 <b>INDIA</b>			
ST	Up to 10% of ST. However, on payment of interest & penalty within 30 days of the receipt of notice, no penalty is applicable and proceedings are deemed concluded	Up to 10% of ST. However, on payment of interest & penalty within 30 days of receipt of notice, penalty is reduced to 15% of the ST and proceedings are deemed concluded	<ul style="list-style-type: none"> <li>Providing services without issuing invoices or submitting false information to tax authorities is punishable by imprisonment</li> <li>Any other offence not specifically covered carries a penalty of \$156 (10,000 Rupees)</li> <li>Serious offences may attract a penalty equal to the tax unpaid.</li> </ul>
CENVAT	50% of the duty	Up to 100% of the duty	
CD	100% of the duty demand	Up to 500% of the value of the related goods	
VAT	<p>AP</p> <ul style="list-style-type: none"> <li>\$38.99 (Rs. 2,500) or 15% of tax due on failing to file return, under section 50 of the Andhra Pradesh Value Added Tax Act 2005 (500 where no tax is due)</li> <li>10% of tax due or 50% of assessed amount on failing to make timely payment, under section 51 and 52 of the Andhra Pradesh Value Added Tax Act 2005</li> <li>Interest at 1% per month if the payment is not made by the due date, under section 22 of the Andhra Pradesh Value Added Tax Act 2005</li> </ul> <p>HY</p> <ul style="list-style-type: none"> <li>\$1.56 (Rs. 100) fine per day for first 10 days and \$3.12 (Rs. 200) per day thereafter on failing to file return under section 37A of the Haryana Value Added Tax Act 2003</li> <li>Interest at 1.5% per month if the payment is made within 90 days from the due date. However, if default continues, 3% per month shall apply for the whole period of default under section 51 and 52 of the Haryana Value Added Tax Act 2003</li> </ul> <p>KN</p> <ul style="list-style-type: none"> <li>10% of tax if default is for more than 10 days. However, a lower fine of \$0.78 (Rs. 50) per day and tax due for first 5 days and higher of \$0.78 (Rs. 50) per day or 5% of tax for next 5 days on failing to file return, under section 72 of the Karnataka Value Added Tax Act 2003</li> </ul>	<p>AP</p> <ul style="list-style-type: none"> <li>10%, 25% or 100% of undeclared tax on not declaring tax, under section 53 of the Andhra Pradesh Value Added Tax Act 2005</li> <li>200% of tax on incorrect application of reduced rate or false declaration, under section 55 of the Andhra Pradesh Value Added Tax Act 2005</li> </ul> <p>HY</p> <ul style="list-style-type: none"> <li>300% of tax suppressed up to a maximum of 30% of goods involved, for failing to account for taxable goods, under section 29(7) of the Haryana Value Added Tax Act 2003</li> <li>300% of tax suppressed on failing to maintain correct records or falsifying records to commit fraud under section 38 of the Haryana Value Added Tax Act 2003</li> </ul> <p>KN</p> <ul style="list-style-type: none"> <li>10% of tax on understating tax liability or overstating tax credit under section 72 of the Karnataka Value Added Tax Act 2003</li> <li>\$0.78 (Rs. 50) per day for filing incomplete or incorrect return under section 72 of the Karnataka Value Added Tax Act 2003</li> <li>10% of tax on revision of tax liability as a result of assessment, under section 72 of the Karnataka Value Added Tax Act 2003</li> <li>\$1,560 (Rs. 100,000) or 200% of tax on tax evasion through fraud, under section 79 of the Karnataka Value Added Tax Act 2003</li> </ul>	<p>AP</p> <ul style="list-style-type: none"> <li>\$77.98 (Rs. 5,000) fine or 25% of tax due, for failing to register, under section 49 of the Andhra Pradesh Value Added Tax Act 2005</li> <li>\$15.6 (Rs. 1,000) fine for not using or for misusing a taxpayer identification number or general registration number, under section 54 of the Andhra Pradesh Value Added Tax Act 2005</li> <li>Lower of \$77.98 (Rs. 5,000) or 100% of tax is fined for failing to issue invoices, under section 55 of the Andhra Pradesh Value Added Tax Act 2005</li> <li>200% of tax on issuing/ using false invoice, under section 55 of the Andhra Pradesh Value Added Tax Act, 2005</li> <li>\$3.98 (Rs. 250) fine on failing to issue cash memo/ bill, under section 55 of the Andhra Pradesh Value Added Tax Act, 2005</li> <li>\$77.98 (Rs. 5,000) fine on every subsequent offence after written warning is issued on the first offence, under section 56 of the Andhra Pradesh Value Added Tax Act 2005</li> </ul> <p>HY</p> <ul style="list-style-type: none"> <li>100% of tax evaded on failing to register, under section 16 of the Haryana Value Added Tax Act 2003</li> <li>100% of tax on failing to deduct or deposit tax on works-contract, under section 24 of the Haryana Value Added Tax Act 2003</li> <li>300% of tax suppressed, 30% of goods involved or tax calculated on the differential value of under-priced goods for failing to carry specified documents in the state while transporting goods, under section 31 of the Haryana Value Added Tax Act 2003</li> <li>100% of tax collected on illegally collecting tax under section 91 of the Haryana Value Added Tax Act, 2003</li> <li>Between \$15.6 and \$31.19 (Rs. 1,000-2,000) fine for any other offence not specified under section 40 of the Haryana Value Added Tax Act 2003</li> </ul>

