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Central Value Added Tax Registration in Bangladesh: An Appraisal

Dr. Swapan Kumar Bala FCMA

Professor

Department of Accounting & Information Systems

University of Dhaka

Dr. Md. Abdur Rouf

Director General

Customs Intelligence and Investigation Directorate

Bangladesh

Abstract

Although the real payers of Value Added Tax (VAT) are the consumers of taxable goods and services, VAT is legally being collected from the registered entities providing those goods or services. Hence, on the one hand, the VAT registration has very important compliance obligations on the part of the registered entities that affect their accounting, tax payments, and cost of doing business. On the other hand, it has implications to the VAT authority for ensuring observance of legal obligations, monitoring and enforcements. In this paper, the idea of giving central VAT registration under the new VAT law started from March 23, 2017 has been discussed with its conceived principle of “one entity, one accounting and one registration.” It has also explained how the unit registration concept has affected the registered VAT-payers in terms of increasing compliance costs, complexities, product costs and new obligations. It has also delineated the potential sensitivities of this departure from central registration approach on the VAT-administrators. Finally, it has enumerated some specific policy recommendations to improve the ongoing regulatory framework on central registration and standardization of the VAT system.

Keywords: Value Added Tax, Central VAT registration, Cost of doing business.

Disclaimer: Opinions expressed in this paper are the authors' personal and not linked to their institutional affiliations.

1.0 Introduction

Value Added Tax (VAT) law has been enacted to collect VAT from people. VAT is consumers' tax. Consumers, i.e., purchasers of goods and services make payment to sellers against purchases. At that moment, there is no feasible way to the purchasers for paying VAT to the government. Therefore, the sellers have been legally asked to collect VAT from the purchasers and pay to the government later. So, in the VAT management system, sellers have become more important for the revenue administrators though VAT is consumers' liability.

The VAT management first requires making a list of the sellers which is called registration. Then, the sellers have to keep records of sales, purchases, VAT payments, etc. so that the regulatory authority can check the appropriateness of payment of VAT. The sellers are of different types, such as individuals, sole-proprietorship entities, partnership firms, companies, trusts, societies, non-government organizations (NGOs), government enterprises etc. with one or several manufacturing, warehousing, sale, trading, service rendering and management offices. Here comes the concept of unit registration and central registration. Registering one unit at one place is called unit registration and registering one entity's multiple units together is called central registration. In either case, a feasible basis is required for registration and accounts are considered to be the most relevant and common basis as it facilitates VAT credit mechanism. Every entity has its own accounts. An entity with one or multiple units maintains accounts incorporating all transactions.

The entities have to comply with trade licensing law, company law, customs law, income tax law, VAT law, labor law, environment law etc. Most of the documents of an entity are required to be maintained in prescribed format under company law and VAT law. These documents are the evidences of purchase and sales, income and expenditure, and other business transactions. All transactions are recognized, measured, recorded in the accounts and finally reported through the financial statements under the accounting and reporting standards. Corporate entity is under strict regulatory regimes of various authoritative bodies. For instance, banks and non-bank financial institutions (NBFIs) are under the regulatory oversight of the Bangladesh Bank (BB). Similarly, insurance companies are regulated by the Insurance Development and Regulatory Authority (IDRA), telecommunication companies by the Bangladesh Telecommunication Regulatory Commission (BTRC), and all the listed companies by the Bangladesh Securities and Exchange Commission (BSEC). But under these overlapping regulatory regimes, the identity of a single corporate entity is not segmented into multiple identities with separate "identification number" for each segment having operations at a separate place. Never it is required to prepare separate audited accounting reports for a separately identifiable operational unit. Here, Therefore, "one entity, one accounting, one identification number" is the principle for regulatory oversight and compliances. Consequently, one entity, one accounting, one Business Identification Number

(BIN) can be the best principle for VAT registration. Mentionably, Business Identification Number (BIN) is the VAT registration number given to the registered entity by the National Board of Revenue (NBR), the apex tax authority of Bangladesh.

Under the original VAT law of 2012, the approach was the central VAT registration on the basis of "one entity, one accounting, one BIN" principle, which was revised later from July 1, 2019. This paper attempts to identify the potential arguments in favour and against the central VAT registration and finally provides some policy recommendations to fine-tune the registration process under the VAT system.

