

Developing a Conducive Tax Regime for a Competitive Gold Sector in Bangladesh



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Bangladesh's Impressive Development Story:

An Astounding Transformation in 50 years

High-Level Success of Bangladesh from Independence to Present

Indicators	1971	2022
Gross Domestic Product (in US\$ billion)	9	465
Per Capita Income (in US\$)	137	2,687
Life Expectancy (in years)	46.59	72.4
FOREX Reserve (in US\$ billion)	Nil	33.83
Fertility Rate (in number of children)	7	1.95
Agricultural Output (in tonnes per hectare)	1	5.58

Bangladesh's Performance in Select Indicators with Comparators

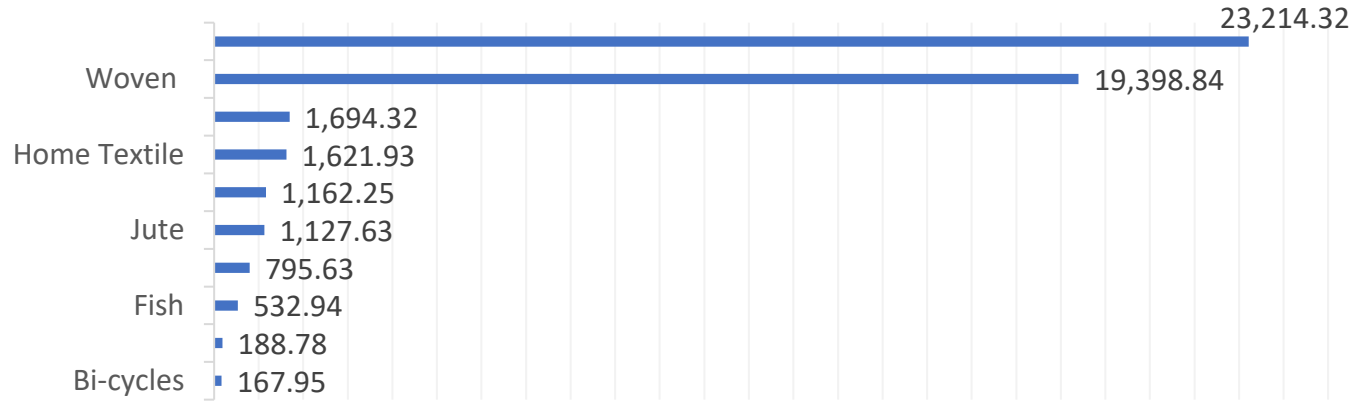
Indicators	Bangladesh	Vietnam	Thailand
Average GDP growth rate, 2022	7.4	6.8	3.4
Mean Years of Schooling	7.4	8.7	8.4
Seats held by women in national parliaments (%)	21	27	16

The average economic growth rate of over **5%** in the last 30 years;

GDP Quadrupled since 2009 and stood at \$465 billion in 2022

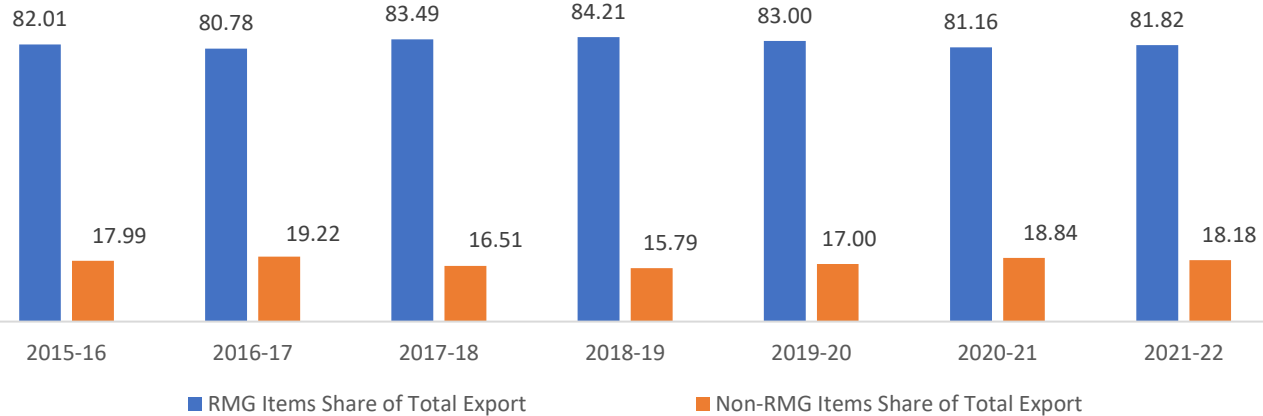
Economy Has Strong Base But Concentrated into Few Sectors

Top 10 Exported Goods in 2021-22 (in Million)