INDIRECT TAX	OFFENCE		
	FAILURE TO FILE DECLARATION OR PAY TAX ON TIME	TAX EVASION OR INCORRECT DECLARATION	OTHER OFFENCES
 <b>INDIA</b>			
VAT	<p>UP</p> <ul style="list-style-type: none"> <li>20% of tax payable under section 54 of the Uttar Pradesh Value Added Tax Act 2008</li> </ul>	<p>UP</p> <ul style="list-style-type: none"> <li>10% or 25% of undeclared tax on not declaring tax under section 53 of the Uttar Pradesh Value Added Tax Act 2008</li> <li>300% of tax concealed or avoided under section 54 of the Uttar Pradesh Value Added Tax Act 2008</li> </ul>	<p>KN</p> <ul style="list-style-type: none"> <li>\$77.98 (Rs. 5,000) fine for failing to register or inform the authorities about changes after registration, under section 71 of the Karnataka Value Added Tax Act, 2003</li> <li>100% of tax collected for illegally collecting tax, under section 73 of the Karnataka Value Added Tax Act, 2003</li> <li>\$77.98 (Rs. 5,000) fine on first offence and \$155.95 (Rs. 10,000) on every subsequent offence for failing to keep and maintain proper records, under section 74 of the Karnataka Value Added Tax Act 2003</li> <li>\$77.98 (Rs. 5,000) and \$0.78 (Rs. 50) fine per day of default for failing to submit audited accounts, under section 74 of the of the Karnataka Value Added Tax Act 2003</li> <li>Up to \$155.95 (Rs. 10,000) and \$3.12 (Rs. 200) fine per day of default for failing to submit required information under section 75 of the of the Karnataka Value Added Tax Act 2003</li> <li>Higher of \$31.19 (Rs. 2,000) or 100% of tax on the first offence and higher of \$77.98 (Rs. 5,000) and 100% of tax on subsequent offences for failing to issue proper invoices under section 76 of the Karnataka Value Added Tax Act 2003</li> <li>\$15.6-\$31.19(Rs. 1,000 or 2,000) fine for failing to issue a bill of sale, under section 76 of the Karnataka Value Added Tax Act 2003</li> <li>\$77.98-\$388.98 (Rs. 5,000-25,000) fine for tampering with or not using the electronic tax register, with imprisonment for up to one year under section 77 of the Karnataka Value Added Tax Act, 2003</li> <li>Between higher of \$15.6 (Rs. 1,000) fine or tax leviable and higher of \$77.98 (Rs. 5,000) or 200% of tax due for failing to account for taxable goods, under section 77 of the Karnataka Value Added Tax Act, 2003</li> <li>\$77.98-\$388.98 (Rs. 5,000-25,000) fine for offences against tax officers, with imprisonment of up to one year or both, under section 77 of the Karnataka Value Added Tax Act, 2003</li> </ul>
 <b>PAKISTAN</b>			
FGST	\$49 (5,000 Rupees) or 5% of the amount of the tax involved, whichever is higher	\$243 (25,000 Rupees) or 100% of the tax involved, whichever is higher	<ul style="list-style-type: none"> <li>Any person who fails to issue an invoice when required under the law shall pay a penalty of \$48.67 (5000 rupees) or 3% of the amount of the tax involved, whichever is higher.</li> <li>Any person who issues an unauthorised invoice in which an amount of tax is specified shall pay a penalty of \$97.33 (10,000 rupees) or 5% of the amount of tax involved, whichever is higher.</li> <li>Any person who fails to notify changes of a material nature in the particulars of the registration of a taxable activity shall pay a penalty of \$48.67 (5000 rupees)</li> </ul>



INDIRECT TAX	OFFENCE		
	FAILURE TO FILE DECLARATION OR PAY TAX ON TIME	TAX EVASION OR INCORRECT DECLARATION	OTHER OFFENCES
 <b>PAKISTAN</b>			
FGST			<ul style="list-style-type: none"> <li>Any person who fails to deposit the amount of tax due or any part thereof in the time or manner laid down under the law or rules or orders made there under shall pay a penalty of \$97.33 (10,000 rupees) or 5% of the amount of the tax involved, whichever is higher; provided that, if the amount of tax or any part thereof is paid within 10 days from the due date, the defaulter shall pay a penalty of \$4.87 (500 rupees) for each day of default; provided further that no penalty shall be imposed when any miscalculation is made for the first time during a year; provided further that if the amount of tax due is not paid even after the expiry of a period of 60 days of issuance of the notice for such payments by an officer of Inland Revenue, not below the rank of Assistant Commissioner Inland Revenue, the defaulter shall, further be liable, upon conviction by a Special Judge, to imprisonment for a term which may extend to three years, or for a fine that may extend to an amount equal to the amount of tax involved, or both.</li> <li>Any person who repeats an erroneous calculation in the return during a year whereby the amount of tax less than the actual tax due is paid shall pay a penalty of \$48.67 (5000 rupees) or 3% of the amount of the tax involved, whichever is higher.</li> <li>Any person who is required to apply for registration under the law but fails to make an application for registration before making taxable supplies shall pay a penalty of \$97.33 (10,000 rupees) or 5% of the amount of tax involved, whichever is higher; provided that such person who is required to get himself registered under this Act, fails to get registered within 60 days of the commencement of taxable activity, he shall, further be liable, upon conviction by a Special Judge, to imprisonment for a term which may extend to three years, or for a fine that may extend to an amount equal to the amount of tax involved, or both.</li> <li>Any person who fails to maintain records required under the law or the rules made thereunder shall pay a penalty of \$97.33 (10,000 rupees) or 5% of the amount of tax involved, whichever is higher</li> <li>Where a registered person who, without any reasonable cause – (a) fails to produce the record on receipt of first notice; (b) fails to produce the record on receipt of second notice; and (c) fails to produce the record on receipt of third notice – (a) Such person shall pay a penalty of \$48.67 (5000 rupees) (b) Such person shall pay a penalty \$97.33 (10,000 rupees) and (c) Such person shall pay a penalty of \$486.67 (50,000 rupees).</li> <li>Any person who fails to furnish the information required by the Board through a notification issued under sub-section (5) of section 26 shall pay a penalty of \$97.33 (10,000 rupees).</li> </ul>

