Taxing the Digital Economy in Bangladesh

An Exploration of the Frontiers and Charting a Possible Road Map

Mustafizur Rahman
Amenda Philomina Purification

Funded by the European Union
Global Gateway

সেন্টার ফর পলিসি ডায়লগ (সিপিডি)
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About the authors

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Abstract

In recent years, there has been an exponential growth of the digital economy in Bangladesh, both in terms of the diversity of the services offered, types of activities, and the number of players who are actively participating in the digital economy landscape. The recent past pandemic has triggered many digital-platform-based entrepreneurial initiatives in Bangladesh, including E-commerce, F-commerce, startups, home-based freelancing activities, and business process outsourcing (BPO) activities, to name a few.

In this backdrop, issues of taxing the Bangladesh digital economy have emerged as an important area of policy interest for several reasons: search for additional opportunities in view of low domestic resource mobilisation (DRM) in Bangladesh, digital economy as a potential source of taxation; the need to revisit the incentive structure for the digital economy; and the need to introduce new policies to stimulate this sector.

This paper has attempted to address four issues in connection with the above: (a) Map the digital landscape of Bangladesh; (b) Capture the current state of the country's digital economy taxation; (c) Draw lessons from cross-country experiences and best practices in the area of digital economy taxation; and (d) Come up with a set of actions and policy initiatives to expand the opportunities of taxing the digital economy in Bangladesh, taking into cognisance the involved trade-offs and new opportunities.

The paper comes up with a number of recommendations as regards income tax exemptions for various ITESs currently in place, taxation measures taking into cognisance fiscal mobilisation concerns, and the potential opportunities of developing the nascent digital economy with the anticipation that this could emerge as a major driver of both the economy and the DRM in future. The paper has argued for the introduction of sunset clauses in providing incentives, identifies segments of the digital economy that can be brought under the tax net, and underpins the necessity of deploying digital technology to tax the digital economy. The paper recommends a gradual phase-out of exemptions enjoyed by the various ITESs. It proposes a modality to bring foreign tech giants operating in Bangladesh (without any physical establishment) under national

income tax network. The paper suggests that Bangladesh should apply to become an observer of OECD/G20 Inclusive Framework to begin with, and subsequently become a member of the initiative. The paper has put emphasis on remaining engaged in the WTO negotiations on ending the moratorium on customs duty on e-transmission. The paper points out instances of double taxation in overseas payment and proposes the introduction of PayPal for the transfer of IT-related earnings (e.g., in case of freelancing and BPOs) through formal channels.

It is encouraging to note that a number of suggestions put forward at the CPD-EU dialogue to discuss an earlier version of the present paper were incorporated in the budget for FY2023-24. However, the paper concludes that there is still a long way to go if Bangladesh is to realise the full potential of the digital economy and its opportunities as a key driver of the country's macroeconomic performance as also as an important source for domestic resource mobilisation in the foreseeable future.

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Acronyms

a2i	Aspire to Innovate
AIT	Advance Income Tax
ATCO	Association of Television Channel Owners
B2C	Business to Consumer
BACCO	Bangladesh Association of Call Centre & Outsourcing
BASIS	Bangladesh Association of Software and Information Service
BBS	Bangladesh Bureau of Statistics
BDT	Bangladeshi Taka
BEA	Bureau of Economic Analysis
BEPS	Base Erosion and Profit Shifting
BFDS	Bangladesh Freelancing Development Society
BHTP	Bangladesh Hi-Tech Park
BHTPA	Bangladesh Hi-Tech Park Authority
BIDA	Bangladesh Investment Development Authority
BIN	Business Identification Number
BPO	Business Process Outsourcing
BTRC	Bangladesh Telecommunication Regulatory Commission
CARG	Compound Annual Growth Rate
CMSME	Cottage, Micro, Small, and Medium Enterprise
CRMU	Compliance Risk Management Unit
DBID	Digital Business Identification Digit
DRM	Domestic Resource Mobilisation
DST	Digital Service Tax
DTAA	Double Taxation Avoidance Agreement
E-business	Electronic-business
e-CAB	e-Commerce Association of Bangladesh

E-commerce	Electronic-commerce
EFD	Electronic Fiscal Device
EFDMS	Electronic Fiscal Device Management System
EPB	Export Promotion Bureau
EPZ	Export Processing Zone
EQL	Equalisation Levy
e-Transmission	electronic-Transmission
EU	European Union
F-commerce	Facebook-commerce
FCY	Specialised Foreign Currency
FDI	Foreign Direct Investment
FEPD	Foreign Exchange Policy Division
FYP	Five-Year Plan
GDP	Gross Domestic Product
GED	General Economic Division
GoB	Government of Bangladesh
GST	Goods and Service Tax
ICAB	Institute of Chartered Accountants of Bangladesh
ICT	Information and Communication Technology
IMF	International Monetary Fund
IoT	Internet of Thing
IT	Information Technology
ITES	Information Technology Enabled Service
ITO	Income Tax Ordinance
IBFE	Indian Brand Equity Forum
LDC	Least Developed Country
LEED	Leadership in Energy and Environmental Design
MC	Ministerial Conference
MFS	Mobile Financial Service
MNC	Multinational Corporation
MoC	Ministry of Commerce
MoF	Ministry of Finance
NBR	National Board of Revenue
OECD	Organisation for Economic Co-operation and Development
OPGSP	Online Payment Gateway Service Provider