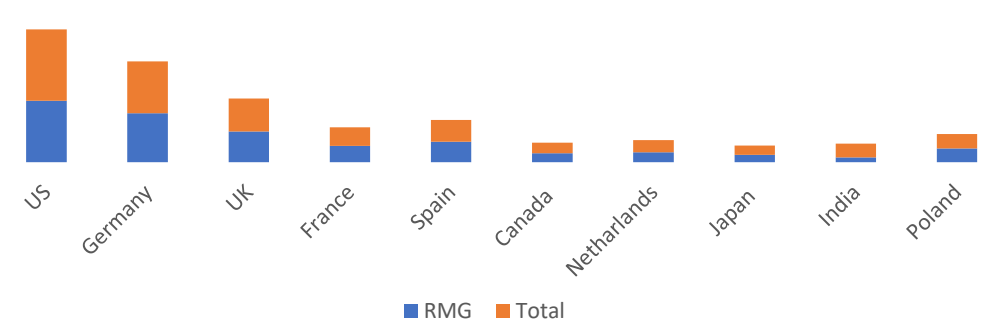
SOURCE: EPB

RMG Vs Non-RMG Export in Percentage of Total Export



Source: EPB

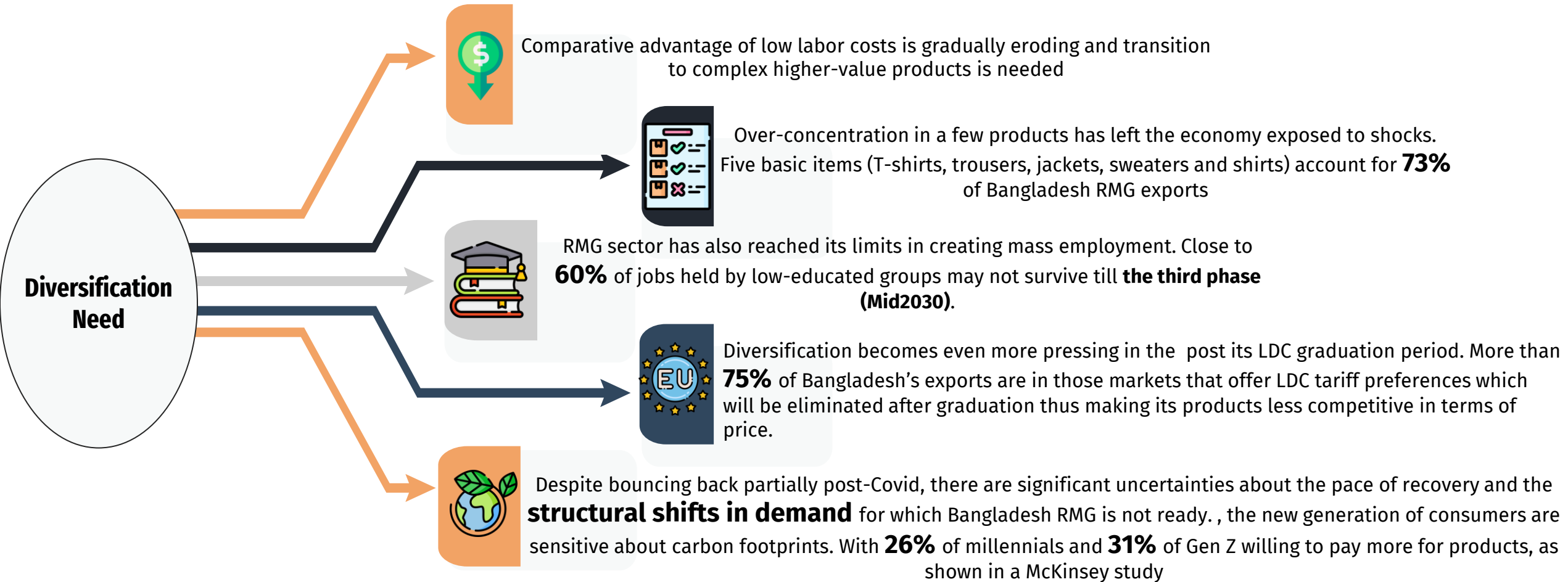
Share of RMG in Top 10 Exporting Countries in Million USD



Source: EPB

Countries	Current Tariff Rates Facing Bangladesh as an LDC	Post-Graduation Tariff Rates (Average)
EU	0%	9.5%
Canada	0%	17%
China	0% in 97.5 percent products	16.2%
India	0%	8.6%
Japan	0% in more than 98 percent products	8.7%

Domestic and Global Shifts Re-emphasizes the Need for New Business/Economic Sectors