INDIRECT TAX	OFFENCE		
	FAILURE TO FILE DECLARATION OR PAY TAX ON TIME	TAX EVASION OR INCORRECT DECLARATION	OTHER OFFENCES
 PAKISTAN			
FGST			<ul style="list-style-type: none"> <li>Any person who, – (a) submits a false or forged document to any officer of Inland revenue; or (b) destroys, alters, mutilates or falsifies the records including a sales tax invoice; or (c) Knowingly or fraudulently makes false statement, false declaration, false representation, false personification, gives any false information or issues or uses a document which is forged or false shall pay a penalty of \$243.33 (25,000 rupees) or 100% of the amount of tax involved, whichever is higher. He shall, further be liable, upon conviction by a Special Judge, to imprisonment for a term that may extend to three years, or with fine that may extend to an amount equal to the amount of tax involved, or both.</li> <li>Any person who denies or obstructs the access of an authorised officer to the business premises, registered office or to any other place where records are kept, or otherwise refuses access to the stocks, accounts or records or fails to present the same when required under section 25, 38, 38A or 40B shall pay a penalty of \$243.33 (25,000 rupees) or 100% of the amount of tax involved, whichever is higher. He shall further be liable, upon conviction by a Special Judge, to imprisonment for a term that may extend to five years, or with fine that may extend to an amount equal to the loss of tax involved, or both.</li> <li>Any person who commits, causes to commit or attempts to commit a tax fraud, or abets or connives in commissioning of a tax fraud shall pay a penalty of \$243.33 (25,000 rupees) or 100% of the amount of tax involved, whichever is higher. He shall, further be liable, upon conviction by a Special Judge, to imprisonment for a term that may extend to five years, or for a fine that may extend to an amount equal to the loss of tax involved, or both.</li> <li>Any person who violates any embargo placed on removal of goods in connection with recovery of tax shall pay a penalty of \$243.33 (25,000 rupees) or 10% of the amount of the tax involved, whichever is higher. He shall, further be liable, upon conviction by a Special Judge, to imprisonment for a term that may extend to one year, or for a fine that may extend to amount equal to the amount of tax involved, or both.</li> <li>Any person who obstructs an authorised officer in the performance of his official duties shall pay a penalty of \$243.33 (25,000 rupees) or 100% of the amount of tax involved, whichever is higher.</li> <li>Any person who fails to make payment in the manner prescribed shall pay a penalty of \$48.67 (5000 rupees) or 3% of the amount of tax involved, whichever is higher.</li> <li>Any person who fails to fulfil any of the conditions, limitations or restrictions prescribed in a Notification issued under any of the provisions of the law shall pay a penalty of \$48.67 (5000 rupees) or 3% of the amount of tax involved, whichever is higher.</li> </ul>



INDIRECT TAX	OFFENCE		
	FAILURE TO FILE DECLARATION OR PAY TAX ON TIME	TAX EVASION OR INCORRECT DECLARATION	OTHER OFFENCES
 PAKISTAN			
FGST			<ul style="list-style-type: none"> <li>Any officer of Inland Revenue authorised to act under the law, who acts or omits or attempts to act or omit in a manner causing loss to the sales tax revenue or otherwise abets or connives in any such act shall be liable, upon conviction by a Special Judge, to imprisonment for a term that may extend to three years, or with fine that may extend to an amount equal to the amount of tax involved, or both.</li> <li>Any person who contravenes any of the provisions of the law for which no penalty has, specifically, been provided in this section shall pay a penalty \$48.67 (5000 rupees) or 3% of the amount of tax involved, whichever is higher.</li> <li>Any person who repeats an offence for which a penalty is provided under the law shall pay twice the amount of penalty provided under the law for the said offence.</li> <li>Any person who (a) knowingly and without lawful authority gains access to or attempts to gain access to a computerised system; or (b) without authorisation uses or discloses or publishes or otherwise disseminates information obtained from the computerised system; or (c) falsifies any record or information stored in a computerised system; or (d) knowingly or dishonestly damages or impairs a computerised system; or (e) knowingly or dishonestly damages or impairs any duplicate tape or disc or other medium on which any information obtained from a computerised system is kept or stored; or (f) makes unauthorised use of the unique user identifier of any other registered user to authenticate a transmission of information to a computerised system; or (g) fails to comply with or contravenes any of the conditions prescribed for security of unique user identifier, shall pay a penalty of \$243.33(25,000 rupees) or 100% of the amount of tax involved, whichever is higher. He shall, further be liable, upon conviction by the Special Judge, to imprisonment for a term that may extend to one year, or a fine that may extend to an amount equal to the loss of tax involved, or both.</li> </ul>
Sales Tax on services - Punjab	<p>(a) Person who fails to file tax return on time shall be liable to pay a penalty of five thousand rupees provided if a return is not filed within fifteen days of the due date, a penalty of hundred rupees for each day of default shall be levied.</p> <p>(b) Person who fails to deposit the amount of tax due shall be liable to pay a penalty of ten thousand rupees or five per cent of the tax payable for that period, whichever is higher.</p>	<p>Such person shall be liable to pay a penalty of up to five hundred thousand rupees, but not less than twenty five thousand rupees, or one hundred per cent of the tax payable for the tax period to which the offence relates, whichever is higher.</p> <p>Such person shall, further be liable, upon conviction by a Special Judge, to imprisonment for a term which may extend to five years, or with fine which may extend to an amount equal to the tax payable for the tax period to which the offence relates, or with both.</p>	<ul style="list-style-type: none"> <li>Any person who fails to make an application for registration before providing taxable services shall be pay a penalty of 95.72 (10,000 Rupees) or 5 percent of the amount of tax he would have been liable to pay had he been registered, whichever is higher.</li> </ul>