2.0 Statement of the Problem

As mentioned earlier, there are two types of registration under the VAT law: (1) unit registration under which separate registration is given for an individual unit of an entity; and (2) central registration under which one single registration is allowed for an entity having multiple units of operation. Suppose, Rahman Chemical Industries Ltd. is a soap manufacturer located at Gazipur. It sells to dealers and distributors from the manufacturing place and maintains accounts there. This entity shall qualify for unit registration. Another company, Excell Industries Ltd. has three manufacturing plants located at Gazipur, Savar and Narayanganj. It has ten (10) distribution centers scattered countrywide. Following the production at three places, goods are warehoused at ten (10) places and sold from there. It is a limited company. Accounts of three manufacturing plants, ten distribution centers and one head office are maintained together. Statutory auditor under the Companies Act (Chartered Accountant firm) prepares one audit report compiling accounts of fourteen (14) places which is used for the purposes of company law and income tax law. If this entity needs to take fourteen (14) registrations at fourteen (14) places under the VAT law, it shall be easier neither for the entity to comply nor to the government to monitor. Such entity requires to be given central VAT registration. Separate accounts shall be maintained at all places but accounts of all places shall be compiled at the central office (head office). Sales can be made issuing VAT invoices from all places. Raw-materials, semi-processed goods, finished goods or services can move among these places freely. One VAT return shall be submitted from the central office (head office) taking into account the transactions of all places. Any method in the

VAT system requires to be easier for VAT-payers to comply (under the tax principle of “convenience”) and collection of VAT has to be ensured, i.e., it has to be business-friendly and revenue-friendly. The basic objective of central VAT registration is to list the multiple points together for easier compliance and collection. A new type of central registration was introduced on 1 July 2019, when the new VAT law came into full force. Since the provisions of existing central VAT system are not allowed in general, rather unit VAT registration is made as the usual practice, this paper appraises the pros and cons of the central VAT registration from the context of the past and present regulatory framework and other relevant arguments in favour and against thereof. After 30 years of VAT implementation with different central registration regimes, it is now pertinent to assess and determine what type of central registration is better for revenue and business.

3.0 Objectives of the Study

The study has been undertaken to appraise the regulatory provisions on central VAT registration in order to identify the background and consequences thereof and also provide some policy recommendations to improve the fiscal management of VAT.

4.0 Methodology

The study is mainly a desk research. Most of the information and resources have been taken from various websites including those of the National Board of Revenue (NBR), the Internal Resources Division (IRD) of the Ministry of Finance, and Customs, Excise & VAT Commissionerate and Directorate offices. Published sources, such as the annual reports of the NBR and some authoritative publications on the VAT law, have also been consulted and references have been duly cited.

5.0 Regulatory Framework of Central VAT Registration: Origination and Evolution

The central registration regime currently in force in our VAT system introduced on 1 July 2019 is a departure from the “one entity, one accounting, one BIN” principle as mentioned earlier. The scope of central registration has been limited and therefore, adequate number of entities cannot avail it. A type

of central registration was launched after three years of 1991 VAT Act in Bangladesh. From July 1, 2011 to March 22, 2017, there was a provision for central VAT registration under the VAT Act 1991. This was in practice without any hassle before starting the central VAT registration under the new VAT law of 2012. Below is a discussion on the regulatory frameworks of central VAT registration under the old VAT law and the new VAT law.

5.1 Central VAT Registration under the VAT Act 1991

Although the collection of VAT in Bangladesh started from July 1, 1991, the VAT registration activities commenced from June 2, 1991 under the VAT Ordinance, 1991 promulgated on May 31, 1991 and this was validated under section 1(2)(a) of the VAT Act, 1991. The VAT Bill was placed in the Parliament on July 1, 1991 and passed on July 9, 1991 and published in the Gazette on July 10, 1991 after the Presidential accord on the same day. However, the provision on central VAT registration was introduced through the amendment of the VAT Act by the Finance Act 1994 effective from July 1, 1994 for centrally operated business and centrally maintained books and accounts by giving a single VAT registration to the head office of the business entity.

Under the 1991 VAT law, entities of three categories qualified for central registration. Those are: (a) a manufacturer manufacturing at one place and selling through multiple places; (b) a commercial importer selling through multiple places; and (c) a service renderer rendering service through multiple places. Multiple manufacturers were not given one central registration. Traders purchasing locally (not commercial importer) were also not given central registration. The exclusion was not overwhelming and was not complex. The number of multiple manufacturing plants under one entity was less in those days, so was the number of local traders. For the ease of registration-seekers, the National Board of Revenue (NBR) issued central registration on direct application. Later on, when it was streamlined, the authority was vested upon the VAT Divisional Officer.