Global Trade Opportunities for Gold Growing Fast

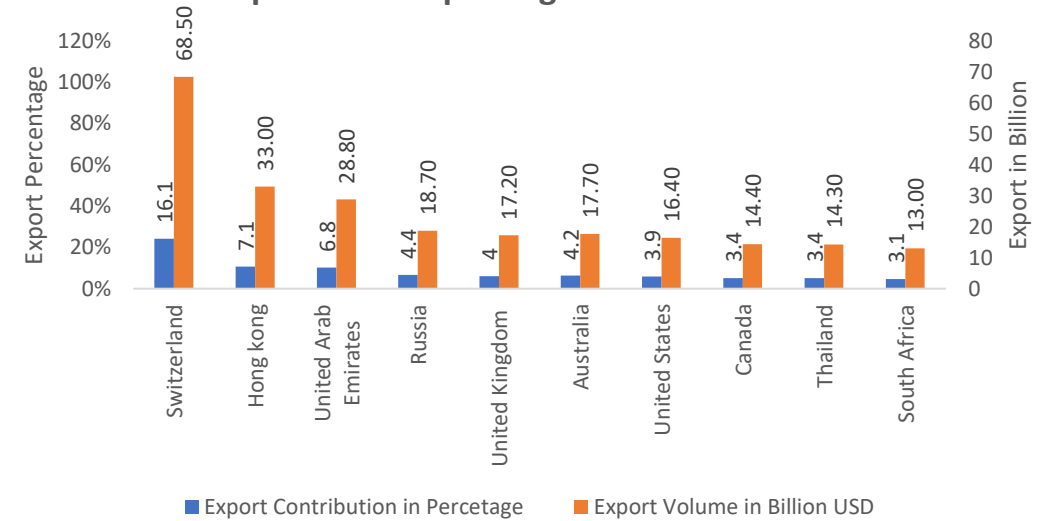
In 2021, total gold global trade of \$434B. Between 2020 and 2021 the exports of Gold grew by 2.14%, from \$422B to \$434B. Trade in Gold represents 2.06% of total world trade.

In 2021 the top exporters of Gold were Switzerland (\$86.7B), UAE (\$32.8B), UK (\$29.7B), USA (\$26.6B), and South Africa (\$20.1B) (EXPORT)

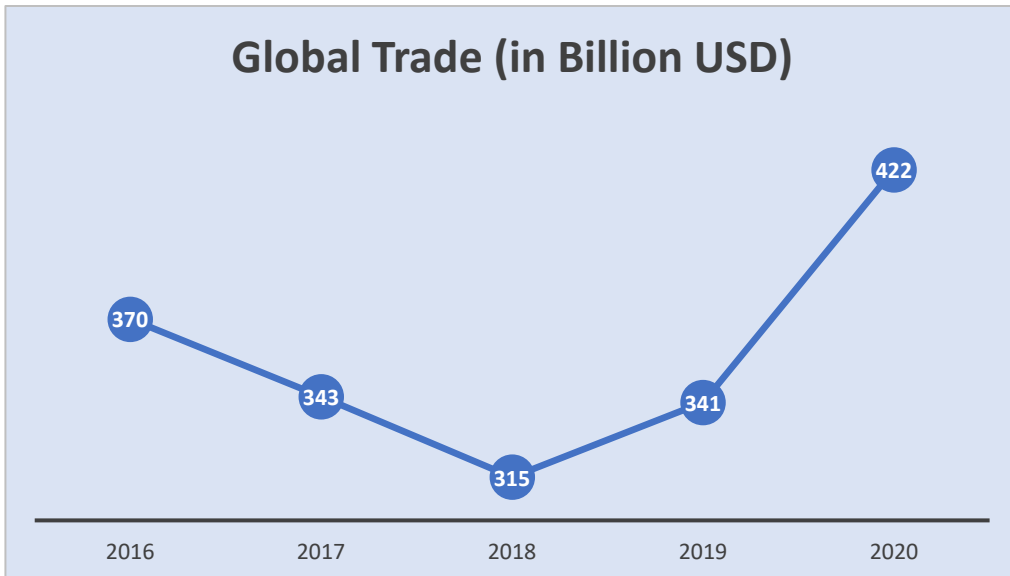
In 2021 the top importers of Gold were Switzerland (\$83.8B), India (\$58.4B), UK (\$53.2B), UAE (\$46B), and China (\$34B).

Import Share of Bangladesh in 2021 was less than 1% which is 293 Million USD.

