

Chapter 5

REVENUE RECEIPTS OF THE GOVERNMENT OF BANGLADESH

1. Introduction

Unlike the pre-Kenysian era, the basic concept of modern budgetary policy, as applicable to all developing countries, is the mobilization of revenues and its allocation for maintenance of a high level of economic activity and growth which postulates capital formation. Hence budgetary policy has a vital role both in regard to the generation and mobilization of resources, and their investment in real capital assets.

Again, the concept of the welfare state has been universally accepted, and government expenditure should be allocated to the fulfilling of the purposes of state policy, to alleviate poverty, to increase employment and socio-economic welfare, to develop infrastructure, etc. In short, the faster rate of growth which is the goal set before all developing countries can be attained with increasing participation of the government in the process of development and this, in turn, means an expansion of the public sector necessitating large public revenue.

A developing country like Bangladesh is characterised by the 'vicious circle' of poverty where both money and capital markets are unorganised and poor. And as noted earlier, about 80% of the total development expenditure is contributed by the government. So, the main responsibility of raising revenues to meet the country's current as well as development expenditure aiming at breaking the vicious circle of poverty lies with the government.

This chapter is an attempt to show the trend of revenue receipts of the Government of Bangladesh (GOB) through budgetary measures from 1972-73 to 1984-85. Here we shall devote ourselves to the analysis of the evolution and growth of tax and non-tax revenue structure of Bangladesh and their composition over the period under study taking different plan periods into consideration.

The total revenue receipts of the GOB have increased during the period under study. This is surely an indication of the growth of the economy. Table 1 shows that the total revenue of the GOB has increased from Tk. 2302 million in 1972-73 to Tk. 35767 million

Table 1

Total Revenue Receipts of the GOB and Its Growth Rate Per Annum in Percent from 1972-73 to 1984-85

Year	Total Revenue Receipts	(Tk. in million)	Growth Rate
1972-73	2302	.....
1973-74	3724	61.7	
1974-75	6240	67.5	
1975-76	8841	41.6	
1976-77	9337	5.6	
1977-78	11761	26.0	
1978-79	14517	23.4	
1979-80	16805	15.7	
1980-81	22568	24.3	
1981-82	23570	4.4	
1982-83	24665	5.4	
1983-84	28126	13.2	
1984-85	35767	27.1	

Source: Calculated on the basis of Appendix A to this chapter.

in 1984-85 or the total revenue receipts have increased at a compound rate of about 26.0% per annum during the period under study. The overall growth trend was, however, not secular but cyclical in nature, showing its declining tendency from the early seventies to the early eighties and an increasing tendency in the mid-eighties.

But as regards the performance of the revenue structure of Bangladesh, Table 2 shows that the revenue-GDP ratio of Bangladesh never equalised the average of some selected 14 Asian developing countries including Bangladesh. In other words, the rate of collection of revenue of the GOB was very poor in comparison with other Asian developing countries. However, as we shall see later, mere growth rates of total revenue as well as revenue-GDP ratios are not sufficient to comment on the performance of the revenue structure of a country.

Table 2

Total Revenue as a Percentage of GDP of
Bangladesh and Average Revenue-GDP
Ratios of 14 Asian Developing Countries

Year	Bangladesh	Asian Average
1973-74	5.40	12.57
1974-75	5.03	13.45
1975-76	8.56	14.61
1976-77	9.34	15.00
1977-78	8.44	15.18
1978-79	8.85	15.45
1979-80	8.50	16.01

Contd..

Table 2 (Contd..)

1980-81	10.26	16.46
1981-82	9.37	17.25
1982-83	9.10	16.59
1983-84	8.50	16.75

Source : Col. (2) is calculated on the basis of Appendix A to this chapter, and the rest from International Financial Statistics: Supplement on Government Finance Statistics, IMF, 1986, p. 70.

2. Tax and Non-Tax Revenue : Their Growth and Shares

The revenue receipts of the GOB are divided into two components, viz., receipts from taxation (tax revenue) and receipts from other sources (non-tax revenue). Table 3 shows that the total receipts from taxation have increased from Tk. 1910 million in 1972-73 to Tk. 29675 million in 1984-85 or at a compound rate of about 26.0% during the said period.

The year to year growth rates of tax revenue showed its declining trend from the early seventies to the early eighties and an increasing tendency in the mid-eighties. The overall growth trend was, however, cyclical in nature with an exceptionally high rate in the early seventies and an almost invariable rate in the late seventies to the early eighties. Except in 1973-74, 1974-75 and 1975-76 the growth rates of tax revenue varied between 6.2% and 28.2% over the years.

Table 3

Growth of Tax and Non-Tax Revenue Receipts Per Annum
in Percent and Their Percentage Shares to the Total
Revenue Receipts of the GOB (1972-73 to 1984-85)

(Tk. in million)

Year	Tax Receipts	Growth Rate	Non-Tax Receipts	Growth Rate	Share of Tax Revenue	Share of Non-Tax Revenue
1972-73	1910	...	392	...	83.0	17.0
1973-74	3003	62.4	621	58.4	83.0	17.0
1974-75	5166	66.4	1074	73.0	82.7	17.3
1975-76	7358	42.4	1483	38.0	83.2	16.8
1976-77	7855	6.7	1482	-00.1	84.1	15.9
1977-78	10074	28.2	1687	13.8	85.6	14.4
1978-79	12330	23.4	2187	29.6	85.0	15.0
1979-80	14645	18.8	2160	-01.2	87.0	13.0
1980-81	18235	24.5	4333	100.6	80.8	19.2
1981-82	19901	9.1	3669	-15.3	84.4	15.6
1982-83	21301	8.0	3364	-08.3	86.4	13.6
1983-84	23955	11.5	4171	24.0	85.0	15.0
1984-85	29675	23.8	6092	46.0	83.0	17.0

Source : Calculated on the basis of Appendix A to this chapter.