There was another method in practice under the 1991 VAT law that was called “sale at identical price” (*ovinno mulye bikroy*). Under this method, any manufacturer or commercial importer could pay all VAT from the place of manufacture or import and could sell then VAT-free from own sale-centers, dealers or agents. So, the 1991 VAT law included adequate provisions under which manufacturers, commercial importers

and service renderers could pay VAT centrally. In early stage of introduction of VAT, especially during 1995-2000 period, many entities were given central registration and approval for selling at identical price. Later on, the trend discontinued. From 2009 when talks surfaced regarding enactment of a new VAT law and continued up to its implementation on 1 July 2019, these were sent to the back-burner with the hope that the new law would accommodate all easier things.

Under the proviso to sub-section (2) of section 15 ["Registration"] of the VAT Act, 1991, the provisions on central VAT registration in July 2010 were: where the supply of taxable goods, except at production stage, or rendering of taxable service or import or export business is conducted centrally and the accounts and records thereof are maintained accordingly, the Board may, by general or special order, direct the head office of such supply of goods, except at production stage, or rendering of service or, where applicable, import or export business to be registered centrally (*vide* Halim, 2010: 181-182). Thus, central VAT registration was subject to the direction of the National Board of Revenue (NBR). From July 1, 2011, due to the amendments, the provisions on central VAT registration was simplified: if any person, from two or more places, operates the production and supply of his taxable goods or rendering of taxable service or import or export business and maintains all the accounts and records together, then he, voluntarily, can be registered centrally in the manner prescribed by rules [proviso to sec. 15(2)]. Thus, central VAT registration became the option of the business entity and continued till the introduction of the registration process under the new VAT law. It may be a question why this provision on central VAT registration was not incorporated in the VAT and SD Act passed in November 2012 as a *status quo*.

5.2 Central VAT Registration under the New VAT Law

Former Finance Minister Abul Maal Abdul Muhith placed the bill on the Value Added Tax Act, 2012 in the Parliament on July 8, 2012, and then it was sent to the Parliamentary Standing Committee on the Ministry of Finance. This Parliamentary Standing Committee on September 6, 2012 finalized its report on the bill where the committee proposed that the bill should be named "Value Added Tax and Supplementary Duty Act, 2012" instead of "Value Added Tax Act, 2012" (*bdnews24.com*, 2012). The Parliament on

November 27, 2012 passed the VAT and SD Bill, 2012 (Rouf, 2015: 13) to expand the scope of VAT, SD and turnover tax, to simplify the tax collection process and to make other relevant provisions. Hon'ble President accorded his assent to the Bill on 10 December 2012 and it was published in the Gazette on the same date as the Value Added Tax and Supplementary Duty Act, 2012 (Act No. XLVII of 2012) (GoB, 2012). It is interesting to note here that under section 1(2) of the VAT and SD Act, 2012, the Chapter Two (VAT Registration and Turnover Tax Enlistment; Sections 4-14), Chapter Twelve (Value Added Tax Authority; Sections 78-89) and Chapter Fifteen (Maintenance of Forms, Notices, and Records; Sections 107-110), and section 128 (Online performance of functions, filing of return and payment of tax, etc.), section 132 (Certified copy of documents), section 134 (Acts to be done through a private organization), and section 135 (Power to make rules) of this Act shall come into force at once, i.e., from December 10, 2012. Thus, VAT registration became effective under this new VAT statute of 2012 from the 10th December of 2012. Then the major objective was to introduce "central VAT registration" and separate registration for any branch unit was optional, if we see the original provisions of section 5 ["Registration of central or branch unit"] of the VAT and SD Act, 2012:

- "(1) Every person required to be registered for his economic activities shall have only one VAT registration for the central, and all the branch units.
- (2) Notwithstanding anything contained in sub-section (1), a branch unit that maintains the records, and keeps the accounts, independently and separately from the central unit, may have a separate VAT registration.
- (3) Every branch unit registered separately shall, for the purposes of this Act, be regarded as a separate taxpayer.
- (4) Movement of goods or exchange of services from one branch unit to another separately registered branch unit of the same economic activity shall not be treated as supplies and, consequently, there shall arise no output tax liability or input tax credit claim" (*vide* Rouf, 2015: 222-223).