OTT	Over the Top
PFM	Public Finance Management
PPP	Public Private Partnership
PE	Permanent Establishment
RJSC	Registrar of Joint Stock Companies
SB	Structural Benchmark
SD	Supplementary Duty
SDG	Sustainable Development Goal
SEP	Significant Economic Presence
SEZ	Special Economic Zone
SME	Small and Medium-sized Enterprise
SO	Service Code
SRO	Statutory Regulatory Order
TDS	Tax Deducted at Source
TIN	Tax Identification Number
UN	United Nations
US	United States
USD	United States Dollar
USTR	United States Trade Representative
VAT	Value-Added Tax
WTO	World Trade Organization

TAXING THE DIGITAL ECONOMY IN BANGLADESH

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Introduction:

Context, Relevance, Research Questions, and Structure of Report

In the recent past, there has been an exponential growth of the digital economy in Bangladesh, underpinned by the spread of, and easier access, to the internet and the increasing use of digital communication technologies and tools. Taking advantage of the plethora of digital platforms in the country, commercial activities of various types have spurted and taken off at a remarkably fast pace. This has led to a number of innovations, innovative practices, and the setting up of a large number of E-commerce enterprises and businesses, as also startups, creating employment and income-earning opportunities and contributing importantly to Bangladesh's GDP growth. While the Bangladesh Bank has given permission to conduct online transactions back in 2009, E-commerce and E-businesses flourished particularly during the pandemic period, with the number of Facebook-centric entrepreneurs envisaged to be about 50 thousand at present and that of website-centric entrepreneurs estimated to be about 2,000 (Khatun et al., 2021). The number of Bangladesh's freelancers, estimated to be about 14.3 per cent of global cohorts, is the second highest in the world, according to some global studies (Gig Economy Data Hub,n.d.). For the entrepreneurship of the young generation of Bangladeshis, various policy supports and a host of fiscal-monetary incentives have been put in place over successive years. These opportunities, and the entrepreneurship spirit of the country's young generation, have contributed to triggering the spurt of digital platform-based economic activities in the country.

From the fiscal perspective, the aforesaid spread of the digital economy in Bangladesh, no doubt, provides an opportunity for the government to raise domestic revenues. Indeed, this aspect of the digital economy has arrested growing attention on the part of policymakers and fiscal managers in Bangladesh also because of the country's dismally low tax and revenue-GDP ratio. At 7.6 per cent and 9.3 per cent respectively (for FY2020–21) the two ratios (tax-GDP and revenue-GDP) are one of the lowest in the developing world (MoF, 2022a). The recommendation of the IMF to raise the tax-GDP ratio[1], by 1.7 percentage points over the next three years, set out as part of the recently negotiated loan, has also put Bangladesh's policymakers under some pressure. On the other hand, the issues of providing adequate support to this nascent sector, to help it grow, develop, and flourish, are also no less important. No doubt, from a macro-economic management vantage point, there are important trade-offs involved: costs and gains to the economy, fiscal concerns versus growth potentials of the sector, and short-term versus medium to long-term interests. Taxing of the digital economy, at this juncture of its development in

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[1]IMF has estimated tax-GDP ratio for FY2021–22 to be 7.8 per cent and revenue-GDP ratio to be 8.7 per cent (IMF, 2023).

Bangladesh, thus, calls for a closer look and deeper examination from the perspective of the country's macro-economic and fiscal management at a crucial point in its development journey.

There is thus no denying that, all concerned issues will thus need to be weighed before deciding on the emerging frontier issue in connection with taxing the digital economy in the Bangladesh context—as to whether and to what extent the part of the digital economy which is not being taxed should be taxed, and if so, at what point in time in the evolution of the sector. This discourse has gained some urgency also because the timeline for the fiscal provision that allows 28 IT-enabled services (ITESs), currently enjoying exemption from income taxation, is coming to an end in FY2023–24. A decision in this regard (continuation or discontinuation of the exemptions) will need to be taken very soon. There is also an external dimension to this discourse—a moratorium has been in place since 1998, as per the World Trade Organization (WTO) decision, as regards taxing the e-transmission. A number of WTO members such as India and China are strongly advocating for ending the moratorium. The twelfth WTO Ministerial Conference (WTO-MC12)[2] took the decision to extend the moratorium till March 2024 by which time clarity on the issue was to be reached[3]. Bangladesh will need to firm up its position at the upcoming negotiations in this backdrop.