Similarly, the non-tax revenue receipts of the GOB have increased over the years. Table 3 shows that the total non-tax receipts of the GOB have increased from Tk. 392 million in 1972-73 to Tk. 6092 million in 1984-85 or at a compound rate of about 26% per annum over the years. But the overall growth trend was declining in nature with see-saw fluctuations varying from the negative (-0.1%) to the positive (100%). By the mid-eighties, however, an increasing growth trend of non-tax revenue is recorded.

But it is interesting to note that despite the cyclical trend of growth of both tax and non-tax revenue receipts, their percentage shares to the total revenue receipts of the GOB remained quite stable over the years. Table 3 shows that more than 80% of the total revenue receipts is shared by the tax revenue, while the rest less than about 20% is shared by the non-tax revenue. Thus the absolute predominancy of the tax revenue in the revenue structure of Bangladesh is distinctly felt for the period under study.

Let us now view the growth trend of total revenue receipts, tax and non-tax revenue receipts and their percentage shares to the total revenue of the GOB taking different plan periods into consideration. Table 4 shows that the yearly average growth rate of total revenue receipts of the GOB declined distinctly from 38.6% in the First Five-Year Plan (FFYP) to 19.5% and 16.3% in the Two-Year Plan (TYP) and the Second Five-Year Plan (SFYP) respectively. The growth

Table 4

Yearly Average Growth Rate of Total Revenue Receipts,
Tax and Non-Tax Receipts and Their Shares to the Total
Revenue During Different Plan Periods

(In percent)

Period	Growth of Total Revenue	Growth of Tax Revenue	Growth of Non-Tax Revenue	Share of Tax Revenue	Share of Non-Tax Revenue
FFYP (1973-78)	38.6	39.4	33.9	83.7	16.3
TYP (1978-80)	19.5	20.6	13.1	86.0	14.0
SFYP (1980-85)	16.3	15.2	23.0	84.0	16.0

Source : Calculated on the basis of Table 1 and 3 of this chapter.

trend of tax and non-tax revenue earnings during the plan periods also revealed the same information, except the fact that during the SFYP the non-tax revenue earnings showed an increasing trend.

But the percentage shares of tax and non-tax revenue earnings to the total revenue earnings of the GOB remained almost invariable over the plan periods. Table 4 reveals the fact that the percentage share of the tax revenue accounted for an about five times higher share than that of non-tax revenue over the three plan periods indicating the dominant role of tax revenue over non-tax revenue in the revenue structure of Bangladesh.

The rather low contribution of non-tax revenue to the total revenue of Bangladesh and its see-saw fluctuations demands a close scrutiny.

Non-Tax revenue in Bangladesh comprises profits from the nationalized sectors (manufacturing industries, banking and others), stamp (judicial), registration, interest (debt services), civil administration, mint and currency and collection from other autonomous bodies like railways, postal services, telegraphs and telephone, etc. (Appendix B).

The fact that non-tax revenue contributed very little was due mainly to the poor performance of some of the major heads of non-tax revenue. Thus while heads like debt services, civil administration and mint and currency, for example, recorded an improvement in generating revenue over the years, forest and registration, for example, registered a negligible performance. More seriously enough, net revenue earning from the postal department registered always a

negative figure. Similarly earning from telephone and telegraph (net) was also very poor and it was even negative during the late seventies (Appendix B).

In realising the importance of self-reliance by reducing the dependency of external resources, a considerable emphasis was placed on added surplus generation from nationalised public sector enterprises in the form of non-tax revenue. But their contributions were far from satisfactory for a variety of reasons, such as, inadequate operational freedom, lack of adequate internal and foreign demand, lack of flexibility for adjustment of product prices in response to change in production cost, absence of accountability, shortage of skilled personnel and managerial inefficiencies, irregular power supply, fiscal anomalies, labour unrest, etc¹.

An IBRD report (1982) showed that public sector enterprises of Manufacturing, Energy and Transport Units basically contributed nothing (Table 5) to the government revenue between 1977-78 and 1981-82. In fact, these enterprises recorded a negative contribution for the said period except a negligible positive addition (1.0%) in 1980-81.

Table 5
Losses/Profits of Public Sector Bodies

Sector	1977-78	1978-79	1979-80	1980-81	(Tk. in million) 1981-82
A. <u>Manufacturing</u>	-1081	-489	876	586	-904
1. BJMC	-949	-585	1842	593	-1081
2. BTMC	- 58	224	530	-516	-1099
3. BSFI	13	16	40	390	469
4. BESC	48	111	147	124	-120
5. BCIC	-119	23	-23	56	71
6. BFIDC	- 6	- 18	1	10	12
B. <u>Energy</u>	-221	-317	-1570	-315	105
1. BPDB	...	-391	-230	-333	...
2. BPC	...	74	-1340	520	...
C. <u>Transport</u>	- 5	-11	-15	-62	-49
1. BIWTC	...	-14	-20	-41	...
2. BSC	...	- 2	69	113	...
3. BB	...	5	-64	-144	...
D. Total	-1307	-817	-709	209	-848
As % of Total Revenue	-10.5	-5.4	-4.1	1.0	-3.3

Note: BJMC = Bangladesh Jute Mills Corporation

BPDB = Bangladesh Power Development Board

BTMC = Bangladesh Textile Mills Corporation

BPC = Bangladesh Petroleum Corporation

BSFI = Bangladesh Sugar and Food Industries

BIWTC = Bangladesh Inland Water Transport Corporation

BESC = Bangladesh Engineering and Ship building Corporation

BSC = Bangladesh Shiping Corporation

BCIC = Bangladesh Chemical Industries Corporation

BB = Bangladesh Biman

BFIDC = Bangladesh Forest Industries Development Corporation

Source : Bangladesh Energy Report, IBRD, 1982.

From an another report of the IBRD (1984) it would appear that out of 11 years (1973-74 to 1983-84), 6 major nationalised manufacturing units, viz., BJMC, BTMC, BSFIC, BESC, BCIC and BFIDC recorded loss in 6 years (Table 6) amounting to Tk. 4011.0 million while profits in 5 years amounted to Tk. 3344.0 million². Table 6 also shows that the ratio of profit to sales in many years was negative and did not exceed 5.3% which was by no means considerable and commensurate with funds invested having alternative uses.