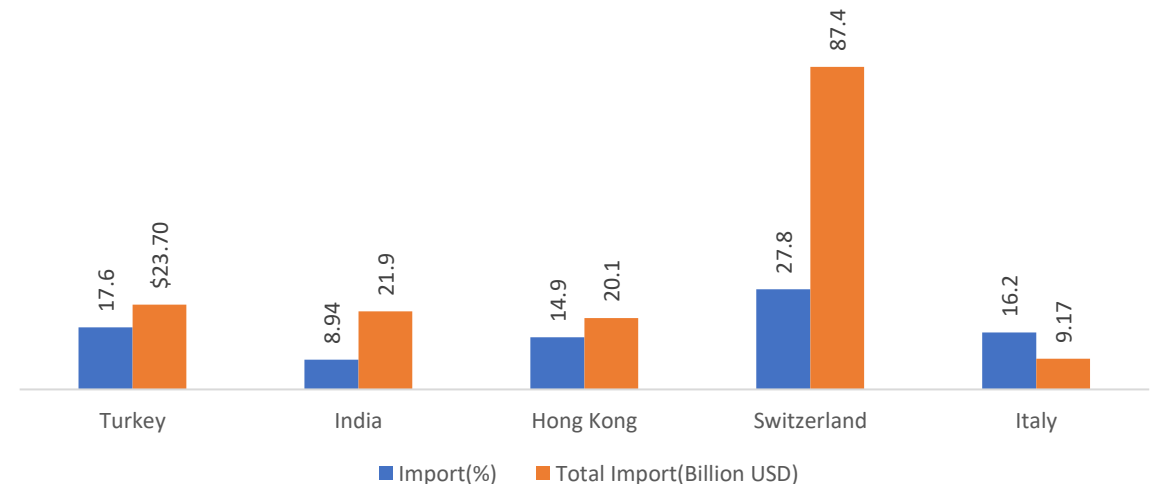
Top 10 Gold Exporting Countries in 2020



Global Trade (in Billion USD)



Top 5 Gold Importing Countries in 2020



Strong Potential in Bangladesh but Several Issues Require Priority Attention

In 2018, the demand of gold was 20-40 Metric Tonnes.

Bangladesh Gold Import Ranking: **33rd** based on import volume.

In 2021 Bangladesh imported 293 million USD worth of gold.

In 2020 total sale of gold and silver bar, gold jewelry was USD 2.85 billion

According to the forecast, **2022-2030** the market will grow at **12.1% yearly**. So, the Market sale in 2030 will be **USD 21 billion**

Several Challenges in Bangladesh's Gold Industry

Informal Channels and Practice

90% of gold is being injected in the market through illegal sources.

Absence of Refinery Facility

Bangladesh doesn't have a gold refinery

Weak Production Techniques

High wastage while making jewelry; lack of lab facilities

Weak Enforcement

Unethical use of the Baggage Rule.

Weakening Skills Base

Gold craftsman are moving away from the market.