But due to absence of any Rules, the registration process under the 2012 Act was not introduced immediately. The Value Added Tax and Supplementary

Duty Rules, 2016 were made under section 135 of the VAT and SD Act 2012 as an S.R.O (Statutory Rules and Order) [S.R.O. No. 333-Ain/2016/1-Musak, dated November 3, 2016]. Under Rule 1(2) of the VAT and SD Rules 2016, Chapter Two (VAT Registration and Turnover Tax Enlistment; Rules 3 to 15) and definitions in Chapter One (Preliminary) in relation to the said Chapter shall come into force at once, i.e., from November 3, 2016.

Thus, Chapter Two of the VAT and SD Act 2012 and Chapter Two of the VAT and SD Rules 2016 are both on “VAT Registration and Turnover Tax Enlistment.” However, the provisions of the Chapter Two of the VAT and SD Act, 2012 (i.e., sections 4 to 14) became effective from December 10, 2012 under section 1(2) and the provisions of the Chapter Two of the VAT and SD Rules 2016 (i.e., Rules 3 to 15) became effective from November 3, 2016 under rule 1(2).

However, the fact was that at implementation planning of the new VAT law, it was decided to make the law fully effective from July 1, 2015. But due to several reasons (cancellation of the international tender for procuring software and hardware by the Cabinet committee on public purchase on July 6, 2014; rules yet to be made; delay in organizational restructuring and necessary training for VAT-payers and VAT-administrators, etc.), the date of full implementation of the new VAT Act was re-fixed at July 1, 2016 and a notification was published in this regard in the Gazette on April 12, 2015. For the implementation of the new VAT law, a project under the title “Value Added Tax and Supplementary Duty Act, 2012 Implementation Project” (or “VAT Online Project” in brief) was taken with an estimated cost of BDT 551 crore (World Bank’s financing by BDT 450 crore, and the balance by the Government of Bangladesh). Due to subsequent amendment of the Development Project Proforma / Proposal (DPP), the project cost was raised to BDT 690 crore. Moreover, the date of implementation of new VAT law was deferred from July 1, 2016 to July 1, 2017 due to the lack of preparedness as well as lack of consensus with the business communities. In the meantime, the VAT and SD Rules 2016 were published in the Gazette on November 3, 2016. Steps to establish a technology-based VAT management system were taken and an Integrated VAT Administration System (IVAS) was set up with a Data Center at the Bangladesh Computer Council, Agargaon, Dhaka and a Disaster Recovery Center (DRC) at Customs, Excise and VAT Commissionerate, Dhaka (West). The Registration Module was opened

on March 15, 2017, which was formally opened by the Finance Minister on March 23, 2017 (Rouf, 2019c: 40-42; Rouf, 2020b: 31-33).

Thus, online VAT registration under the new VAT law actually started on March 23, 2017, under which the “Application Form of Value Added Tax Registration and Turnover Tax Enlistment” [Mushak-2.1] under rule 4(1) and rule 5(1) of the VAT and SD Rules, 2016 was applicable. This Form was published in the Value Added Tax and Supplementary Duty Rules, 2016 on November 3, 2016. But this Form was substituted by another new Form titled “VAT/Turnover Tax Registration Form” [Mushak-2.1] by S.R.O. No. 226-Ain/2019/62-Mushak, dated June 30, 2019.

Thus, from March 23, 2017 to June 30, 2019, the requirement was that new registrants have to take new 9-digit VAT registration number in the name of BIN (Business Identification Number) and existing VAT registered persons had to re-register to change the previous 11-digit VAT registration number into 9-digit BIN by using the original Form Mushak-2.1. But from July 1 to July 31, 2019, due to changes in the provision on registration and introduction of a new Form, all the existing registered persons have to take 13-digit BIN in place of 9-digit BIN by using the new Form. The initial deadline of July 31, 2019 was sequentially extended up to November 30, 2019 (Rouf, 2020a: 91).

The new VAT and SD law became fully effective from July 1, 2019. By the Finance Act, 2019, section 5 of that law has been fully substituted effective from that date also. The changed provisions of section 5 [“Registration” in place of “Registration of central or branch unit”] of the VAT and SD Act, 2012 are as follows:

“(1) If any person maintains books and accounts, tax payment and records of economic activities relating to supply of identical or similar goods or services or both from two or more places, he may take one VAT registration number at the said address of maintaining books and accounts under the conditions and in the manner prescribed therefor:

Provided that notwithstanding the supply of identical or similar goods or services, if the books and accounts, tax payment and records of economic activities from any unit are maintained independently, then he has to take separate registration:

Provided further that for the purpose of taking central registration and tax payment, the Board may make rules.