Table 6
Financial Performance of Important Public Sector Corporations

(Tk. in million)

year		Pre-Tax Net Profit	Gross Sales		Profit-Sales Ratio (Percent)
1973-74		5.0	4777.0		...
1974-74	(-)	271.0	6200.0	(-)	4.4
1975-76	(-)	507.0	8370.0	(-)	6.1
1976-77	(-)	759.0	9263.0	(-)	8.2
1977-78	(-)	1081.0	12243.0	(-)	8.8
1978-79	(-)	489.0	13602.0	(-)	3.6
1979-80		876.0	16617.0		5.3
1980-81		586.0	19311.0		3.0
1981-82	(-)	904.0	19530.0	(-)	4.6
1982-83		912.0	18620.0		4.9
1983-84		965.0	...		...
1984-85*		955.0	18510.0		5.4

Source : Bangladesh : Economic Trends and Development Administration,
IBRD, Report No. 4822, February 24, 1984.

* Statistical Year-Book of Bangladesh, 1987, Bangladesh Bureau of Statistics, GOB.

The low contribution of non-tax revenue to the total revenue in connection with the performance of nationalised public sectors needs further scrutiny. In the context of Bangladesh, the size of the public sector highly fluctuated and often nationalisation was followed by denationalization or privatization of nationalised enterprises. The policy of denationalisation was basically taken during 1975-76 with its rapid implementation from 1981-82. The Government of Bangladesh has denationalised a total of 217 units (partly or totally) between 1976 and 1983 — about 47% of them being denationalised during the last years of the said period³. Thus the trend of non-tax revenue earnings may fall even in the face of an improved economic performance by state enterprises, if disinvestment of public enterprises reduces the size of this sector⁴.

However, some interesting changes are found when we look at the different heads of non-tax revenue earnings of the GOB in different plan periods. Table 7 shows that the receipts of the nationalised sector have started to increase over the three plan periods. During the SFYP this head contributed about 27% of the total non-tax revenue earnings compared to 17% and 19% during the FFYP and TYP respectively, reflecting an improvement in the economic performance of the nationalised sector. Note that banks alone contributed more than half of the total earnings from this head. Though receipts from industries showed a marginal improvement, others contributed almost negligible amounts over the plan period. Interest receipts and railways (net) together contributed about half of the total non-tax revenue receipts during the three plan periods. But

Table 7

Yearly Average Share of Different Heads of Non-Tax Revenue to the Total Non-Tax Revenue During Different Plan Periods

(In percent)

Head:	FFYP (1973-78)	TYP (1978-80)	SFYP (1980-85)
1. Nationalised Sector	17.1	18.8	26.9
a. Industries	4.8	5.1	9.0
b. Banks	11.7	13.4	17.0
c. Others	0.6	0.3	0.9
2. Interest Receipts	28.0	31.9	22.5
3. Registration Fees	5.0	5.2	4.5
4. Forests	3.2	4.1	5.4
5. Railways	22.4	24.4	22.8
6. Post and Telegraph	-0.4	-0.6	-0.5
7. Others	24.6	16.2	17.2
Total	100	100	100

Source : Adopted from Atique Rahman, "Domestic Resource Mobilization in Bangladesh", Bangladesh Development Dialogue, Dhaka, 1985.

contributions of other heads were negligible and the postal, telegraph and telephone departments have showed even a negative share to the total non-tax revenue earnings of the GOB over the three plan periods.

3. Direct and Indirect Taxes : Their Growth, Composition and Shares

Tax revenue can broadly be divided into direct and indirect taxes. In Bangladesh receipts from direct taxes, as shown in Table 8, increased from Tk. 302 million in 1972-73 to Tk. 5797 million in

1984-85. The compound growth rate was 27.9% per annum varying between a low of 12.9% and a high of 49.3% over the years except a very high

Table 8

Growth of Direct and Indirect Tax Per Annum in Percent and Their Percentage Shares to the Total Tax Revenue of the GOB (1972-73 to 1984-85)

Year	Total Direct Tax	Growth Rate	Total Indirect Tax	Growth Rate	(Tk. in million)	
					Share of Direct Tax	Share of Indirect Tax
1972-73	302	...	1608	...	15.8	84.2
1973-74	451	49.3	2652	65.1	14.5	85.5
1974-75	926	105.3	4240	59.8	18.0	82.0
1975-76	1345	45.2	6013	41.8	18.3	81.7
1976-77	1575	17.1	6280	4.4	20.0	80.0
1977-78	1864	18.3	8210	30.6	18.5	81.5
1978-79	2145	15.1	10185	24.0	17.4	82.6
1979-80	2523	17.6	12126	19.0	17.3	82.7
1980-81	3234	28.1	15001	23.7	17.7	82.3
1981-82	4040	25.1	15859	5.7	20.3	79.7
1982-83	4561	12.9	17019	7.3	21.2	78.8
1983-84	4739	4.3	19216	12.9	19.8	80.2
1984-85	5797	22.3	23864	24.2	19.5	80.5

Source : Calculated on the basis of Appendix C of this chapter.

growth rate (105.3%) in 1974-75 and a very low growth rate (4.3%) in 1983-84.

Receipts from indirect tax, on the other hand, as in Table 8, increased from Tk. 1608 million in 1972-73 to Tk. 23864 million in 1984-85 or at a compound rate of about 25.2% per annum varying between a high of 65.1% and a low of 4.4% over the years.

It is also observed that the rate of growth of both direct and indirect tax was oscillating in nature with an uneven growth of absolute amounts⁵.

But the notable feature is that the percentage share of both direct and indirect tax to the total tax revenue remained more or less stable over the years. Table 8 shows that in Bangladesh about four-fifths of the total tax revenue are collected through indirect tax and the rest one-fifth is collected through direct tax. The share of direct tax varied from the lowest 14.5% to the highest 21.2%, and the share of indirect tax, on the other hand, varied between 78.8% and 85.5% over the years. The contribution of direct tax as a proportion of total tax yield, however, has been in general slightly increasing over the years, while that of indirect tax has been decreasing during the same period.