Non-conducive Tax Regulations

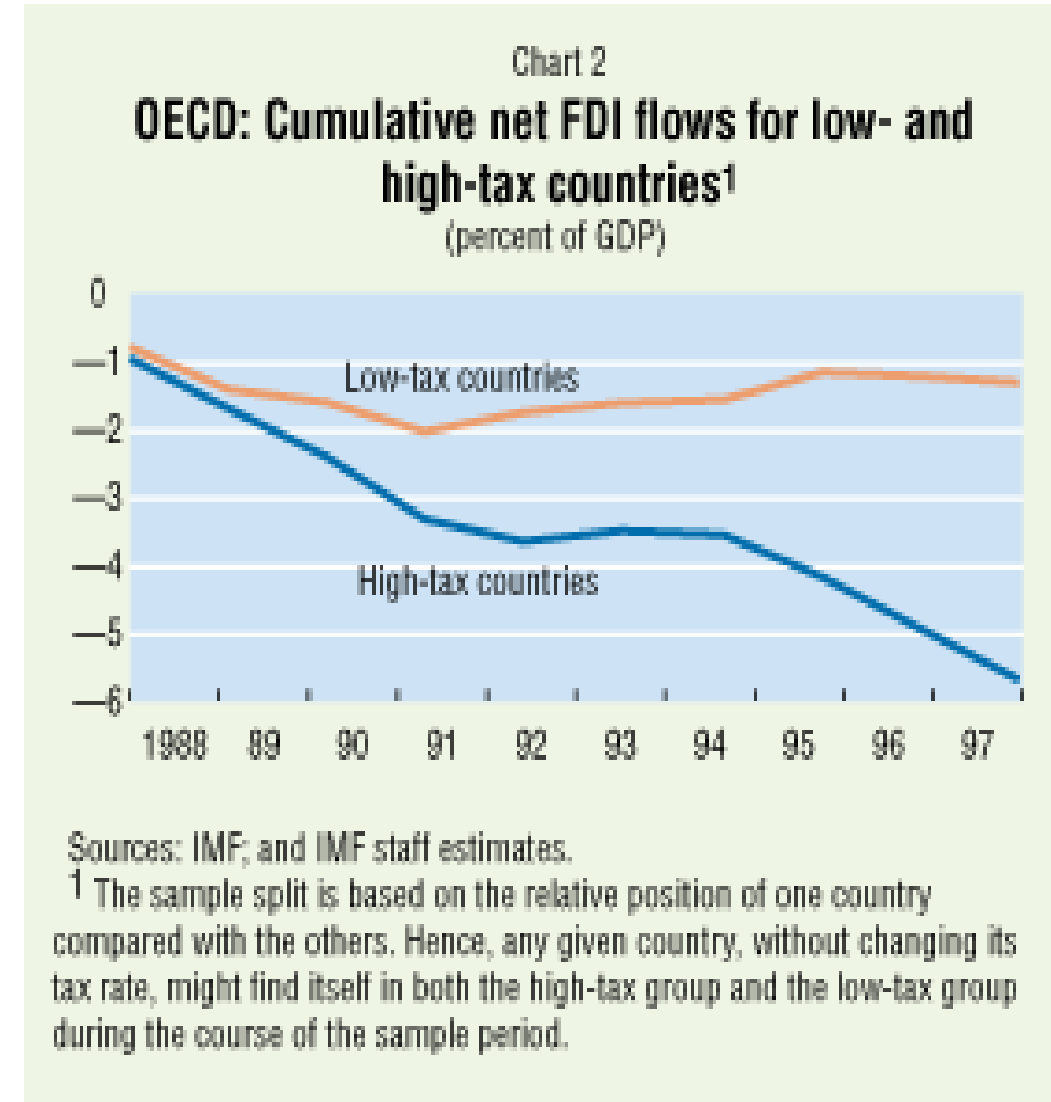
High taxes and tariff is burden some

Quality of Tax Environment Influences Investments Decisions

How Tax Rate Influences Investment Relation: Global Evidence

Country	2021 Tax Rate	2022 Tax Rate	Change from 2021 to 2022	Net FDI inflow % Change from 2021 to 2022
France	28%	25.80%	-2.6 ppt	9%
Turkey	20%	23%	+3 ppt	-2%
Greece	24%	22%	-2 ppt	12%
Zambia	35%	30%	-5 ppt	-133%
Myanmar	25%	22%	-3 ppt	44%
Bangladesh	32.5	30	-2.5 ppt	-10%

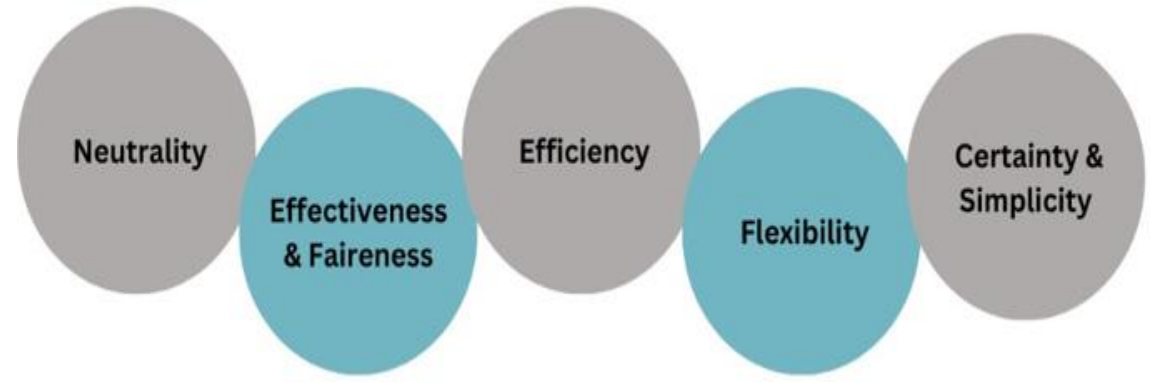
Investments decreases by 3.7% following a 1 percentage point increase in the tax rate on Investments (OECD)



Key Challenges in Bangladesh's Tax Environment

Un-Conducive Policies	<ul style="list-style-type: none"> • Lack of overarching strategy and coordination • Not aligned to FDI priorities • High effective Tax rates
Tax Compliance:	<ul style="list-style-type: none"> • Unclear Process • Complicated and contradicting regulations
Tax Disputes and Legal Hassles:	<ul style="list-style-type: none"> • Limited experts and High Costs • Interpretational confusions • Lack of Effective Alternative Dispute Resolution (ADR)
Digitalization Challenges:	<ul style="list-style-type: none"> • ICT-led tax administration lacking • Integration Issues.
Lack of Predictability:	<ul style="list-style-type: none"> • Constant Changes & lack of advanced ruling • Investor Uncertainty
International tax treaties	<ul style="list-style-type: none"> • Lack of Double Taxation Avoidance Agreements (DTAAs) • Existing not always followed/ respected
<i>Effectiveness of tax incentives and Hurdles in claiming Tax benefits</i>	<ul style="list-style-type: none"> • High bureucracy • Ambiguity in procedures • Authorization issues/ Registration Issues/ Hidden Costs
High total tax incidence	<ul style="list-style-type: none"> • Minimum tax & Double Taxation • Tax deducted at source • Different thresholds and rates in VAT

Bangladesh's Tax System has Major Gap when compared to International Tax Principle



Neutrality Principal Challenge - Tax Deduction at Source: Tax Deduction at Source results in a **46%** effective tax rate for a company with **BDT 5 million** profit, deviating from the authorized rate of **27.5%**.