- (2) Notwithstanding anything contained in sub-section (1), if any person operates economic activities relating to supply of dissimilar goods or services, he has to take separate registration for each place.
- (3) Exchange or movement of goods or services from one central unit to another unit of a person registered under sub-section (1) shall not be treated as supplies and, consequently, there shall arise no output tax liability or input tax credit claim" (vide Rouf, 2020b: 103).

The reason of substituting section 5 in the original Act of 2012 by the Finance Act 2019 was noted as follows: "Presently, in the case of supply of identical goods or similar goods or services, if there are factories or business-places in more than one geographical locations, separate VAT registration for each of the locations is to be taken. For this, the cost of doing business increases. As a result, to make the audit activities effective under the VAT system, section 5 of the Act has been substituted" (vide Hassan, Munshi, Rahaman and Arman, 2019: 687). This argument justifies the central registration for the supplier of identical goods or similar goods or services from more than one geographical locations for effective VAT audit. Even this is an option subject to the conditionality of maintaining central accounting or record-keeping and tax-payment. Thus, this does not substantiate the new provisions for limiting the scope of central registration, because of the unacceptable conditionality and reversal of the registration approach in favour of giving usual focus on unit registration.

In the new VAT law enacted in November 2012, the registration regime was basically central, one entity/company, one BIN was adopted as the basic principle of registration. It was also provided that if any branch or center maintains separate accounts, it could take separate unit registration. Thus, it was perceived that VAT compliance should be easier, in line with accounts. This mechanism was broader than the central registration regime enshrined in the 1991 VAT law. Online VAT registration module under the new VAT law was opened on 15 March 2017 and all entities were given such central registration. Although the implementation of the new VAT law was deferred, but it was decided that VAT automation and online VAT registration should continue. Accordingly, online VAT registration continued and this was basically central registration, designed as per the new VAT law, though the VAT Act, 1991 was in force during the time.

As stated earlier, the new VAT law was made fully effective from 1 July 2019 bringing changes through the Finance Act, 2019, some of those changes reshaped registration regime again. The new central registration regime, now in force, may be presented as follows:

- (a) a manufacturer manufacturing and selling identical or similar goods with 15% VAT rate from two or more places may take central registration.
- (b) a commercial importer importing and selling through own sale-centers identical or similar goods with 15% VAT rate may take central registration.
- (c) a trader purchasing locally and selling through own sale-centers identical or similar goods with 15% VAT rate may take central registration. and
- (d) a service renderer rendering identical or similar service through own branches with 15% VAT rate may take central registration.

That means, from July 1, 2019, if the above entities being a manufacturer, a commercial importer, a trader or a service renderer, applies for central registration in the prescribed Form [Mushak-2.1: "VAT/Turnover Tax Registration Form"], then after examining the manufacturing/importation/local purchase and selling/rendering of identical or similar goods/services by the VAT authority, they will issue central Business Identification Number (BIN) on their satisfaction. Thus, central VAT registration is optional and its issuance depends on the fulfillment of the conditions.

6.0 Appraisal of the Existing Central VAT Registration

In the new central registration regime, the following three new notions have been brought in which appear alien and not in conformity with the objective and spirit of standard central VAT registration:

- (a) *Normally no central registration:* A manufacturer manufacturing at one place and selling through multiple places shall not be entitled with central registration. Most of the manufacturers are of this nature. Suppose, a manufacturer is a limited company with one manufacturing place, 10 sale-centers and one head office. So, it has to take 12 VAT registrations. Does it appear sensible? From the date of introduction of this provision, the rationale for allowing central registration to an entity having two or more manufacturing plants with multiple selling places and disallowing the same for an entity having a lone manufacturing plant with

multiple selling places is difficult to accept by the common sense understanding. The provision has limited the scope of central registration.