INDIRECT TAX	OFFENCE		
	FAILURE TO FILE DECLARATION OR PAY TAX ON TIME	TAX EVASION OR INCORRECT DECLARATION	OTHER OFFENCES
 <b>PAKISTAN</b>			
Sales Tax on services – Punjab	(c) If the amount of the tax due is not paid even after the expiry of a period of sixty days of issuance of the notice for such payment by an officer, not below the rank of Assistant Commissioner, the person shall be further liable, upon conviction by a Special Judge, to imprisonment for a term which may extend to three years, or with fine which may extend to the amount of the unpaid tax, or with both.		
Sales Tax on services – KPK	<p>(a) Person who fails to file tax return on time shall be liable to pay a penalty of five thousand rupees provided if a return is not filed within fifteen days of the due date, a penalty of hundred rupees for each day of default shall be levied.</p> <p>(b) Person who fails to deposit the amount of tax due shall be liable to pay a penalty of ten thousand rupees or five per cent of the tax payable for that period, whichever is higher.</p> <p>(c) If the amount of the tax due is not paid even after the expiry of a period of sixty days of issuance of the notice for such payment by an officer, not below the rank of Assistant Commissioner, the person shall be further liable, upon conviction by a Special Judge, to imprisonment for a term which may extend to three years, or with fine which may extend to the amount of the unpaid tax, or with both.</p>	<p>Such person shall be liable to pay a penalty of up to five hundred thousand rupees, but not less than twenty five thousand rupees, or one hundred per cent of the tax payable for the tax period to which the offence relates, whichever is higher.</p> <p>Such person shall, further be liable, upon conviction by a Special Judge, to imprisonment for a term which may extend to five years, or with fine which may extend to an amount equal to the tax payable for the tax period to which the offence relates, or with both.</p>	<ul style="list-style-type: none"> <li>Any person who fails to make an application for registration before providing taxable services shall be pay a penalty of 95.72 (10,000 Rupees) or 5 percent of the amount of tax he would have been liable to pay had he been registered, whichever is higher.</li> </ul>
Sales Tax on services – Sindh	<p>(a) Person who fails to file tax return on time shall be liable to pay a penalty of a penalty of 10,000 rupees per month or a fraction thereof; provided that if a return is filed within fifteen days of the due date, a penalty of 300 rupees for each day of default shall be paid</p> <p>(b) Person who fails to deposit the amount of tax due shall be liable to pay a penalty of ten thousand rupees or five per cent of the tax payable for that period, whichever is higher.</p> <p>(c) If the amount of the tax due is not paid even after the expiry of a period of sixty days of issuance of the notice for such payment by an officer, not below the rank of Assistant Commissioner, the person shall be further liable, upon conviction by a Special Judge, to imprisonment for a term which may extend to three years, or with fine which may extend to the amount of the unpaid tax, or with both.</p>	<p>Such person shall be liable to pay a penalty of up to five hundred thousand rupees, but not less than twenty five thousand rupees, or one hundred per cent of the tax payable for the tax period to which the offence relates, whichever is higher.</p> <p>Such person shall, further be liable, upon conviction by a Special Judge, to imprisonment for a term which may extend to five years, or with fine which may extend to an amount equal to the tax payable for the tax period to which the offence relates, or with both.</p>	<ul style="list-style-type: none"> <li>Any person who fails to make an application for registration before providing taxable services shall be pay a penalty of 95.72 (10,000 Rupees) or 5 percent of the amount of tax he would have been liable to pay had he been registered, whichever is higher.</li> </ul>

INDIRECT TAX	OFFENCE		
	FAILURE TO FILE DECLARATION OR PAY TAX ON TIME	TAX EVASION OR INCORRECT DECLARATION	OTHER OFFENCES
 <b>PAKISTAN</b>			
Sales Tax on services – Balochistan	<p>(a) Person who fails to file tax return on time shall be liable to pay a penalty of five thousand rupees provided if a return is not filed within fifteen days of the due date, a penalty of hundred rupees for each day of default shall be levied.</p> <p>(b) Person who fails to deposit the amount of tax due shall be liable to pay a penalty of ten thousand rupees or five per cent of the tax payable for that period, whichever is higher.</p> <p>(c) If the amount of the tax due is not paid even after the expiry of a period of sixty days of issuance of the notice for such payment by an officer, not below the rank of Assistant Commissioner, the person shall be further liable, upon conviction by a Special Judge, to imprisonment for a term which may extend to three years, or with fine which may extend to the amount of the unpaid tax, or with both.</p>	<p>Such person shall be liable to pay a penalty of up to five hundred thousand rupees, but not less than twenty five thousand rupees, or one hundred per cent of the tax payable for the tax period to which the offence relates, whichever is higher.</p> <p>Such person shall, further be liable, upon conviction by a Special Judge, to imprisonment for a term which may extend to five years, or with fine which may extend to an amount equal to the tax payable for the tax period to which the offence relates, or with both.</p>	<ul style="list-style-type: none"> <li>Any person who fails to make an application for registration before providing taxable services shall be pay a penalty of 95.72 (10,000 Rupees) or 5 percent of the amount of tax he would have been liable to pay had he been registered, whichever is higher.</li> </ul>
 <b>SRI LANKA</b>			
VAT on goods and services	For failure to pay tax on time – 10% of the amount in default plus 2% for every month of delay	A sum equal to twice the amount of tax evaded plus a sum not exceeding \$184 (25,000 Rupees)	Fine not exceeding \$184 (25,000 Rupees) or imprisonment for a term not exceeding 6 months, or both

In principle, appeals should be heard by an authority other than the body responsible for making the original regulatory decision.

Table 5.1 shows the penalties imposed across the region under study. There are two types of penalties mentioned in the table, ie a penalty for not paying tax on time and a penalty for not declaring the right taxable revenue. Not paying tax on time exposes the taxpayer to a small fine. For instance, In Pakistan the taxpayer has to pay only \$48.67 (Rs. 5,000) or 5% of the tax not paid. Similarly, in other countries of the region, only small fines are imposed. Nonetheless, the second type of penalty is meant to create a strong deterrence, as most of the countries impose a fine of an amount twice or thrice the amount of tax evaded. In case of Sri Lanka, they even have the penalty of up to six months' imprisonment. Pakistan imposes a fine of either \$243.33 (Rs. 25,000) or the amount of tax evaded, whichever is higher.