Neutrality Principal Impact: Minimum Tax on Gross Receipts: Minimum tax on Gross Receipts from **3.00%** to **0.60%**, company with **1 million** profit faces **48% tax vs. 27.5%** authorized rate

Effective and Fairness Principal Challenge: Effective VAT rate increases from standard **15%** to **18%**

Tax Reform for Businesses Can Also Help Increase Government Revenue

Figure: Scenario 1 & 3

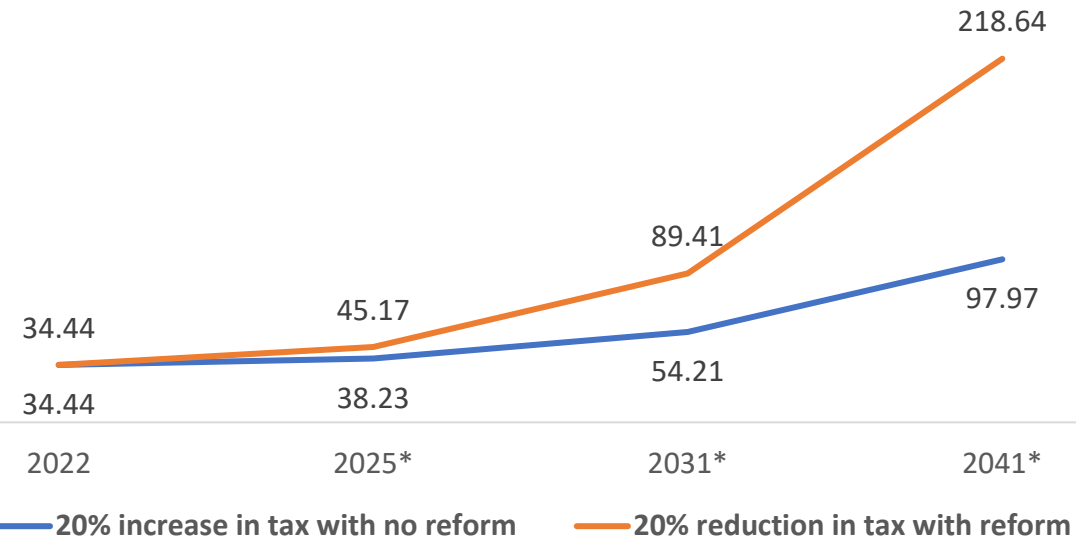
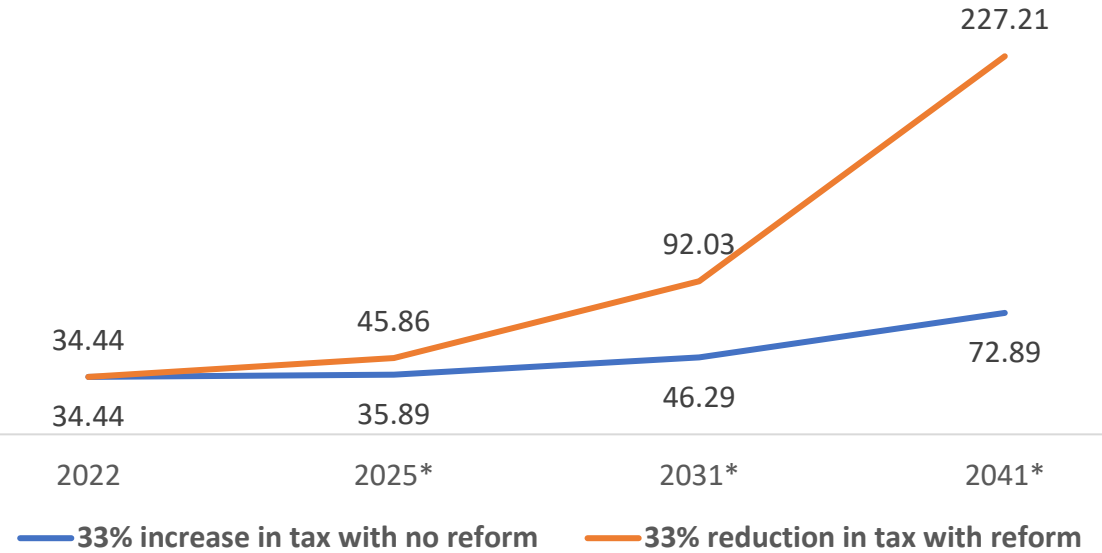


Figure: Scenario 2 & 4



Scenario	Description	Tax rate through 2031	Revenue changes in 2041 (approx.)
1	20% reduction	24	6.3x increase
2	Sharp 33% reduction	20	6.6x increase
3	20% increase	36	2.8x increase
4	Sharp 33% increase	40	2x increase