But nonetheless, one can easily understand that indirect tax has been playing a dominant role in the tax structure of Bangladesh since liberation. We like to note here that the dominancy of indirect tax was also present in the pre-liberation period of Bangladesh. Thus Bangladesh inherited the prevailing tax structure from the erstwhile East Pakistan⁶.

Let us now view the growth trend of direct and indirect tax per annum in percent and their percentage shares to the total tax revenue during the three plan periods as in Table 9. It is observed that the yearly average growth rates of both direct and indirect taxes during different plan periods showed a steady downward trend. During the SFYP, however, the direct tax showed a marginal upward growth trend.

Table 9

Yearly Average Growth Rates of Direct and Indirect Tax and Their Shares in the Total Tax Yield During Different Plan Periods

Period Period	Growth of Direct tax	Growth of Indirect Tax	Share of Direct Tax	Share of Indirect Tax (In percent)
FFYP (1973-78)	43.6	38.5	17.8	82.2
TYP (1978-80)	16.9	21.5	17.4	82.6
SFYP (1980-85)	18.1	14.5	19.7	80.3

Source : Calculated on the basis of Table 8 of this chapter.

The picture of percentage share of direct and indirect taxes to the total tax revenue shows (Table 9) that more than 80% of the total tax revenue is shared by indirect tax and the remaining less than 20% is shared by direct tax over the three plan periods. Thus indirect tax played a dominant role in the tax structure of Bangladesh over the three plan periods, though a marginal upward trend in case of direct tax and a marginal downward trend in case of indirect tax are registered during the SFYP.

* * *

Table 10 shows the composition of both direct and indirect taxes and their percentage shares to the total tax revenue during the period under study. It is found that the percentage share of income tax as one of the major components of direct tax to the total tax revenue increased almost threefold from 5.4% in 1972-73 to 15.2% in 1982-83. But nonetheless, the share of direct tax as a whole to

Table 10

Composition of Direct and Indirect Tax and Their Percentage Shares
to the Total Tax Revenue Receipts of the GOB from 1972-73 to 1984-85

Tax Head	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80
1. <u>Direct Tax</u>	15.8	14.5	17.9	18.3	20.0	18.5	17.4	17.3
a) Income Tax	5.4	6.2	9.3	11.6	14.6	13.2	12.1	12.5
b) Other Direct Tax	10.4	8.3	8.6	06.7	05.4	5.3	5.3	4.8
2. <u>Indirect Tax</u>	84.2	85.5	82.1	81.7	80.0	81.5	82.6	82.7
a) <u>Foreign Trade</u>	45.5	52.0	38.4	52.5	48.9	54.9	58.7	60.8
i) Import Duty	32.7	39.2	28.9	37.5	33.4	37.5	37.9	39.8
ii) Export Duty	2.8	00.3	00.1	01.0	02.1	2.1	2.5	2.9
iii) Sales (Import) Tax	8.5	11.4	8.9	13.7	13.1	15.0	18.0	17.7
iv) Others	1.4	1.1	0.5	00.3	00.3	00.3	00.3	00.4
b) <u>Taxes on Domestic Goods</u>	35.5	30.9	34.9	27.4	29.4	25.4	22.4	21.0
i) Excise Duty	31.0	26.9	28.2	24.7	26.5	23.3	20.7	19.4
ii) Sales (Domestic) Tax	4.5	4.0	06.7	02.7	2.9	2.1	1.7	1.6
c) <u>Taxes on Domestic Services and Others</u>	3.2	2.6	8.8	1.8	1.7	1.2	1.5	.9

Contd..

Table 10 (Contd..)

Tax Head	1980-81	1981-82	1982-83	1983-84	1984-85
1. Direct Tax	17.7	20.3	21.4	19.8	19.5
a) Income Tax	12.4	14.1	15.4	14.1	13.0
b) Other Direct Tax	5.3	6.2	6.0	5.7	6.5
2. Indirect Tax	82.3	79.7	78.6	80.2	80.5
a) Foreign Trade	58.9	55.9	54.5	54.5	56.2
i) Import Duty	38.5	38.1	39.0	38.3	39.6
ii) Export Duty	2.3	1.1	.5	.5	.7
iii) Sales (Import) Tax	17.6	16.2	14.1	15.0	15.3
iv) Others	.5	.5	.9	.7	.6
b) Taxes on Domestic Goods	22.9	23.01	23.4	25.0	23.3
i) Excise Duty	21.3	22.8	23.3	25.0	23.3
ii) Sales (Domestic) Tax	1.6	.3	.1	...	...
c) <u>Taxes on Domestic Services and Others</u>	.5	.7	.7	.7	.9

Source : Calculated on the basis of Appendix C to this chapter.

the total tax revenue remained almost invariable (about 20%) for the said period. For, the rise in the percentage share of income tax was accompanied by the fall in the percentage share of other direct taxes comprising taxes on property, land revenue, capital gains tax, etc.⁷

The fact that indirect taxes accounted for more than 80% of the total tax revenue in Bangladesh, was mainly because of its easy administration and rapid collection as well as the unusually high rates of customs, excises and sales taxes on import. Let us now explain the contribution of the major components of indirect tax over the period under study.

In Bangladesh import duty, export duty and sales tax on import constitute the main source of revenue from the foreign trade sector in the form of indirect tax. This sector continued to play a dominant role in the tax structure of Bangladesh in general and in the indirect tax system in particular over the years. Table 10 shows that taxes on foreign trade accounted for more than 50% of the total tax revenue by the late seventies and the early eighties. This view is also supported by a recent World Bank Report as shown in Table 11.

Table 11

Share of Customs Duty and Sales Tax (Import)
in the Total Tax Receipts of Bangladesh

(In percent)

Year	Share	Year	Share
1972-73	48.8	1978-79	62.5
1973-74	52.1	1979-80	64.1
1974-75	39.0	1980-81	61.2
1975-76	55.2	1981-82	56.7
1976-77	54.0	1982-83	56.8
1977-78	58.2	1983-84	54.6

Source : Bangladesh : Economic and Social Development Prospects,
 The World Bank Report No. 5409, Vol. IV, April, 1985,
 Table 5.2, Appendix A.