The gap between the law and practice reflects the very poor performance of the authorities: in Pakistan only 15,000 out of 118,000 registered sale entities pay their tax. Similarly, in India, the land of over a billion people, only 619,000 filed their tax returns for 2012/13.

## APPEALS

The appeals system ensures the effectiveness of systems for the review of the legality and procedural fairness of regulations, and of decisions made by bodies empowered to issue regulatory sanctions.

According to the OECD (2012) a good tax administration system would ensure that taxpayers have access to the appeals system at reasonable cost and receive decisions in a timely manner. A good system allows taxpayers who are subject to the decisions of public authorities to have ready access to the means of challenging the exercise of that authority. This is particularly important in relation to regulatory sanctions, ie sanctions issued by an authority by virtue of a regulation. This access should include the right to appeal the decisions of regulators on legal grounds, including on the grounds of procedural fairness and due process. This should also include the possibility of challenging in court the legality of any statutory provisions on which the decisions of regulators are based, vis-à-vis higher hierarchical legal norms, including constitutional norms. In principle, appeals should be heard by an authority other than the body responsible for making the original regulatory decision. Governments should, where appropriate, establish standard time periods within which applicants can expect an administrative decision to be made.

Pakistan and Sri Lanka have a four tier system for appeals in court, while Bangladesh and India have a three-tier system for appeals involving tax matters. Commissioner of Taxes (Appeals) in Bangladesh, Commissioner Appeals in Pakistan, Tax Appeals Commission in Sri Lanka and Commissioner Appeals in India.

For the second appeal, Bangladesh, Pakistan and India have appellate tribunals to hear the appeals, while a Tax Appeals Commission hears the second appeal in Sri Lanka. The High Court in Pakistan, Bangladesh and India, and the court of appeal in Sri Lanka, adjudicates the third appeal. In Bangladesh, the High Court is the highest appellate court to adjudicate the tax matters, while the Supreme Court is the highest appellate court to adjudicate on tax matters in India, Pakistan and Sri Lanka. The UAE has a federal court structure with the court of appeal situated in Abu Dhabi. Dubai and Ras Al Khaimah have their own court systems, which include the Court of First Instance, the Court of Appeal and the Court of Cassation. The government of Pakistan has also established Federal Tax Ombudsman (FTO) where a taxpayer can file a complaint against any maladministration on the part of tax department. Nonetheless, the FTO is not an appellate forum.

In the UAE, the Civil Court or Court of First Instance hears all claims relating to commercial matters. After judgment has been delivered, the parties have the right to appeal to the Civil Court of Appeal on factual and/or legal grounds within 30 days of the date of judgment. It is possible to introduce additional evidence to the Court of Appeal and/or request that additional witnesses be called to testify. Thereafter, parties may appeal on points of law alone to the Court of Cassation (the highest court in Dubai), which is usually composed of five judges. The appeal must be filed within 30 days of the date the parties were notified of the judgment of the Court of Appeal. All decisions of the Court of Cassation are final and are not subject to appeal.

Arbitration is also a common part of the UAE legal system. The Dispute Resolution Authority (DRA) was created in 2014 and has overall responsibility for the DIFC (Dubai International Financial Center) courts, an arbitration institute and other tribunals or ancillary bodies that may be required to perform the functions of the DRA.

Table 5.2 illustrates the different appellate forums in the countries under consideration.

**TABLE 5.2:** Appellate forums available to taxpayers

INDIRECT TAX	ORDER IN ORIGINAL PASSED BY	APPELLATE FORUM							
		1st	Time limitation	2nd	Time limitation	3rd	Time limitation	4th	Time limitation
 BANGLADESH									
VAT	Additional Commissioner or any VAT officer	Commissioner (Appeals)	90 days	Appellate Tribunal	90 days	Revision in High Court			
 INDIA									
VAT (KN)	Officer below the rank of Deputy Commissioner	Appellate authority	60 days	Appellate Tribunal	180 days	High Court	60 days	Supreme Court	90 days
VAT (HY)	Officer or Joint Excise and Taxation Commissioner	Joint Excise and Taxation Commissioner or Commissioner	60 days	Appellate Tribunal	180 days	High Court	60 days	Supreme Court	90 days
VAT (AP)	Additional Commissioner or Joint Commissioner or Deputy Commissioner	Appellate authority	30 days	Appellate Tribunal	60 days	High Court	90 days	Supreme Court	90 days
 PAKISTAN									
FGST	Assistant or Deputy Commissioner	Commissioner (Appeals)	30 days	Appellate Tribunal	60 days	High Court	90 days	Supreme Court	
 SRI LANKA									
VAT	Assessor	Commissioner-General	30 days	Board of Review	1 month	Court of Appeal	1 month	Supreme Court	1 month



Any delays in recovering genuinely overpaid taxes may therefore result in significant costs to taxpayers, particularly, where there are inadequate provisions in tax laws for payment of interest to taxpayers for delayed recoveries.

### TAX REFUNDS

Overpaid taxes represent a financial cost to taxpayers, which is particularly critical to businesses that are operating with narrow margins and where maintaining cash flow is a high priority. Any delays in recovering genuinely overpaid taxes may therefore result in significant costs to taxpayers, particularly, where there are inadequate provisions in tax laws for payment of interest to taxpayers for delayed recoveries.

On the other hand, tax regimes with a high incidence of tax refunds are particularly attractive to fraudulent taxpayers and can represent a significant and growing risk to revenue bodies; effective risk-based approaches are needed for identifying potentially fraudulent tax refund claims.