From taxation perspective, Bangladesh's digital economy can be divided into four segments: part of the digital economy that is already under taxation; part which is under exemption; part that has not been captured in the tax net; and part that takes advantage of the interpretative ambiguities in the concepts and definitions and is not paying taxes at present.

In view of this, the discourse on taxing the digital economy in general, and E-commerce in particular, deserves a fresh examination and consideration. Time has come for Bangladesh to engage in serious discussion on this issue of emergent significance, from a forward-looking perspective.

It was noted, issues of taxing the digital economy have a number of dimensions: definition of the digital economy; components; financial inclusion; fiscal and resource generation opportunities; economy-wide implications and trade-offs; legal aspects; modalities of taxation; infrastructure for enforcement of taxation measures; and the emerging global regime and ecosystem and its interface with domestic digital economy (particularly concerning E-commerce taxation). The study plans to deal with some of the key issues in this backdrop.

[2]It was held on June, 2022.

[3]An agreement will need to be reached before MC13, in absence of this the moratorium is to come to an end.

Research Questions

In view of the above observations, the present study has explored answers to the following research questions:

(a) What is the scale and scope of the country's digital economy? What are its distinctive features? What should come under the purview of the digital economy in the Bangladesh context?
(b) What does global experience tell us about taxing the digital economy? What are the justifications of taxing the digital economy in a developing country context? What are the possible implications and trade-offs?
(c) To what extent the digital economy in Bangladesh should be taxed in the current context? Why? What are the trade-offs? What could be the potential fiscal space arising from taxing the untaxed digital economy in Bangladesh?
(d) What the legal-administrative changes will be required in going for taxing the digital economy? What are the policy recommendations that can be put forward to expand digital economy taxation in Bangladesh?

Methodology

The study is primarily based on secondary sources of information and has drawn insights from review of cross-country experiences. Opinion of key stakeholders was sought at an Expert Group Meeting (EGM) where participants shared their views on the research questions. The EGM participants included academicians and researchers, practitioners, entrepreneurs and E-commerce businesspersons and representatives of relevant trade bodies. Several key informant interviews were held with important relevant individuals where answers to specific questions were sought. Some quantitative exercises were carried out to arrive at domestic resource mobilisation potentials of digital economy taxation.

Outline of the Study

Following the above introductory section, the rest of the discussion is divided into four sections.

Section 1 titled '*Digital Economy Landscape and Issues of Taxation*' examines the emerging digital economy scenario of Bangladesh and why taxation is important from this perspective. The section focuses on the definition and concepts, scale and scope of the digital economy, modes of business using digital platforms and trends and interface with the outside world. The section also articulates the relevance of the discourse in Bangladesh context and why the issue of taxing the digital economy merits consideration and discussion.

Section 2 titled '*Literature Review on Taxing the Digital Economy*' provides a review of literature dealing with experience of developing countries to glean insights for Bangladesh. The review covers salient features of the digital economy, taxation issues, infrastructure and legal-administrative structure, fiscal implications and economy-wide impacts, and taxation of cross-country E-commerce and developing country stance in the WTO in this backdrop.

Section 3 titled '*Taxing the Digital Economy in Bangladesh: Current State and Opportunities*' deals with several areas: data and information-availability and gaps; stakeholder mapping; rationale and justification of taxation; likely trade-offs; legal aspects; institutional-administrative arrangements; taxing E-commerce interface with the global economy-developments in the global trading regime and in the context of the WTO.

Section 4 titled '*A Midterm Road Map for Digital Economy Taxation*' offers a number of policy suggestions in the areas of digital economy taxation: measures to broaden the tax net including in legal, administrative and technological areas; opportunities for imposing taxes on digital services, removing the loopholes through changes in laws; addressing the ambiguities; introduction of sunset clauses; bilateral taxation treaties; initiatives to tax global digital tech giants; and stance as regards developments in the WTO.

1

DIGITAL ECONOMY LANDSCAPE AND ISSUES OF TAXATION

Importance of the Discourse on Taxing the Digital Economy

As was noted in the introduction, Bangladesh's digital economy, in its various forms and by taking advantage of the multiple business platforms, has been expanding at a fast pace in recent years. While some parts of this economy have already been brought under the taxation net, both direct and indirect, many other segments have been kept outside of the purview of taxation through various exemptions and fiscal incentives. Whilst the consideration of domestic resource mobilisation (DRM) has motivated taxation of the digital economy, the need to provide scope and opportunity to grow and gain competitive strength, in all likelihood, had justified those exemptions and incentives.