It is also observed (Table 10) that the import duty and sales tax on import accounted for almost the entire tax receipts under foreign trade in the form of indirect tax. Furthermore, it may not be irrelevant to note that more than half of the annual import bill was paid for by foreign aid. An World Bank Report (1985)⁹ showed (Table 12) by disaggregating still further, that foreign aided imports contributed the major part of customs duty and sales tax on import from 1977-78 to 1984-85.

Table 12

Share of Customs Duty and Sales Tax on Foreign
Aided Imports in Total Customs Duty and Sales
Tax of Bangladesh

Year	Share	Year	Share	(In percent)
1977-78	47.17	1981-82		43.13
1978-79	50.53	1982-83		51.53
1979-80	42.57	1983-84		44.78
1980-81	37.19	1984-85*		48.58

Source : Bangladesh : Economic and Social Development Prospects,
World Bank Report No. 5409, Vol. IV, April, 1985, Table
5.2, Appendix A, Col. 2

* Our calculation

But the contribution of export duty, on the other hand, was very insignificant over the years. This head yielded even less than 3 percent of the total tax revenue and by the eighties it became almost negligible as shown in Table 10. This was primarily a result of the relatively stagnant position of export and the decline of the rate of export duty from 1977-78 to 1984-85 (Table 13) as noted by the World Bank Report (1985)¹⁰. More significantly, however, it reflects the fact that the economy experienced no structural changes in domestic production, which might have enhanced exports and thus self-reliance.

Table 13

**Volume of Total Export, Export Duty and Rate of
Duty in Bangladesh**

(US \$ million)

Year	Total Export (US \$ in million)	Export Duty (Tk. in million)	Rate of Duty (%)
1977-78	489.788	859	17.54
1978-79	609.272	1241	20.36
1979-80	722.272	2445	20.01
1980-81	710.689	1124	15.82
1981-82	626.969	315	5.60
1982-83	986.000	952	9.66
1983-84	822.000	1057	12.85
1984-85	900.000	...	...

Source : Bangladesh : Economic and Social Development Prospects,
World Bank Report No. 5409, Vol. IV, April, 1985, Table
3.6, Appendix A.

Taxes on domestic goods (excise and sales tax) and services, on the other hand, registered a gradual declining trend from more than about 35 percent in the early seventies to about 20 percent and 23 percent in the early and mid-eighties respectively (Table 10). It is also found that excise duties accounted for almost the entire tax revenue under this head over the years. The remaining sales tax on domestic goods and taxes on domestic services together accounted for less than 5 percent of the total tax revenue over the years, except in the fiscal years 1972-73, 1973-74 and 1974-75. And by the eighties sales taxes on domestic goods and taxes on domestic services became almost negligible.

A notable feature of taxes on domestic goods and services in Bangladesh is that only a few items, namely, tobacco (48%), petroleum gas (12.7%), petroleum (5.5%) and cinema entertainment (3.6%) accounted for more than 75 percent of total excise tax in 1982-83¹¹. And in 1984-85, only five items, namely, tobacco (44.7%), petroleum gas (19.3%), petroleum (4.9%), jute manufacture (3.9%) and liquor and narcotics (2.4%) accounted for about 75 percent of total excise tax yield (Appendix D). Clearly the tax base is narrow and together with this, tax evasion, corruption of the collectors, etc. forced the share of excise tax as well as taxes on goods and services to the total tax yield to be low compared to the tax yield from the foreign trade sector.

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Now, looking at the composition of direct as well as indirect taxes, during different plan periods, Table 14 shows that the percentage share of income tax in the form of direct tax registered an increasing trend. The shares of other direct taxes, however, show a declining trend during the TYP with a marginally upward trend during the SFYP.

Revenue collections from the foreign trade sector, particularly import duty and sales tax on import in the form of indirect tax continued to share a higher percentage over the three plan periods compared to other indirect taxes. However, there was a marginally declining tendency from the TYP to the SFYP. The share of export duty, on the other hand, though showing an upward trend during the

SFYP (Table 14). The share of taxes on domestic goods and services,

Table 14

Composition of Direct and Indirect Tax and
Their Yearly Average Share to the Total Tax
Revenue of the GOB during Different Plan Periods

Tax Head	FFYP (1973-78)	TYP (1978-80)	SFYP (1980-85)
1. Direct Tax	17.8	17.4	19.7
a) Income Tax	11.0	12.3	13.7
b) Other Direct Tax	6.8	5.1	6.0
2. Indirect Tax	82.2	82.6	80.3
a) Foreign Trade	49.4	59.6	56.0
i) Import Duty	35.5	38.8	38.9
ii) Export Duty	1.0	2.7	1.0
iii) Sales (Import) Tax	12.4	17.9	15.5
iv) Others	.5	.3	.6
b) Taxes on Domestic Goods and Services	32.8	23.0	24.0
i) Excise Duty	26.0	20.0	24.0
ii) Sales (Domestic) Tax	2.7	1.6	.3
iii) Taxes on Domestic Services	1.6	1.1	.4
iv) Others	2.5	.3	.1
Total (1+2)	100	100	100

Source : Calculated on the basis of Table 10 of this chapter.

registered a downward trend from roughly 33% during the FFYP to 23% during the TYP with a marginal increase upto 24% during the SFYP. But the notable feature is that, except excise duties, the shares of other heads like taxes on domestic goods, taxes on domestic services and others became almost an insignificant source of revenue to the government during the SFYP.

It is thus clear that over the three plan periods, for revenue collection, the GOB relied mostly on indirect taxes in general and taxes on foreign trade in particular.

4. Due and Hinrichs - Musgrave Hypotheses and Bangladesh

The tax structure of Bangladesh as observed confirms the conclusion drawn by John F. Due in a study¹². The author, taking a sample of countries at various levels of per capita income (data relate to 1968-69), showed that indirect taxes were the main stay of revenue for poor countries with per capita income upto \$500 (Table 15) and played a significant role in the tax structure. In Bangladesh where per capita income is below \$200, indirect taxes, as shown in Table 10, play a dominant role thereby confirming the above view.