- (b) *Central registration only for supply of identical/similar goods/services:* Another new notion is central registration shall be entitled if identical or similar goods or services are provided. Identical goods are those which are of identical nature excepting minor outward difference in physical shape, standard and reputation and manufactured in the same geographical area. Such as, rod of same quality manufactured by two manufacturers at the same geographical area. Similar goods are such which are not same but of same type in nature and component and are able to perform same functions. Such as two mobile hand-sets of different brands and standards. These concepts are long being used worldwide in customs classification and valuation. We failed to find any relation between central VAT registration and identical or similar nature of the goods or services. In VAT management, emphasis lies on collection of revenue in the easiest possible manner. Is their any harm, if entities selling goods or services not identical or similar can pay VAT centrally with ease? Rather, it is the basic objective of the VAT law. The notion has made the scope of central registration limited.
- (c) *Central registration only for goods/services subject to standard 15% VAT:* Central registration shall be allowed to the entities selling goods and services with standard VAT rate (i.e., 15% VAT rate) is another new notion which does not appear consistent with the objective and spirit of central registration and does not fit with business realities. Central registration is given to collect VAT from one place with ease. It is really challenging to find reason for allowance or disallowance of central registration on the basis of rate of VAT. Mentionably, apart from 15% rate of VAT, we have few reduced rates (10%, 7.5%, 5%, 4.5%, 2.4%, and 2%) and fixed VAT in our current VAT system. The notion again has made the scope of central registration limited.

In the Preamble of the new VAT law, four objectives have been articulated; namely, expansion of tax-base, simplification of VAT collection procedure, integration of procedures, and making provisions on other relevant issues. Simplification has been an important objective of the new VAT law which appears elusive in the current central registration regime. One entity

with one accounting shall be given one registration. If the entity has multiple places of business, it shall be given central registration being the basic rule of standard central registration. If the entity is a limited company, it has a registration under the Registrar of Joint Stock Companies and Firms (RJSC) under the Companies Act. It also has a Taxpayer's Identification Number (TIN) under the Income-tax Ordinance. So, one entity/company shall have one RJSC registration, one TIN and one BIN preparing accounts on the basis of same turnover to be submitted to three regulatory agencies perceivably rendering compliance easier and non-compliance difficult. The Institute of Chartered Accountants of Bangladesh (ICAB) and the National Board of Revenue (NBR) have meanwhile introduced 'Documents Verification System' (DVS) to check fraudulent activities in audit reports. The Bangladesh Securities and Exchange Commission (BSEC) and the Financial Reporting Council (FRC) have also taken steps for the improvement of financial reporting regime of the corporate sector and other public interest entities through the observance of the International Financial Reporting Standards (IFRSs) and the International Standards on Auditing (ISAs). BSEC has initiatives to introduce online filing platform for corporate financial reports by using XBRL (eXtensible Business Reporting Language). One entity/company maintaining one accounting and one BIN principle shall best suit the purpose.

There is enough talking about ease of doing business. If entities are asked to keep same accounts for the compliance under three laws based on IFRSs and auditing of the accounts based on ISAs, certainly it goes in favor of ease of doing business since cost of compliance and complexity reduces. We are talking about simplification. Is there any other simpler method?

By registering the entities under VAT law, first the VAT authority lists the entities capable or eligible for paying VAT; second, VAT authority brings the entities under a network for proper monitoring; and third, VAT authority develops database for VAT management. Gradually, they have to integrate the VAT management system with other information management systems of the government and with some relevant non-government entities. One entity/company, one accounting, one BIN appears to be much helpful for the desirable growth of overall database in the information systems.

As mentioned earlier, the registration under the 2012 VAT law was practically started in March 2017 by issuing 9-digit BIN and a huge number of registration

numbers (mostly central registration) were issued over 2 years 3 months 8 days up to June 30, 2019. Thereafter, this registration process has been fully reversed towards the fresh issuance of 13-digit BIN for all taxable entities. Here, an entity may exercise its option to central registration only as a supplier of identical or similar goods or services and subject to further conditions (Rouf, 2020a: 91). These conditions for central registration appear to be unacceptable for its limitations and conditionality. In some country, even central group of companies are allowed to get single central registration, because inter-company movements of goods and services are not adding any value and hence no question arises to tax this “zero value addition” under the VAT law. As noted by Schenk and Oldman (2001) the case of New Zealand VAT registration for “Groups of Companies,” “It is usual to allow a group of companies to register as a group. This allows all intercompany supplies to be disregarded for VAT and a single return made for the entire group” (Schenk and Oldman, 2001: 98). Now the VAT officials are assumed to be expert or are expected to be trained enough in examining any good or service to certify whether it is identical or similar to another good or service, because this non-value adding activities are also part of their job in relation to registration. From the customs taxation of imported or exported “goods” (not “services”) at few land/air/sea customs stations with specified H.S. Code [Harmonized Commodity Description and Coding System], this concept of “identical or similar goods or services” has possibly been imported to show their expertise in border-point valuation of imported goods by applying it in domestic taxation under the VAT law, which is not at all relevant under the new VAT law. VAT is a consumption tax ultimately paid by the consumers and the registered business entities collect it from their customers and thus work as “tax farmers” or legal taxpayers to the Government Treasury. Registered business entities are legally allowed to shift the VAT burden forward, although the price elasticity of some products may not help them to do that as they wish. VAT is imposed on “value added” (sales of outputs less purchases of inputs) by an economic activity relating to supply of taxable goods or services by any entity, not giving any special focus of “identical or similar goods or services” for any differential or special treatment. Thus, the new system of usual unit registration along with an unusual central registration subject to some bizarre condition of “identical or similar goods or services”