Charting Tax and Tariff Regime: Challenges for Bangladesh's Jewellery Industry

VAT

High VAT on Precious Metals

5% VAT on gold, silver, jewelry adds to production cost

Inconsistent Protection Rates

Discrepancy in effective protection rates between **inputs (14%)** and finished **jewelry articles (28%)** poses challenges for jewelry exports

Import Tariff

High Jewelry Tariffs

Steep tariff rates lead to significantly higher jewelry prices compared to global markets

Gold Ore Custom Duties

5% and 10% duties on raw and partially refined gold ore increase import costs for raw materials

Complex Diamond Tariffs

Rough diamond imports face **CD-25%, SD-2%, VAT-15%, AIT-5%, RD-3%, and AT-5%**, while polished diamonds have additional **SD-60%**.

24-Karat Gold Import Restrictions

Impact artisans who require it for crafting intricate pieces

Charting Tax and Tariff Barriers: Challenges for Bangladesh's Jewellery Industry (Cont'd)

Disparity in Tariff Rates Between Bangladesh & India

H S Code	Category	Description	Total Tax Incidence (BD)	Total Tax Incidence India	Duty Difference
26169010	Gold	Gold Ores	5%	0%	5%
71081210		Gold Dores	10%	14.35%	4.35%
71181000		Coin, Not Being Legal Tender (Excl. Gold Coin)	58.60	10%(kg.)	48.60%
71189010		Coin For Use as Legal Tender In Bangladesh	31.00	10%(kg.)	21%
71090000		Base Metals or Silver, Clad with Gold, Up to Semi-Manufactured	37.00	10%(kg.)	27%
71021000	Diamond	Unsorted Diamonds	89.32	10%(c/k)	79%
71022900		Industrial Diamonds, Not mounted Or Set, Nes	58.60	10%(c/k)	48.60%
71023100		Non-Industrial Diamonds Unworked or Simply Sawn, Cleaved or Bruted	89.32	10%(c/k)	79.32%
71023900		Non-Industrial Diamonds, Not Mounted or Set	150.76	10%(c/k)	140.76 %
71131100	Silver	Articles Of Jewellery and Parts Thereof of Silver	58.60	25%(kg.)	33.60%

Enhancing Tax Efficiency and Customs Streamlining: Concrete Policy Improvement Suggestions

Ensuring Neutrality

Removing double taxation

Respecting DTAA

Ensuring Effectiveness & Fairness

Tax on Income and not on Payments

Repealing Minimum Taxation

Gradual Removal of Tax Deductions at Source (TDS)

Rationalizing Non-Resident Taxation

Rationalization of Advance Value Added Tax Rates

Streamlining Tax Incentives

Withdrawal of Minimum Tariff Value

Rectifying Tax Deduction on Recognized funds

Enhancing Efficiency

Rationalizing Promotional Expenses

Rationalizing Expenditure Limits

Withdrawal of Redundant Tax Deduction

Simplification

Expedited Customs Decisions and Fee Transparency

Advance Rulings on Tariff Classification Questions

Raising Minimum Duty and Tax Collection Threshold

Enhancement of Risk-Based Customs Clearance Management

Flexible Customs Clearance Processes

Standardization

Compliance with WTO Valuation Rules

Legal Authority for Automated Risk Management

Grounds for Annulment and Revocation of Decisions

General Rules for Customs Guarantee

Clarity on Rights and Obligations for Imported Goods

Responsibilities and Liability of Importers, Exporters, and Agents

Inclusion of Laboratory and Testing Provisions

Transparency

Transparency in Customs Decisions

Stakeholder Input on Proposed Customs Rules

Cross-Referencing Sectoral Product Requirements

Coordinated Physical Examinations

Tax and Tariff in Gold Sector: Proposed Reforms

VAT

- VAT on gold : **Reduce from 5% to 3%**
- EFD machines to all registered jewelry establishments

Import Tariff

- Import duty for **Gold Ore** : **Reduce from 5% to 1%**
- Import duty for **Gold Dore**: **Reduce from 10% to 5%**
- Proposed Tax rate for **Rough Diamond import**: **Total 10% (CD 2%, SD 0%, VAT 5%, AIT 0%, RD 0, AT 3%)**
- Proposed Tax rate for legal import of **Polished Diamond**: **Total 48% (CD-10, SD-10, VAT-15, AIT-5, RD-3, AT-5)**

Income Tax/ Incentive

- **10-year tax holiday** for Gold Refinery industry
- **10-year tax holiday** for imported raw materials and machinery for manufacturing gold ornaments
- **50% incentive on the total value addition for exporters** of gold bars, ornaments, and coins
- Harmonize tariff rates by aligning them with neighboring countries.