Best international practices highlight the importance of systematic processes, enabling revenue bodies to make timely refunds to compliant taxpayers, as well as robust compliance checks for detection of fraudulent refund claims, ideally before issuance of refunds.

### Factors contributing to accumulation of tax refunds

Generally, in the international environment, the biggest factors in the generation of huge tax refunds are:

- a tax system that allows benefits and exemptions at the time of declaration
- reversals of numerous disputed tax amounts
- a tax system that allows a credit for VAT paid related to export or zero rates sales
- excessive withholdings of tax at the time of purchases/imports.




There may also be delays in issuing refunds due to the performance evaluation criteria used by tax officials. For example, tax authorities set revenue collection targets for tax officials and the amount of refunds issued by such officials is adjusted against their revenue collection targets.



Such factors are generally unavoidable, therefore, various jurisdictions have applied different ways of processing refunds and helping their taxpayers; see Table 5.3.

### Period taken for issuance of refunds








Table 5.4 summarises the time taken in various countries for the issuance of outstanding refunds to taxpayers, along with the interest rates applicable where the refund is not issued within the time period stipulated by law.

**TABLE 5.3:** Indirect taxes refund methodology

INDIRECT TAX	REFUND METHODOLOGY	
	STEPS INVOLVED	RELEVANT LAW
 <b>BANGLADESH</b>		
VAT on goods and services	The taxpayer is required to file an application (VAT refunds are only available to certain categories of businesses, others need to carry forward and set off).	Value Added Tax Rules 1991
 <b>INDIA</b>		
VAT (AP)	<p>The excess of tax shall be refunded within a period of 90 days on a claim made on a prescribed VAT return.</p> <p>In all other cases, the VAT dealer may make a claim for the refund of any excess credit available at the end of second year after the commencement of the Act and thereafter in the return to be filed for the month of March every year, if registered as a VAT dealer for a minimum period of 12 months or in the event of cancellation of registration. The excess of input tax credit claimed as refund shall be refunded within 90 days of the date of receipt of the claim.</p> <p>A VAT dealer who has paid tax in excess of the amount due for a tax period may claim a credit in the next tax return.</p>	Section 38 of the Andhra Pradesh Value Added Tax Act 2005
VAT (HY)	<p>A VAT dealer may seek a refund by making an application containing the prescribed particulars accompanied by the prescribed documents in the prescribed manner to the assessing authority, which shall allow the refund of the excess amount or allow the same to be carried forward for adjustment with a future tax liability, as the case may be, subject to order in writing</p> <p>Before any refund is given to any person under this Act it shall be first adjusted with any amount due from him under this Act or the Central Act for any period and the balance, if any, only shall be refunded to him.</p> <p>Any amount ultimately found due to any person, which he paid as a result of an order passed under this Act, shall be refunded to him with simple interest at the rate of 1% per month for the period from the date of payment to the date when refund is given to him.</p> <p>Any amount, not falling within sub-section (8), refunded after a period of 60 days from the date of making an application under subsection (50) shall carry with it simple interest at the rate of 1% per month for the period from the date of making the application to the date when the refund is made.</p>	Section 20 of the Haryana Value Added Tax Act 2003
VAT (KN)	A registered dealer whose sale of such goods is not liable to tax under sub-section (5), shall be eligible for refund or adjustment of any amount of tax collected on his purchase, which is in excess of the tax payable on his turnover relating to sale of such goods.	Section 4(6)(a) of the Karnataka Value Added Tax Act 2003
VAT (UP)	The dealer shall be refunded the amount of tax, fee, or other dues paid in excess of the amount due from him under the Act. Provided that amount found to be refundable shall first be adjusted towards tax or any other amount outstanding against the dealer. Where amount is not refunded within 30 days from the date of order of refund, the dealer shall be entitled to simple interest at rate of 12% a year.	Section 40 of the Uttar Pradesh Value Added Tax Act 2008
 <b>PAKISTAN</b>		
FGST	<p>The taxpayer is required to file an application for refund.</p> <p>If a registered person is liable to pay any tax, default surcharge or penalty payable under any law administered by the Board, the refund of input tax shall be made after adjustment of unpaid outstanding amount of tax or, as the case may, default surcharge and penalty.</p> <p>Where there is reason to believe that a person has claimed an input tax credit or refund that was not admissible to him, the proceedings against him shall be completed within 60 days. For the purposes of enquiry or audit or investigation about admissibility of the refund claim, the period of 60 days may be extended up to 120 days by an officer not below the rank of an additional commissioner Inland Revenue and the Board may, for reasons to be recorded in writing, extend the aforesaid period, which shall in no case exceed nine months.</p>	The Sales Tax Act 1990

INDIRECT TAX	REFUND METHODOLOGY	
	STEPS INVOLVED	RELEVANT LAW
 <b>PAKISTAN</b>		
STS	<p>The taxpayer is required to file an application.</p> <p>The input tax in relation to the taxable services shall be worked out first and the amount so worked out, shall be divided between the services provided in the province and also taxed in the same province and for those provided outside the province and also not taxed in the province.</p> <p>Where the registered person did not deduct or adjust the input tax in the relevant period, he may claim such input tax deduction or adjustment in the tax returns for any of the four succeeding tax periods by informing the Commissioner who has jurisdiction.</p> <p>Adjustment shall be confined only to the extent to which it has been consumed in the providing of taxable service or services during a tax period.</p> <p>No input tax adjustment on any account whatsoever shall be admissible in respect of tax required to be charged, deducted and paid on the basis of principles of origin and reverse charge under section 4 of the Act and the person liable to pay tax on that account shall deposit the whole amount of due tax with the Authority, without any deduction, adjustment or credit.</p>	Various sales tax on services laws of the provinces
 <b>SRI LANKA</b>		
VAT on goods and services	The taxpayer is required to file an application	