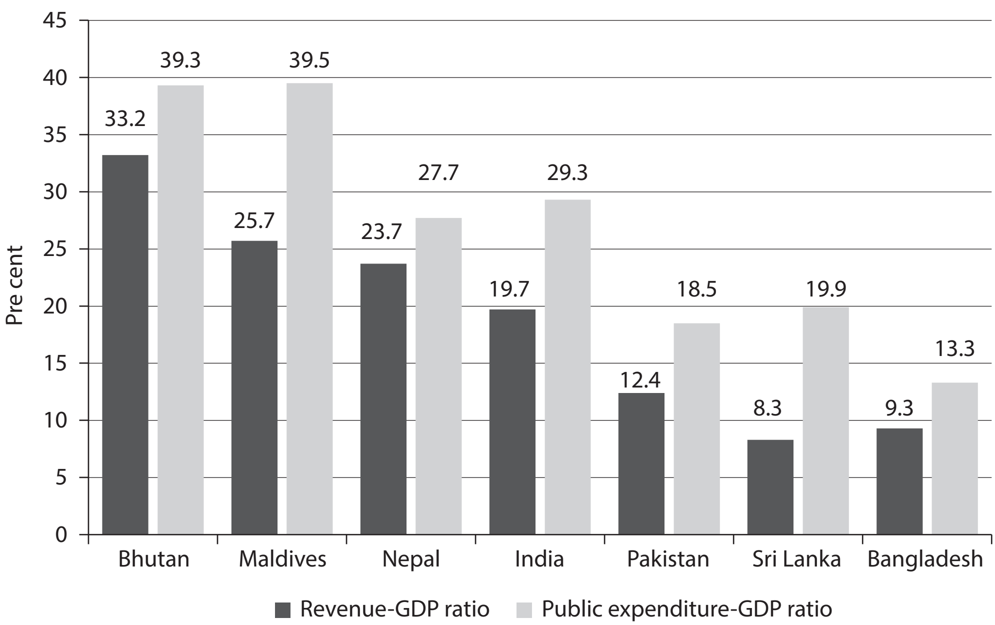
The need for a fresh look at issues of digital economy taxation is informed by several factors. For sustaining and accelerating Bangladesh's economic growth momentum, the importance of DRM cannot be overemphasised. In recent years, the Government of Bangladesh (GoB) has been implementing the Public Finance Management (PFM) Reform Strategy (2016-2021) and PFM Action Plan (2018-2023) to consolidate past achievements in relevant areas and further strengthen PFM practice. The idea was to significantly raise the DRM capacity to underwrite the national development aspirations in the backdrop of the emerging macroeconomic challenges and in light of goals set in various policy documents. Some of these are Covid Recovery Plan, 8th Five Year Plan (FYP), smooth and sustainable LDC graduation strategy (2026), delivery of SDGs by 2030, achieving upper-middle income status by 2031, and high-income status by 2041, as articulated in Bangladesh Vision 2041(GED, 2020a). Improved fiscal governance and higher domestic resource mobilisation are major components of the PFM. As also was noted in the introductory part, the review of the fiscal provision as regards taxation exemptions for ITESs in place till FY2023–24, IMF quantitative targets as regards raising tax-GDP ratio, and measures in view of the phase-out of WTO moratorium on customs duty on e-transmission have added an urgency to this task.

As is well-known, Bangladesh has the lowest Revenue-GDP ratio and Tax-GDP ratio in South Asia (as also among the countries of the developing world). As a matter of fact, Bangladesh's tax-GDP ratio was 7.6 per cent in FY2020–21 (MoF, 2022a). Consequently, the public-expenditure-GDP ratio has also remained comparatively low, underpinning Bangladesh's low ability to spend money for its urgent development needs (Figure 1).

While Bangladesh has been setting high revenue and tax collection targets in various policy plans and programmes, these have mainly remained unmet year after year. For example, in the 6th FYP, the tax-GDP target for FY2014–15 (final year of the Plan) was set at 12.5 per cent, while the actual tax-GDP ratio turned out to be 9.3 per cent (MoF, 2017). The 7th FYP had set the target for the tax-GDP for FY2019–20 (the final year of the 7th FYP) at 14.1 per cent, while the actual ratio stood at 7.9 per cent (GED, 2020b). A key

Figure 1 **Revenue-GDP and Public Expenditure GDP Ratios of South Asian Countries**

(in per cent)



Source: Authors' visualisation from MoF, 2022a for Bangladesh; for other South Asian countries data have been extracted from the World Economic Outlook Database.
Note: The above-mentioned ratios for south Asian countries are for 2021 and for Bangladesh for FY2020–21.

target of the ongoing 8th FYP is to undertake reforms and pursue policies towards fiscal consolidation and tax base expansion with a view to raising tax revenue to 12.26 per cent of GDP by FY2024–25 (final year of the 8th FYP).

According to IMF Country Report No. 23/66 (IMF, 2023) extensive exemption in tax, complicated tax codes, and weaknesses in revenue administration have resulted in low tax productivity across all major taxes in Bangladesh. The report observes that raising tax revenues will require a multipronged approach. In view of the USD 4.7 billion loan recently negotiated with the IMF[4], the recommendation is to raise the tax revenue by 0.5 per cent of GDP annually, during FY2023–24 and FY2024–25, and 0.7 per cent in FY2025–26 (IMF, 2023).