Due viewed that the main reasons behind this nature of tax structure are probably the unduly higher share of customs, excise and sales taxes, since these taxes are comparatively easy to administer and the rates are simple to deal with. On the contrary, the collection of direct taxes like individual income tax and land revenue is constrained by various administrative and accounting problems¹³.

Table 15
Direct and Indirect Taxes in Tax Structure

Per Capita GNP US \$	No. of Countries Included	All Direct Taxes (%)	All Indirect Taxes (%)	Total (%)
Under \$ 101	20	32	68	100
101-200	11	36	64	100
201-500	19	36	64	100
501-850	9	50	50	100
850-Over	15	68	32	100

Source : John F. Due, Indirect Taxation in Developing Economies,
Johns Hopkins Press, 1980, Table 9-1, p. 178

The statistics of Bangladesh tax structure also support the hypothesis drawn by Hinrichs and Musgrave that there is a close relationship between the stages of economic development and tax structure¹⁴.

According to Hinrichs, at an early stage of development the ratio of direct tax to indirect tax revenue is high. At the middle stage of development indirect taxation becomes more important and in the later developed stage, direct taxes are again dominant.

At an early stage of development, in a poor agricultural economy, predominantly subsistence in nature, direct taxes like taxes on land, livestock, agricultural products and toll taxes provide the major source of revenue to the government. At the middle stage or during the transition to modernity, with increasing industrialization, gradual expansion of the monetized sector and openness of foreign trade, indirect taxes like excise, sales, customs, etc.

become feasible. At this stage modern direct taxes are also introduced but their contribution is smaller and less elastic than that of customs, excise and sales taxes. At the latest stage, however, when the economy is fully developed, with standardized accounting system and its wide practice, the importance of indirect taxes diminish¹⁴ and the implementation of modern progressive direct taxes becomes feasible again.

Thus Hinrichs writes, "Looking at tax revenue history in broad perspective, one may be more than half-way justified in saying that the structural movement has been from taxation on (1) agriculture, to (2) foreign trade, to (3) domestic consumption, to (4) net income, individual and business"¹⁵.

Like Hinrichs, Musgrave also thinks that governments of developed countries have much more scope of earning revenues from direct taxes than that of developing countries¹⁶.

Available statistics also support the generalizations of Hinrichs and Musgrave. An analysis of the composition of tax structure of various countries with different levels of per capita incomes shows (Table 16) that while indirect taxes particularly taxes on foreign trade yield the major portion of taxes in developing countries as per capita income rises, income tax as well as other direct taxes assume increasing importance, and in highly developed countries, they contribute the major portion of tax revenue.

The IMF statistics also show (Table 17) that in the 14 least developed countries (Bangladesh belongs to this group) taxes on income and property contribute the smallest percentage of revenues while in the developed industrial countries, these taxes are

Table 16
**Average Composition of Tax Structures for a Sample of Countries at
 Various Levels of Per Capita Income**

Per Capita Income in \$	(As Percentage of Total Revenue)							Total
	Income Taxes	Taxes on Property	Taxes on Foreign Trade	Taxes on Production	Total Pay Roll Taxes	Excluding Pay Roll Taxes	Pay Roll Taxes	
Under 100	16.3	4.1	38.5	28.0	96.7	3.3	3.3	100
100-200	19.6	2.0	33.4	33.8	96.3	3.7	3.7	100
200-300	17.5	3.9	35.2	27.3	91.3	8.7	8.7	100
300-400	22.3	5.9	27.9	30.6	81.8	18.2	18.2	100
400-500	23.4	8.4	34.7	29.2	84.9	15.1	15.1	100
500-900	24.7	7.5	13.5	8.5	85.3	14.7	14.7	100
United States	48.2	9.4	0.1	14.3	75.9	24.1	24.1	100

Source : R.A. Musgrave and P.B. Musgrave, Public Finance in Theory and Practice, 4th Edn., McGraw Hill Book Company, Singapore, 1984, p. 795.

Note : Data for U.S.A. relate to 1970; for others 1966-68. Sum of all taxes will not equal to total excluding pay roll taxes because of the omission of minor taxes and rounding.

distinctly dominant. Again, taxes on foreign trade contribute the major part of revenue in the least developed countries compared to industrial countries.

Table 17

Composition of Central Government Revenues,
around 1980^a

Country Group (Number)	Income and Profits	Domestic Goods and Services	Foreign Trade	Social Security Contributions	(In percent)
					Non-Tax Revenue
Industrial Countries (20)	33.3	26.0	3.7	25.0	9.0
Semi-Industrial Countries (15)	25.3	30.6	14.5	13.0	11.1
Middle-Industrial Countries (55)	23.7	23.1	28.9	4.1	14.9
Least Developed Countries (14)	17.0	21.7	41.6	1.6	13.0

Source : Government Finance Statistics Year Book, IMF, Vol. 6, 1982.

- a. Unweighted arithmetic means of the percentages for each country in the group. Data will not add to 100 percent because of the omission of property taxes and other minor taxes and rounding. See R. Goode, Government Finance in Developing Countries, Tata McGraw Hill Company Ltd., New Delhi, 1986, Table 4-2, p. 91.

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From the analysis of this chapter it is found that though the total revenue receipts of the GOB increased over the years, the performance was not promising enough from the resource mobilization point of view, since the Revenue-GDP ratios of Bangladesh were well below the international standard (even compared to Asian developing countries) for the whole period under study.

The revenue structure in Bangladesh is dominated by tax revenue. Again, while taxes contribute more than 80% of the total revenue, direct taxes account for less than a quarter of the total tax revenues. In other words, indirect taxes play a dominant role in the tax structure of Bangladesh thereby confirming Due and Hinrich's hypotheses and IMF findings that in the early developing stage of a country a major part of the government revenue is collected from indirect taxes particularly from foreign trade taxes.