would generate manifold VAT registered entities without generating any extra value-adding economic activities and hence without any added revenue from VAT. Rather, it would show hugely enhanced number of new VAT registered entities under each VAT jurisdiction, which would create the demand for new workforce for field administration of both the VAT-payers and VAT-administrators, and an obvious escalation of administrative costs from the viewpoint of compliance costs and VAT collection costs. Under the unit registration system, it is expected to capture every small space of taxable economic activities as a VAT registered unit. When one single entity registered under other regulatory measures will have manifold VAT registration numbers, it is difficult to perceive how it would help modernization of fiscal administration. Digitalization is usually expected to centralize non-value adding and inefficient administrative activities and to give concerted effort on value adding activities. It is a big question why after starting a centrally accounts-based online central VAT registration, the process has been revised to an opposite direction. The simplification characteristics of VAT is for its uniform tax rate (15%, although there is also zero rate), which is “identical or similar” to organizations with manifold dissimilar economic characteristics of demand-supply and consequent price or income elasticity. But due to adopting various non-standard rates of VAT (price-based rate of 5%, 7.5% 10%, 2%, 2.4% and 4.5%; and specified amount of VAT based on quantitative measures such as BDT 3 per kg of cotton thread or BDT 200 per SIM), the simplification of unified standard rate has been eliminated to a large extent. Non-central VAT registration may be made mandatory for goods and services having tax rate different from the standard rate of 15% due to the non-compatibility of non-identical or dissimilar rates.

Another issue with respect to “place” is also a concern for discussion. Under section 5(1) of the new VAT law (effective from July 1, 2019), the condition for central registration is the maintenance of “books and accounts, tax payment and records of economic activities relating to supply of identical or similar goods or services or both from two or more places.” That is physical places are tagged with virtual system of registration and also for economic activities undertaken through electronic means or web-based online portals. Some form of e-commerce is now totally virtual (all activities in the supply chain – placing order, delivery of goods/services, payments) and without any link to any physical locations. This type

of business can only be captured through central registration where central information hub can be of use to ascertain the VAT to be collected and for other compliance issues under the VAT law.

In addition to the higher compliance costs for VAT-payers, Barua (2019) also mentions another three disadvantages of unit registration: higher product cost; possible inability to claim input tax credit; and added compliance issue.

Where supplementary duty (SD) is applicable at supply stage (e.g., 25% SD at supply stage of cold drinks with H.S. Code 2202.10.00), then for the supply from manufacturing plant to depot-1, and from depot-1 to depo-2, if SD is imposed at each stage of inter-unit supply (not at trading stage, where SD is not applicable) due to separate unit registrations (one at manufacturing plant; and another one at depot-1), then product costs must increase because of the imposition of SD, for which credit mechanism does not work.

For the same type of example, under forced multiple unit registrations (for supply from manufacturing plant to depot, and from depot to shops, if there are two separate unit registrations for the manufacturing entity – one at manufacturing plant; and another one at depot), goods will move physically without any value addition and without any price to be paid back and thus there is no movement of money. This may create the inability to claim input tax credit.