According to the IMF projections (Table 1), Bangladesh's tax-GDP ratio was taken to be 7.8 per cent in FY2022–23 which was to rise to 8.3 per cent in FY2023–24, 8.8 per cent in FY2024–25, and 9.4 per cent in FY2025–26 (IMF, 2023).

Table 1 IMF Tax Projection

Year	Indicators	Estimated	Projection				
	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027
Total revenue and grants	9.4	8.7	8.8	9.3	9.7	10.3	10.2
Of which: Tax revenue	7.6	7.8	7.8	8.3	8.8	9.4	9.4

Source: IMF Country Report No. 23/66.

All the above factors call for a fresh examination of the opportunities to broaden and deepen DRM through taxation.

In general, tax revenue can be increased in two ways: (i) by increasing the tax rate and (ii) by expanding the tax base. According to the NBR's internal study[5] (NBR, 2020), the scope for increasing the tax rates in Bangladesh is relatively low. Under the circumstances, expansion of the tax base is the most feasible way to increase the tax-GDP ratio. Tax base expansion can be done in two ways: (i) Vertical Depth (full exploitation of tax potentials); (ii) Horizontal Coverage (tax net expansion). Through the horizontal coverage, it is primarily the marginal taxpayers who are brought under the tax net. Revenue generation impact of this tends to remain limited, although this is necessary to broaden the tax net

[4]Bangladesh had to resort to IMF loan in the backdrop of the rising pressure on balance of payments and the falling forex reserves.

[5]This is an unpublished document.

and strengthen compliance. Tax evasion and tax exemption remain significant roadblocks to tax base expansion through the strengthening of vertical depth.

According to NBR's internal study (NBR, 2020), widespread tax exemptions are a key reason behind the low tax-GDP ratio in Bangladesh. A rough estimate undertaken as part of the aforesaid study shows that tax exemptions amounted to BDT 2500 billion in FY2019–20. It was stated at the VAT session of the NBR Conference[6] that there is no VAT on 50 per cent of the goods and services included in the gross domestic product (GDP); VAT is not levied on industries that account for 14.6 per cent of GDP ('50% of GDP', 2023). To note, such tax exemptions are also enjoyed by several ITESs (income tax exemption) and many digital products are also VAT-exempted.[7] Expanding the tax net, including inclusion of the digital economy, will call for hard policy choices.

Bangladesh's Digital Economy Landscape

The digital economy landscape has changed the way businesses operate and how customers interact with businesses. This has particularly been the case for Bangladesh over the last decade following the rapid expansion of the internet and various digital platforms. Indeed, if one looks at the entire production-consumption value chain, the production of goods and delivery of services have become closely entwined thanks to the rapid expansion of Information and Communication Technology (ICT).

A number of characteristics and features have gained increasing prominence in the digital economy landscape. While these may not be present simultaneously in every organisation and in each transaction, these significantly define the modern economy. According to Organisation for Economic Co-operation and Development (OECD, 2017), the dimension of the digital economy can be categorised into three groups: (a) Nature (how)-platformed enabled, digitally ordered, digitally delivered; (b) Product (What)- Goods, Services, Information; (c) Actor (who)-Business, Consumer, Government. Technology's constant change makes it hard to define and distinguish the digital economy. However, the digital economy is an evolving ecosystem. As businesses and customers adopt new technologies to execute jobs and communicate, what was important one day could become obsolete the next day.

The European Commission emphasises that digitalisation has varying effects on businesses. It consists of businesses that sell goods and services online, as well as digital platforms

[6]The Conference was held on February 5, 2023.

[7]The NBR study (NBR,2020), however, did not specifically mention the amount of tax exemption on account of various ITESs and other digital economy components.

that connect excess capacity and demand. The digital economy is also linked closely to 'Industry 4.0', the fourth phase of digitalising the manufacturing sector. According to some though, the digital economy is just like digital tools that are being used as levers to leverage business transactions and business activities. While the availability of metadata distinguishes it from other businesses, some have even questioned the need to separate the digital economy from other businesses. However, there is a strong argument to separate this as a distinctive segment of the economy, both for incentivisation purposes, as also for taxation purposes, in developing country contexts.