In fact, in Bangladesh more than half of the total tax revenue is collected from foreign trade, and taxes on domestic goods and services account for around a quarter of the total tax revenue. The notable feature is that the percentage share of revenue earnings from foreign trade has increased by a considerable margin of which import duty including sales tax on import shared the highest. Export duties in this head accounted for an almost negligible amount indicating the fact that the economy is primarily an import-oriented one and the import are mostly facilitated by foreign aid, not paid by exports. And as such, these findings lend support to the view that even the internal resource mobilization effort of Bangladesh is dependent on foreign aid¹⁷.

NOTES AND REFERENCES

1. For details see R. Sobhan and M. Ahmed, Public Enterprise in an Intermediate Regime : A study in the Political Economy of Bangladesh, BIDS, Dhaka, 1980, Chapter 14, 15 and 18. Also see The Second Five-Year Plan (1980-85), Planning Commission, GOB, Chapter IV, p. IV-2.
2. Bangladesh : Economic Trend and Development Administration, February 24, 1984, IBRD Report No. 4822.
3. See Atique Rahman, 'Domestic Resource Mobilization in Bangladesh', Bangladesh Development Dialogue, Dhaka, 1985, p. 53.
4. An excellent study in this field has been made by R. Sobhan and A. Ahsan. See R. Sobhan and A. Ahsan, Disinvestment and Denationalisation : Profile and Performance, BIDS (Research Report New Series No. 38), Dhaka, 1984.
5. The uneven growth of absolute amounts of both direct and indirect taxes may be due to the changes in tax rates, introduction of new taxes, elimination of old taxes, reduction or exemptions and relatively better or worse collection of some taxes, of which more later in Chapter 8.
6. See M. Hoque, "Taxation and Resource Mobilization in Post-Liberation Bangladesh", Arthonity Journal, Vol. 2, March 1983, University of Chittagong, Bangladesh, Table 2, p. 113.
7. Causes of low contribution of direct taxes will be explained in Chapter 8.
8. See R. Sobhan and T. Islam, "Foreign Aid and Domestic Resource Mobilization in Bangladesh", The Bangladesh Development Studies, Vol. XVI, No. 2, June, 1988, BIDS, Dhaka, pp. 21-41.

9. World Bank, Bangladesh : Economic and Social Development Prospects, Report No. 5409, Vol. IV, April, 1985.
10. Ibid.
11. O.H. Chowdhury, "Effective Tax Rates for Bangladesh: 1984-85", The Bangladesh Development Studies, Vol. XVI, No. 2, June, 1988, BIDS, Dhaka, p. 59.
12. See John F. Due, Indirect Taxation in Developing Economics, Johns Hopkins Press, 1970, pp. 177-80.
13. Ibid.
14. Harley H. Hinrichs, A General Theory of Tax Structure Change During Economic Development, Harvard University Law School, 1966, and R.A. Musgrave, Fiscal Systems, Yale University Press, New Haven, 1969, pp. 125-67.
15. Harley H. Hinrichs (1966), p. 106.
16. R.A. Musgrave (1969), p. 166.
17. For details see R. Sobhan and T. Islam, "Foreign Aid and Domestic Resource Mobilization in Bangladesh", The Bangladesh Development Studies, June, 1988 and R. Sobhan, The Crisis of External Dependence : The Political Economy of Foreign Aid to Bangladesh, University Press Ltd., Dhaka, 1982, p. 32.

Appendix A

**Revenue Receipts and GDP of Bangladesh from
1972-73 to 1984-85**

(Tk. in million)

Year	Tax Receipts	Non-Tax Receipts	Total Revenue Receipts	GDP at Current Factor Cost
1972-73	1910	392	2302	42837
1973-74	3103	621	3724	68977
1974-75	5166	1074	6240	123949
1975-76	7358	1483	8841	103198
1976-77	7855	1482	937	99874
1977-78	10074	1687	11761	139204
1978-79	12330	2187	14517	163909
1979-80	14645	2160	16805	197633
1980-81	18235	4333	22568	219799
1981-82	19901	3669	23570	251320
1982-83	21301	3364	24665	272953
1983-84	23955	4171	28126	331068
1984-85	29675	6092	35767	395168

Source : Col. (5) from Statistical Year Book of Bangladesh,
 Various issues, Bangladesh Bureau of Statistics, GOB
 and the rest from Fiscal Statistics, 1972-86, Planning
 Commission, GOB, 1986.

Appendix B

Non-Tax Revenue Receipts of the GOB and Their Composition (1972-85)

(Tk. in million)

Head	1972-73	1973-74	1974-75	1975-76	1986-77	1977-78
1. Stamp (Judicial)	98.5	111.7	270.5	223.7	253.7	280.2
2. Forest	14.4	35.4	47.4	50.6	84.5	109.4
3. Registration	31.9	45.3	110.5	96.8	98.1	120.6
4. Railway (Net)	...	309.4	395.7	515.8	545.1	630.2
5. Postal (net)	(-)	29.7 (-) 35.6	25.4 (-) 41.0	(-) 68.8	(-) 33.3	
6. Telegraph and Telephone (Net)	2.0	53.9	20.6	10.4 (-) 11.5	(-) 34.1	
7. Interest	7.1	106.6	168.9	564.7	635.2	475.7
8. Civil Administration	167.1	167.1	347.3	223.7	182.8	360.8
9. Mint and Currency	56.8	56.8	27.8	268.3	247.1	339.0
10. Other Non-Tax Earnings Including Profits/Losses from Nationalised Sectors	61.3	109.1	328.4	322.3	328.6	364.0

Contd..

Appendix B (Contd..)