Procedural Simplificati- on

- **Time Required for LC Payment and Customs Clearance for Gold bar and coin import**: Reduce to 2 days (Currently 15 days)

Annex

Strategic Recommendations for Overcoming Tax and Tariff Challenges in Bangladesh's Jewellery Industry (1/3)

Value Added Tax (VAT)

	SRO No/ HS code	Current Status	Suggestion/recommendation	Rationality
1.	SRO No.186-Act/2019/43-VAT	As per SRO issued last 13/06/2019, VAT on gold, gold ornaments, silver or silver ornaments is levied at 5% .	VAT is imposed on the entire sales value of gold at a proposed rate of 3% , considering its status as a valuable and delicate metal	Proposing a reduction in the VAT rate on gold ornaments from 5% to 3% to stimulate domestic sales and prevent high-income individuals from purchasing abroad, thereby retaining revenue within the country. High tax rates deter local buyers, leading to both revenue loss and challenges for businesses.
2.			EFD machines should be promptly provided to all registered jewelry establishments.	The installation of EFD machines in 40,000 jewelry establishments nationwide has the potential to generate substantial government revenue and promote business equality.

Strategic Recommendations for Overcoming Tax and Tariff Challenges in Bangladesh's Jewellery Industry (2/3)

Tax

	SRO No/ HS code	Current Status	Suggestion/recommendation	Rationality
1.	2616.90.10	In case of Gold Ore the customs duty is 5%	For IRC holders and VAT-compliant industries, the import duty is proposed to be conditionally fixed at 1% .	The gold refinery industry, crucial for meeting domestic demand and potentially becoming an export-oriented sector, aims to save foreign exchange and prevent gold smuggling by considering conditional duty exemptions on gold ore imports.
2.	7108.12.10	The Customs Duty (CD) rate for Gold Dore is 10%	The proposed duty rate for IRC holders and VAT-compliant industries is 5%	This opportunity encourages the legal import of gold and promotes value addition, ensuring the government receives the appropriate revenue.
3.	7102.10.00 7102.31.00	CD-25, SD-20, VAT-15, AIT-5, RD-3, AT-5	The proposed measure suggests setting a designated duty rate for rough diamonds import. Propose Tax rate. (CD 2%, SD 0%, VAT 5%, AIT 0%, RD 0, AT 3%)	The proposal anticipates the growth of the country's diamond industry through a reduction in the import duty on rough diamonds. This reduction could lead to increased foreign exchange earnings by exporting diamond-studded ornaments to meet domestic market demands.
4.	7102.39.00	CD-25, RD-3, SD-60, VAT-15, AT-5, AIT-5	To promote legal import of polished diamonds, Propose Tax rate. CD-25, RD-03, SD-20, VAT-15, AT-5, AIT-5	The country exclusively relies on foreign sources for 100% of its diamond demand, leading to substantial outflows of domestic currency. To boost government revenue, set customs duties at moderate levels to incentivize legal imports of polished diamonds.

Strategic Recommendations for Overcoming Tax and Tariff Challenges in Bangladesh's Jewellery Industry (3/3)

Income Tax

	SRO No/ HS code	Current Status	Suggestion/recommendation	Rationality
1.			Under Section 46(BB)(2) of the Income Tax Act, it is proposed to provide a 10-year tax holiday for the Gold Refinery industry	Bangladesh is establishing the first gold refinery in South Asia. 'Made in Bangladesh' gold bars will soon enter global markets, boosting both international and local gold industries. However, the machinery costs are higher, increasing initial production costs. A tax holiday is crucial to enhance cost-effectiveness in running the refinery.
2.			A 10-year tax holiday is proposed , coupled with exemptions from all customs duties on imported raw materials and machinery for manufacturing gold ornaments.	The local gold price consistently exceeds the international market by 11.664 grams or 8-10 thousand taka, partly due to high duties on raw material and machinery imports. The proposal aims to advance the gold industry, promoting consumer convenience and price harmonization.
3.	7108.12. 90 7118.10.00		To promote legal exports of gold bars, ornaments, and coins, propose a financial incentive: a 50% subsidy on the total value addition for exporters , contingent on achieving a minimum of 20% value addition.	Handcrafted by Bangladeshi gold artisans, gold ornaments enjoy peak popularity globally. Despite facing obstacles, the gold industry has not made the expected contribution to the country's export sector. The proposed incentive is crucial in enhancing the gold industry's contribution to the country's exports.
			Harmonize tariff rates by aligning them with neighboring countries. This involves reducing abnormal tariff rates based on the Harmonized System (HS) Code.	There is a significant disparity between our H.S. Code-based duty rates and those of neighboring country India. This results in high initial costs for importing machinery and raw materials. Adjusting tariff rates based on the H.S. Code can substantially reduce costs at the initial stage.

THANK YOU



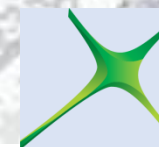
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