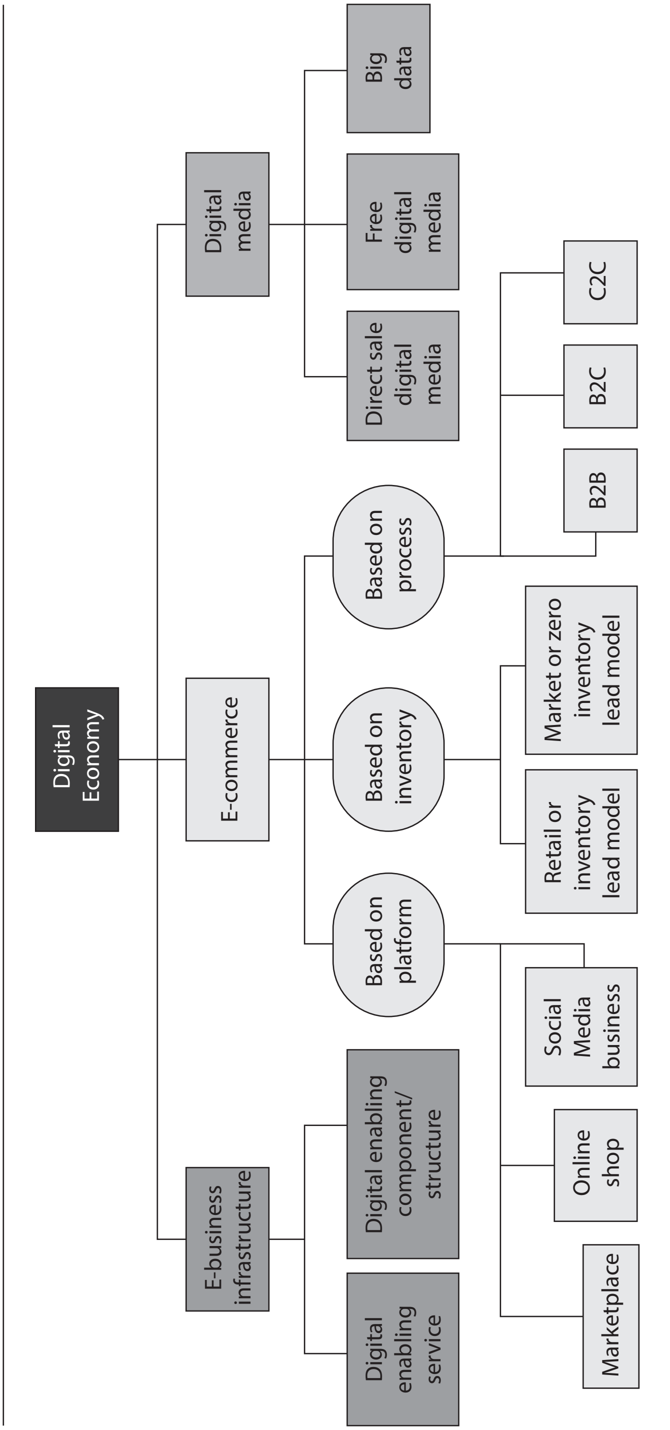
Figure 2 lists the various components of the digital economy in the Bangladesh context, with some components featuring more prominently than others.

As it is, the E-commerce segment is quite widespread in Bangladesh under the radar screen of the policymakers, while the big data component is still at a nascent stage where policies and regulations concerning protection for the use of big data, data privacy, and its use for generation of revenue stream are still to be put in place.

Based on the literature review and feedback from the EGM, the definition used by the Bureau of Economic Analysis (BEA) of the United States (US)-Department of Commerce has been adopted here for defining the digital economy and the scope of its taxation in the Bangladesh context (Barefoot et al., 2018). As can be seen from Figure 2, BEA's definition includes (i) the digital enabling infrastructure required for a computer network to exist and function ('e-business infrastructure'); (ii) the digital transactions that occur using that system ('E-commerce'); and (iii) the content that users of the digital economy generate and access ('digital media').[8]

[8]Details in Annex 1.

Figure 2 **Banglade sh's Digital Economy Architecture**



Source: Adapted from Barefoot et al. (2018), US Department of Commerce Bureau of Economic Analysis (BEA).

Bangladesh's Growing Digital Economy

While the share of the digital economy, as a percentage of the GDP, is still low in Bangladesh, it is growing at a fast pace in recent years. A recent Asian Development Bank (ADB) study estimates the share of the digital economy in Bangladesh's GDP to be about 2.6 per cent in 2021; moreover, the share of digital economy on the country's GDP has been on a declining trend in Bangladesh, having decreased from 2.8% in 2016 (ADB & ISDBL, 2023).[9] However, as was noted, the pace of adoption of the digital economy by various sectors, enterprises and businesses has been on the rise particularly in recent years, and E-commerce, F-commerce and ITES of various types are populating Bangladesh's economic landscape in an increasing way. These are creating income-earning opportunities, providing jobs and raising the efficiency of public delivery of services. The digital economy landscape of Bangladesh includes three components: (a) primarily domestic market-oriented (e.g., E-commerce, ITES); (b) interface with global market (e.g., export of digital services, freelancing service); (c) presence of digital-platform based global business in Bangladesh (e.g., Facebook, Google). All these segments are expanding in recent years.