**TABLE 5.4:** Period taken for issuance of indirect tax refunds

COUNTRY	INDIRECT TAX	PERIOD PROVIDED IN LAW	DELAY IN REFUND	INTEREST RATE
 <b>BANGLADESH</b>	VAT and supplementary Act	90 days from the date of application	N/A	N/A
 <b>INDIA</b>	VAT (HY)	30 days from date of application	Over 30 days	1%
 <b>INDIA</b>	VAT (AP)	90 days from date of application	Over 90 days	12%
 <b>INDIA</b>	VAT (UP)	30 days from the date of order passed in writing	Over 30 days	12%
 <b>INDIA</b>	VAT (KN)	35 days from the date of order	Over 35 days	6%
 <b>PAKISTAN</b>	FGST	45 days from the date of application	Due Immediately	Floating Interest Rate
 <b>SRI LANKA</b>	VAT on goods and services	15 days to 45 days	After 30 days of due date	As prescribed by the minister

In view of current rapid technological changes, there are frequent demands that tax authorities respond to these changes. The countries within the scope of the report have been able to adjust to these requirements.





### TECHNOLOGY AND THE DESIGN OF TAX SYSTEMS

Historically, the most prevalent use of IT systems in tax administrations has been to underpin the core tax administration tasks of processing returns and payments and collecting relevant information. The core tax component of contemporary IT systems continues to provide support for these tasks, enabling tax administration to move away from manual processing and to direct its resources to facilitating, monitoring and enforcing compliance. Today, IT also facilitates voluntary compliance by opening multiple interactive and electronic channels with taxpayers. This component of modern IT systems, dubbed the e-tax system, may include support for electronic registration, filing, payment, information dissemination and other functions. With respect to compliance monitoring and enforcement, the compliance performance system of modern IT systems provides support to the tax administration's audit and collections





function in collecting and managing information to target areas, where non-compliance poses risks to revenues. In addition, as with any organisation, the management information system component of the modern IT solution facilitates decision-making by getting the right information to managers and staff (USAID 2013)

In view of current rapid technological changes, there are frequent demands that tax authorities respond to these changes. The countries within the scope of the report have been able to adjust to these requirements. All the tax authorities in the region have been trying to make every step of filing returns easy for their taxpayers (see Tables 5.5 and 5.6). Bangladesh and Pakistan have made everything – from registration to answers to taxpayers' queries – accessible online. These tax authorities have also made it easy for taxpayers to pay online.

**TABLE 5.5:** Functions accessible online

FUNCTION	 BANGLADESH	 INDIA	 PAKISTAN	 SRI LANKA
Registration		✓	✓	✓
Filing	✓	✓	✓	✓
Returns Processing and Payments	✓	✓	✓	✓
Inquiry	✓	✓	✓	✓

**TABLE 5.6:** Country-wise list of available guidelines for taxpayers

WEBSITE	FUNCTION	 BANGLADESH	 INDIA	 PAKISTAN	 SRI LANKA
User Guides	How to e-file	✓	✓	✓	✓
	How to e-file return	✓	✓	✓	✓
	How to pay taxes	✓	✓	✓	✓
Forms	Application form for registration	✓	✓	✓	✓
	Filing return	✓	✓	✓	✓
	Form of appeal	✓	✓	✓	✓
	Application for refund	✓	✓	✓	✓

Similar criteria is used for appointments to the revenue authorities. This criteria is based on the performance of potential candidates in their competitive examinations. These appointments are on quota basis.

#### HUMAN RESOURCES

##### **Bangladesh**

In Bangladesh, civil servants are appointed on the basis of competitive examinations conducted by the Bangladesh Civil Service. Appointments to the National Revenue Board are made on the basis of quota of available seats and exam performance of the candidates.

##### **India**

In India, the Union Public Service Commission conducts competitive examinations for appointment to various Civil Service departments of the Government of India, including the Indian Revenue Service. The examination is considered as one of the toughest examinations in India with a success rate of 0.1% –0.3%

##### **Pakistan**

In Pakistan, civil service examinations are conducted and supervised by the Federal Public Service Commission. Government employees are appointed on the basis of their exam performance and quota of available seats allocation.

##### **Sri Lanka**

In Sri Lanka, the Public Services of Sri Lanka provide specialised professional services to the government. These specialised professionals carry out public service duties. Special examinations are conducted by the Public Service Commission for recruiting and promoting these civil servants. The Sri Lanka Inland Revenue recruits these specialised professionals on the basis of quota of available seats and exam performance.





## AUTHORISED REPRESENTATIVE QUALIFICATIONS

### Bangladesh

A taxpayer who is entitled or required to appear before any Tax authority or the Appellate Tribunal in connection with any proceedings, may, except when required to attend personally, appear by an authorised representative. The following persons can present themselves as authorised representatives:

- (a) a parent, spouse, son, daughter, brother or sister of the assessee
- (b) a full-time regular employee of the assessee
- (c) a legal practitioner who is entitled to practice in a civil court in Bangladesh;
- (d) a chartered accountant or a cost and management accountant or a member of an association of accountants recognised in this regard by the Board
- (e) an income tax practitioner registered as such by the Board.

### India

In India, the following persons can present themselves as authorised representatives:

- (a) a person related to the assessee in any manner, or a person regularly employed by the assessee, or
- (b) any officer of a scheduled bank with which the assessee maintains a current account or has other regular dealings, or
- (c) any legal practitioner who is entitled to practise in any civil court in India or
- (d) an accountant, or
- (e) any person who has passed any accountancy examination recognised in this behalf by the Board or
- (f) any person who has acquired such educational qualifications as the Board may prescribe for this purpose.

### Pakistan

In Pakistan, the federal board of revenue may appoint as many special audit panels as may be necessary, comprising two or more members from the following:

- (a) an officer or officers of Inland Revenue
- (b) a firm of chartered accountants as defined under the Chartered Accountants Ordinance, 1961 (X of 1961)
- (c) a firm of cost and management accountants as defined under the Cost and Management Accountants Act, 1966 (XIV of 1966) or
- (d) any other person as directed by the Board.