Head	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85
1. Stamp (Judicial)	315.8	290.0	40.0	60.0	50.0	41.8	41.8
2. Forest	160.5	150.2	330.0	350.0	280.0	290.0	360.0
3. Registration	190.7	220.0	230.0	270.0	285.0	300.0	...
4. Railway (Net)	829.9	924.6	1050.0	1250.0	1580.0	1540.0 (-)	298.0
5. Postal (Net)	(-)	81.7 (-)	54.5 (-)	37.6 (-)	60.8 (-)	190.0 (-)	129.5 (-)
6. Telegraph and Telephone (Net)	(-)	116.4	85.9	42.2	141.7	123.7	107.6
7. Interest	1008.7	1205.5	1447.6	1605.3	997.0	1015.7	1400.0
8. Civil Administration	293.5	317.4	121.1	567.0	1083.3	1214.3	1562.3
9. Mint and Currency	322.0	617.9	830.3	1110.1	939.0	931.4	2225.4
10. Other Non-Tax Earnings Including Profits/Losses from Nationalised Sectors	524.6	446.7	531.4	564.2	279.0	917.7	929.7

Source : Bangladesh Economic Survey, 1989-90, Economic Advisory Wing, Finance Division, Ministry of Finance, GOB, Statistical Appendix.

Appendix C

Direct and Indirect Tax Yield of the GOB with Their Composition (1972-85)

(Tk. in million)

Tax Head	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78
1. Direct Tax	302	451	926	1345	1575	1864
a. Income Tax	104	192	479	856	1148	1327
b. Other Direct Tax	189	259	447	489	427	537
2. Indirect Tax	1608	2652	4240	6013	6280	8210
i) Import Duty	625	1216	1493	2762	2626	3774
ii) Export Duty	53	8	71	163	214	306
iii) Sales (Mp.) Tax	162	354	459	1009	1026	1513
iv) Other Customs	28	36	25	23	26	28
b. Taxes on Domestic Goods	678	957	1723	2020	2307	2560
i) Excise Duties	592	834	1458	1820	2078	2350
ii) Sales (Domestic) Tax	48	74	157	191	227	210
iii) Jute Tax	38	49	188	9	2	...
c. Taxes on Domestic Services and Miscellaneous	62	81	458	128	132	121
Total Tax Revenue	1910	3103	5166	7358	7855	10074

Contd..

Appendix C (Contd..)

Tax Head	1978-79	1979-80	1981-81	1981-82	1982-83	1983-84	1984-85
1. <u>Direct Tax</u>	2145	2523	3234	4040	4561	4739	5797
a. Income Tax	1490	1618	2267	2804	3280	3389	3859
b. Other Direct Tax	855	705	967	1236	1281	1358	1938
2. <u>Indirect Tax</u>	10185	12126	15001	15859	16740	19216	23864
a. <u>Foreign Trade</u>	7241	8906	10744	11134	11601	13071	16693
i) Import Duties	4675	5820	7029	7581	8303	9189	11753
ii) Export Duties	425	419	221	110	110	224	...
iii) Sales (Imp.) Tax	2225	2599	3211	3236	3000	3584	4557
iv) Other Customs	35	56	85	96	188	177	159
b. <u>Taxes on Domestic Goods</u>	2762	3088	4167	4588	4986	5976	6919
i) Excise Duties	2558	2849	3881	4539	4975	5976	6919
ii) Sales (Domestic) Tax	204	238	306	48	11	...	...
iii) Jute Tax	...	1	...	1	...	...	..
c. <u>Taxes on Domestic Services and Miscellaneous</u>	182	132	90	137	153	169	272
Total	12330	14645	18235	19901	21301	23955	29675

Source: O.H. Chowdhury and M. Hossain, Elasticity and Buoyancy of Bangladesh Tax Structure, Research Report No. 80, BIDS, Dhaka, November, 1988, Statistical Appendix, Table 1.

Appendix D

Collection of Excise Duties by Commodities (1984-85)

(Tk. in million)

Commodities	Excise Duty
1. Tobacco Products	3091.60
2. Petroleum Gas	1336.00
3. Petroleum, Petroleum Oil and Lubricants	336.60
4. Tea	...
5. Vegetable Non-Essential Oil	...
6. Vegetable Products	...
7. Beverages, Other than Wine	16.90
8. Glucose, Dextrose, etc.	8.30
9. Sugar	63.20
10. Biscuit and Bread	44.10
11. Cement	75.40
12. Paints and Varnish	39.90
13. Cosmetics	33.30
14. Soaps and Detergents	101.90
15. Matches	38.90
16. Plastic Products	12.20
17. Rubber and Others	2.10
18. Tanned Leather and Others	...
19. Paper and Paper Board	134.10
20. Bank Cheque	7.00
21. Cotton Yarn and Cotton Fabrics	77.20
22. Man-Made Fabrics and Yarn	6.90
23. Fabrics and Man-Made Fibres and Yarn	7.10
24. Jute Manufacture	255.00
25. Woolen Yarn and Woolen Fabrics	6.10
26. Glass and Glass Ware	28.50
27. Metal Container	11.50
28. Mild Steel Products	124.70
29. Electric Batteries	50.80
30. Electric Bulbs, Tubes, Fans and Parts	43.30

Contd..

Appendix D (Contd..)

Commodities	Excise Duty
31. Ceramics, China Ware Porcelain Ware	35.10
32. Wires and Cables	87.20
33. Hotel and Restaurant	81.20
34. Gold and Silver Products	4.50
35. Cinema Entertainment	128.80
36. Packaging Materials	15.70
37. Radio Receiving Apparatus	58.10
38. Mechanised Vehicles	47.90
39. Shoes	23.30
40. Wooden Furniture	77.80
41. Medicine, Medical Products (Allopathic), Insecticide, Pesticide, etc.	136.80
42. Welding Electrodes	22.90
43. Steel, Steel Pipe and G.I. Pipe	32.70
44. Oxygen, Carbon, Oxide, etc.	26.80
45. Sodium Silicate	5.30
46. Glycerine	6.60
47. Telephone and Teleprinter	11.40
48. Plastic Bag	3.00
49. Insolation Board	2.00
50. Nuts, Bolts, Screws	1.40
51. Electric Goods and Fittings	.60
52. Cinematographic Film	5.70
53. Sanitary Ware and Lazed Tiles	6.80
54. Liquor and Narcotics	166.20
55. Miscellaneous	3.20
Total	6919.20

Source : Fiscal Statistics, 1972-73 to 1985-86, Planning Commission, GOB, 1986.