Chapter 14
Automation of VAT System:
A Pathway of Domestic Resource Mobilization

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ABSTRACT

The automated tax system has been taken as an effective tool for modernizing the tax system. The automated tax system can easily store all types of reported income, and it makes the tax submission procedure easy and convenient, resulting in reducing the compliance cost. The main objective of this chapter is to explain the necessity of an automated value added tax (VAT) system for raising domestic resource mobilization and how automation can be a better alternative to finance sustainable development goals projects. The secondary data was collected from the National Board of Revenue, Bangladesh. This study explains that the entire VAT system's automation can reduce the taxpayers' incentive to evade tax by reducing the tax compliance and taking bribes of tax officials. In sum, automation of the tax system would ultimately be pragmatic tax reform for the financing in the SDG projects.

INTRODUCTION

Tax evasion has been a universal and persistent problem, mostly in developing economies, with a severe economic consequence of having a shortage of resources to finance public projects (Galtung, 1995; Fjeldstad, 1996). Tax evasion and fraud in the tax administration have been taken place a complex phenomenon in public finance, which has several detrimental effects on the economy. The persistent

tax evasion in an economy hampers the tax efforts, and the loss of revenue can suggest a reduction in public services, including the resource allocation in the human capital and welfare programs. Besides, the higher level of tax evasion can seriously hinder the equity of taxation and economic growth (Shleifer & Vishny, 1993; Galtung, 1995; Hendriks et al., 1999; Cheng & Zeng, 2015).

Bangladesh, a rising economy with a persistent high average per capita growth, is one of the lowest tax revenue performers compared to the other developing economies[1]. Although Bangladesh has taken various reforms for the modernization of the tax system, the overall tax effort reflects below the potential. In addition, the higher level of tax evasion erodes the scope of tax revenue generation and escalates the informal economy's size. The broader informal economy, ultimately, creates the vicious cycle of domestic resource mobilization (Bird, 1992; Tanzi & Shome, 1993). Tax evasion is a behavioral, cultural, and political phenomenon. The tax evasion would be worsened when the taxpayers under-report their income bribing tax officials (Slemrod & Yitzhaki, 2000; Cerqueti & Coppier, 2009).

The automated tax system has been taken a useful tool for modernizing the tax system. The automated tax system can easily store all types of reported income, and it makes the tax submission procedure easy, resulting in reducing the compliance cost. Moreover, the chance of contact between taxpayers and tax officials will probably be zero in the automated tax system, which implies that collusion between taxpayers and tax officials for providing and taking bribes would be impossible. Even if there has been existed collusion, the cost of evasion will be significantly high because the probability of getting caught will increase. Thus, automation in any tax system has compliance costs with almost nothing; lowering the cost of tax compliance encourages taxpayers to pay the actual tax liabilities.

Over the last decade, Bangladesh has experienced sustained growth, ranging between 6 and 8 percent, while tax to GDP ratio has remained stagnant, hovering around 9 percent, on average. Bangladesh requires enormous resources, amounting to 928.5 billion USD by 2031, achieving the first phase of Sustainable Development Goals (SDGs)[2]. Ministry of Planning, Bangladesh has also set the target of financing in numerous SDG projects; almost 80 percent will be collected from the domestic resource. Furthermore, Bangladesh is on the track of LDC graduation period, the opportunity of low-cost financing, soft loans from multi-national agencies and donor countries, would be narrower after 2026. Thus, the demand for increasing tax revenue has been rocketed, financing numerous public projects.

National Board of Revenue (NBR), Bangladesh, the absolute authority of tax collection, has reported the tax evasion from the VAT of 892 billion of Taka during the fiscal year, 2017-18. This tax authority has affirmed that the lack of adequately reported income and the absence of an automated system have created the opportunities for taxpayers to evade tax. VAT system in Bangladesh has two types of the tax payment system, including the online and offline VAT returns[3]. As there is no bound obligation for taxpayers submitting their tax returns online, a tiny portion of the VAT payers uses the online tax submission procedure. That is why this offline tax submission has been opening up the way to evade tax as well as providing bribes to the tax officials, implying the persistent increases in the VAT evasion. For the fulfillment of domestic resource demand, there is no option for Bangladesh without taking further tax reforms, including domestic-based VAT. Without massive reforms, implementing only the full automation in the VAT system, Bangladesh can raise the tax revenue significantly.

This chapter's main objective is to explain the necessity of an automated VAT system for raising domestic resource mobilization and how automation can be a better alternative to financing SDG projects. The rest of the paper is composed of five more sections. Literature review and overview of the Bangladesh VAT system have been presented in sections two and three, respectively. Section four provides the theory and the conceptual framework of tax evasion, and data and methodology are discussed in section five.

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