In Pakistan, an authorised representative can be any of the following persons:

- (a) a person in the employment of the taxpayer working on a full-time basis and holding at least a bachelor's degree in any discipline from a university recognised by the Higher Education Commission, provided that such person shall represent only the taxpayer in whose employment he is working on full-time basis
- (b) an advocate entered in any rolls, and practising as such, under the Legal Practitioners and Bar Councils Act, 1973 (XXXV of 1973)
- (c) a person holding a bachelor's or master's degree in commerce
- (d) a person who has retired or resigned after putting in satisfactory service in the Sales Tax Department or Customs Department or Federal Excise Department for a period of not less than 10 years in a post or posts not inferior to that of an assistant collector, with the proviso that no such person shall be entitled to represent a taxpayer for a period of one year from the date of his retirement, or resignation, or in a case in which he was involved during his employment: and
- (e) an accountant.

### Sri Lanka

In Sri Lanka, a member of the Chartered Accountants of Sri Lanka, an Attorney at Law, an employee who is regularly employed by the person being assessed, or a member of the Sri Lanka Institute of Taxation is allowed to act as an authorised representative on behalf of a person/entity being assessed. If the person being assessed is an individual, a relative of such person can act as the authorised representative, whereas in the case of a company, a director or the secretary of that company can act as an authorised representative of such company. In the case of a partnership, a partner of that partnership and in the case of a body of persons, a member of such body, can act as an authorised representative.

### UAE

Desk research did not indicate any development in this area.

Exemptions are too widespread, with the result that some taxable domains believe they are discriminated against and have started resorting to turnover suppression tactics.

In most parts of the region discussed in this report, tax legislation is not simple enough to encourage voluntary compliance. Several inequities exist in tax treatment, which affect market competitiveness and the organised growth of businesses. Abnormal multiplicities of tax rates with inequitable concessions have created distortions so that the desired tax-to-GDP ratios have not been achieved.

Exemptions are too widespread, with the result that some taxable domains believe they are discriminated against and have started resorting to turnover suppression tactics. Taxpayer facilitation has become a 'buzzword' but in reality refunds are delayed to an unjustifiable extent, with the result business expansion has slowed down. Queries are not responded to quickly, creating uncertainties among taxpayers, who are trying to understand the law to enable compliance. No defined and transparent audit procedures are in place. Audits are used to pressurise taxpayers to pay more taxes, even beyond the actual/due limits. Also, in certain jurisdictions, the IT infrastructure for tax declaration processing, collection and payments is inadequate and is operated by insufficiently skilled tax personnel. The documentation for VAT is excessive and time consuming, which results in excessive compliance costs and complexities and perplexities for the taxpayers at large.

Audit and enforcement measures are sometimes carried out on a political basis or for political reasons. There are also indicators of corruption, which promotes malpractices, whereas there are not

enough incentives and system-based motivations for taxpayers to comply voluntarily. There is a tendency for repeated use of amnesties (amnesty schemes), usually for politically motivated reasons. The dispute settlement/resolution procedures are slow and burdensome. The tax policies cannot be considered to be inclusive and there is no scientific future planning behind tax policy formulation, which sometimes results in the continuance of instabilities. Further, there is an illogical penal framework including penal taxation to combat the non-compliance that is generated by the in-built weaknesses of the system. These weaknesses are partly due to the absence of appropriate constitutional, legal and administrative reforms/improvements.

In the UAE, it is pertinent to note that a majority of the population consists of immigrants, who repatriate most of their income to their home countries. A substantial portion of domestic consumption, therefore, consists of purchases made by the UAE nationals. On the other hand, it should also be taken into consideration that UAE is a prime destination for tourism and business meetings, which have a significant impact on consumption of supplies and services. Thus, the VAT regime will have to be designed very carefully in order to ensure that the government is able to achieve its objectives, while ensuring that the natural principles of equity are properly adhered to without creating any discrimination in the VAT treatment of consumption by different categories of people.

ACCA recommends 11 areas where improvements can be made.

- Reduce tax concessions and tax amnesties, and avoid special regimes so as to protect the rudimentary character of VAT as a modern consumption tax.
  - Limit exemptions primarily to health, education, charity and basic essential food items (excluding those supplied at restaurants and hotels, etc.)
  - Use the services of VAT-experienced technical experts and professionals for smooth and trouble-free VAT implementation and management.
  - Reduce compliance cost but attract optimal voluntary compliance by building incentives into the tax system (carrot and stick policy approach).
  - Share data among different government departments, organisations, institutions, authorities and agencies as well as between different government departments at regional and global level for BTB (broadening tax base) and anti-tax-evasion/avoidance purposes
  - Make the VAT system a seamlessly integrated unified tax management regime with preference for single hand and single rate tax administration with a uni-declaration mechanism (in countries where powers to collect VAT are divided between the central/federal governments and the state/provincial governments).
  - Optimise the application of Information Technology and modern scientific tools to enhance the overall efficiencies of tax management, tax monitoring, taxpayers' facilitation (including dispute resolution/settlement regime) and tax collectors' accountability through regular capacity building and fair wage and reward systems.
  - Enhance the public trust in the overall tax machinery, especially, in the appellate forums so as to attract voluntary compliance and create rapport between the taxpayer and tax collector on the one hand and the tax collector and tax adjudicator on the.
  - Maximise the effectiveness of enforcement through institutional revamping and strengthening of resources of both staff and materials.
  - Reviewing the minimum tariff values fairly at regular intervals for fair and accurate VAT collection on imports.
  - With the introduction and rationalisation of VAT, the least productive indirect taxes should be considered for permanent abandonment.
- 
- 'VAT is one of the great innovatory marvels of the twentieth century, and mankind especially in developing and under-developed parts of the globe must make every possible effort to optimize its utility for greater and faster socio-economic development and welfare in the twenty first century'.**
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