Under clause (i) of sub-section (2) of section 107 [“Keeping of records and accounts”] of the VAT and SD Act 2012, with a view to assessing tax liability and other obligations, the accounts, documents and other records to be kept up to five years include “any other prescribed documents or records” and under rule 95 [“Maintenance of records and accounts”] of the VAT and SD Rules 2016, these documents or records are to be preserved in the registered premises. For the purpose of audit and investigation into all affairs of a taxpayer’s economic activities, under sub-section (1) of section 91 [“Powers of the VAT officers”], an authorized Officer of VAT, may, through service of a notice, ask for the following information from any person, namely: (a) necessary information relating to any person for conducting the audit and the investigation; or (b) any document or evidence under the custody of any person (*vide* Rouf, 2020b: 313, 335 and 569). In the “VAT related Frequently Asked Questions (FAQs)” prepared by the National Board of Revenue (NBR), in response to a question (Which documents are required to be maintained by the taxpayers for preparation of audit?), the answer shows the following:

The taxpayers shall maintain return, accounts of purchase and sale, tax invoice, debit note, credit note, documents of all accounts including accounts of adjustments for each tax period, for the purpose of preparation of audit. Moreover, other documents concerned with economic activities, e.g., accounts of import, export, annual audit report, bank accounts etc. can also be maintained (NBR, 2017; italics added).

This shows that each VAT registered entity has to keep “annual audit report,” which appears to be applicable to a branch unit having a separate VAT registration. Thus, for a limited company having business units at different jurisdictions may require to take multiple unit registrations and also may require to prepare separate annual financial statements for each units having separate BIN, which have to be audited by practising chartered accountants firm. This seems to be ridiculous and should not be acceptable.

Thus for a good number of strong reasons, unit registration is contrary to any standard practice of fiscal administration and normal focus should be on central registration.

7.0 Policy Recommendations

On the basis of the above discussions, following policy recommendations may be placed for the appropriate authority:

- *Substitution of sub-section (1) of section 5 of the VAT and SD Act 2012:* Through the upcoming Finance Act, sub-section (1) of section 5 of the VAT and SD Act 2012 may be substituted as provided below:
“(1) Every person required to be registered for his economic activities shall have only one VAT registration for the central, and all the branch units:
Provided that a branch unit that maintains the records, and keeps the accounts, independently and separately from the central unit, may have a separate VAT registration.”
- *Deletion of sub-section (2) of section 5 of the VAT and SD Act 2012:* Due to the substitution of sub-section (1) as above, the provision of sub-section (2) becomes irrelevant. Thus, sub-section (2) should be deleted.

8.0 Concluding Remarks

From the above discussion, it is clear that the commencement of central VAT registration from July 1, 1994 was subject to lot of experiments over the

years. After the enactment of new VAT law in 2012, it was expected that there should be a stable policy for registering the VAT-paying entities because of the use of digital platform and the usual standard licensing or registering practice of “one entity, one accounting and one identification number” principle under various regulatory regimes. But after the issuance a large number of 9-digit Central VAT registration number (i.e., BIN), the process was reversed from July 1, 2019 toward a unit registration approach, making the central registration optional for the eligible entities providing taxable “identical or similar” goods/services. The government argument for the revision (to make the audit activities effective under the VAT system) is not at all persuasive for imposition of conditionality for central registration. This is also working against some of the objectives and intents of the new VAT law, particularly, anti-central registration approach is against the simplification of VAT collection system, and integration of procedures. Even, it will not expand the tax-base, rather it would enhance the number of unit BIN holders without increasing value-adding taxable economic activities and the resultant possible zero increase of revenue. The approach against central registration would obviously enhance compliance costs for VAT-payers; increase human resource costs for both VAT-payers and VAT-administrators; and some additional costs for VAT-paying entities, such as added product cost, possible loss of input tax credit for the inability to claim that, and further compliance issues.

Our new VAT law is initially prepared with very high standard [see the incorporation of the concept of “option” in clause (102) of section 2]. But it has been implemented after a very long delay with almost about-turn revision of the registration approach from central to unit registration. This provision should be revised toward a pro-central registration approach at the time of having immediate opportunity for the sake of achieving ease of doing business, and reduced cost of compliance and complexity.

Frequent changes in any tax regime is challenging for tax clients to comply. It is also true for effective tax management. Tax planning is an important aspect of business planning. Stable taxation regime is a precondition for business sustainability and growth. Sustainability is a prerequisite for continuing complete compliance. A regime requires to be formulated following well deliberation, so that once adopted does not require frequent changes. After practicing

varying methods of central VAT registration for long thirty years, perhaps, we can now settle to one entity/company, one accounting, one VAT registration principle for establishing a business-friendly and revenue-friendly VAT registration regime. As suggested above, the policy recommendations may be incorporated in the Finance Act 2021 and upcoming budgetary measures. 

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