According to Bangladesh B2C Ecommerce Market Report 2022[10] (Research and Markets, 2022), The B2C (Business to Consumer) E-commerce market in Bangladesh is estimated to grow by 17.6 per cent on an annual basis and was expected to reach USD 6,596.0 million in 2022; The B2C E-commerce is expected to grow steadily over the projected period at the compound annual growth rate (CAGR) of 12.3 per cent during 2022–2026 (Figure 3).

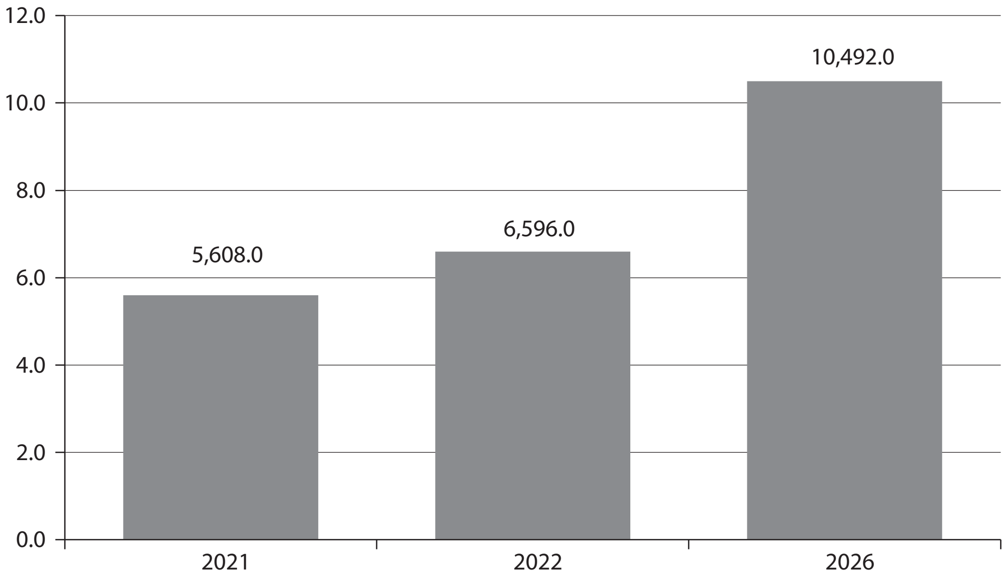
There has not been any comprehensive survey by the Bangladesh Bureau of Statistics (BBS) to capture the size of E-commerce business. Some of the business associations have carried out surveys of their own; however, these results need to be verified further. The growth of E-commerce averaged 25.0 per cent over the last few years but rose to 50.0 per cent in FY2020–21. According to the E-commerce Association of Bangladesh (e-CAB), Bangladesh has over 2,500 E-commerce platforms, of which 1.0 per cent are large, 4.0 per cent are medium, while the overwhelming majority, 95.0 per cent, are small scale ones (e-CAB,2021a). Cross-border E-commerce, i.e. export oriented E-commerce, had an annual growth of 74.0 per cent (e-CAB, 2021a). As of March 13, 2023, the e-CAB had 1987

[9] To note, the IT industry accounted for 7.4 per cent of India's GDP in FY22, and it is expected to contribute 10.0 per cent to India's GDP by 2025 (IBFE, 2023). According to some projections, India will become USD 5 trillion economy by 2025–26 ('Economic Survey envisages', 2023). Thus, it can be projected that the size of India's IT industry will be worth about USD 500 billion by this timeline.

[10] Bangladesh B2C E-commerce Market Report 2022 covers registered E-commerce companies, non-registered online platforms, and social media trading pages. The report indicates that E-commerce products and services in Bangladesh include retail shopping, travel and hospitality, online food service, media and entertainment, healthcare and wellness, and technology.

Figure 3 **E-commerce Market Size in Bangladesh**

(USD million)



Source: Research and Market (2022).

members[11]. According to IDLC monthly review (IDLC, 2019), the F-commerce market size in Bangladesh is approximately BDT 312 crore; page owners are able to earn between BDT 10 thousand to BDT 100 thousand on average per month. The digital commerce cell of the Ministry of Commerce (MoC) has a list of one thousand digital businesses[12]. According to the Statistics department of the Bangladesh Bank, in recent past years, card-based E-commerce transactions have been increasing at a very fast pace. In FY2014–15, the total transaction of card-based E-commerce business amounted to BDT 3.3 billion; in FY2021–22, the amount has increased to BDT 96.45 billion (Bangladesh Bank, n.d.b)[13].

According to the 8th FYP, the COVID-19 outbreak severely disrupted this sector, with F-commerce and non-essential businesses incurring a loss estimated to be about USD 78.6 million (GED, 2020b). Lack of technological adoption and platform services for the

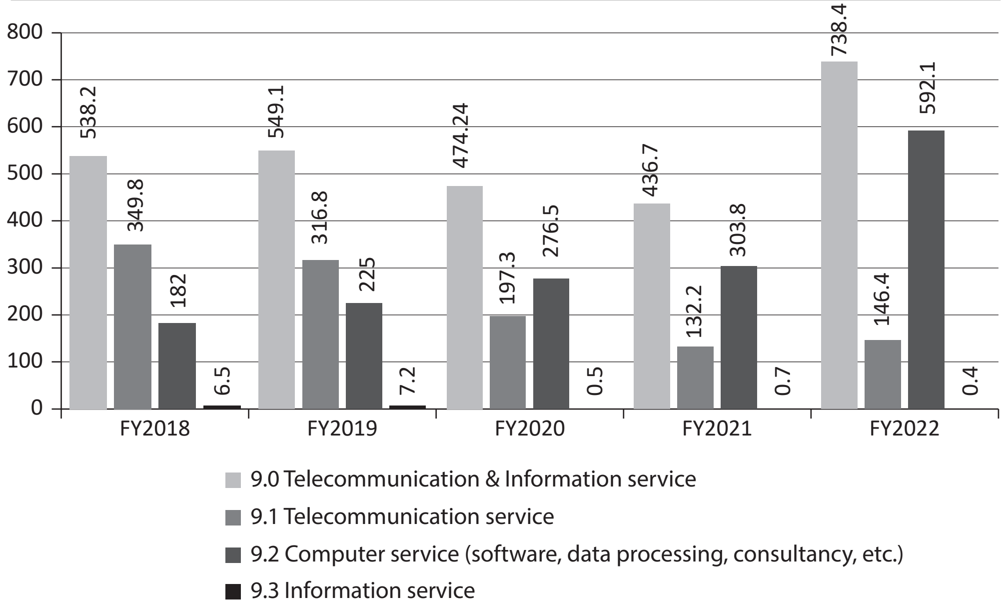
[11]The number of members of e-cab can be accessed at this link - https://e-cab.net/member-list

[12]List of 1000 business can be accessed at this link - http://www.mincom.gov.bd/site/page/7c801258-d38c-423c-99c4-f604ecf51e19/ প্রতিষ্ঠানের-তালিকা. The list was last updated on August 24,2020.

[13]In February 2023, the total card-based E-commerce transactions amounted to BDT 10.23 billion (Bangladesh Bank, 2023). Details in Annex 2.

Figure 4 **Export Value of Bangladesh's ICT Goods and Services**

(USD million)



Source: Export Promotion Bureau.

SME sector, limited awareness and exposure to E-commerce, knowledge gaps, and lack of conducive tax and VAT policies for digital commerce are undermining the sector's growth potential.

Bangladesh is emerging as an important exporter of software products, with local software companies exporting to roughly 80 countries worldwide. According to BASIS Software and IT Service Catalogue (BASIS, 2021), Bangladesh has about 4,500 Software and ITES companies; over 400 of these export to about 80 countries worldwide. In recent time, Bangladeshi IT firms are receiving increasingly more orders from international clients for purposes of delivery of software, data processing, and ITES businesses. This is reflected in the rising export of digital services (BASIS, 2021). Most work orders are coming from the EU and the US (Liaquat, 2022a)[14]. According to some sources, some of the ITESs are being diverted to Bangladesh and other countries because of the Russia-Ukraine war (Hasan, 2023). Thirthy-four (34.0) per cent of Bangladesh's software is exported to the US; local software firms are growing rapidly, with annual IT export revenues estimated to

[14]Though Bangladesh is showing a discernible growth in terms of exporting IT products and services, it is negligible compared to that of countries such as India. In 2021, India exported IT services worth of USD 185.16 billion (UNCTADSTAT, 2023).

be about USD 1.3 billion (BASIS, 2021)[15]. This estimate, however, is considerably higher than the estimates of the Export Promotion Bureau (EPB) (Figure 4) which does not include freelancers and service providers who bring export revenues through unofficial channels[16].

The GoB has announced 2.0 per cent cash incentive, effective from July 1, 2019, to encourage inward foreign remittance through formal channels; this was increased to 2.5 per cent with effect from January 1, 2022.

The GoB is providing 100.0 per cent income tax exemption benefits for selected ITESs since 2008. Business Process Outsourcing (BPO) industry first started its journey in Bangladesh in 2009 and maintained a 20.0 per cent growth year-on-year to reach about USD 300 million in FY2017–18 (LightCastle, 2020). According to industry experts, the estimated market revenue of the BPO industry in 2021 stood at USD 814 million[17].

According to the Gig Economy Data Hub (n.d.), Bangladesh's position was second in terms of supply of freelancing workers, with 14.3 per cent, while share of India holding the first position was about 18.4 per cent[18]. Payoneer (2019) ranks Bangladesh amongst the top 10 countries as provider of freelancing services in terms of income earned. Indeed, Bangladesh was 8th in terms of freelancing income with a 27.0 per cent growth rate, while India ranked seventh with 29.0 per cent growth rate[19]. Currently, Bangladesh has around 650 thousand IT service exporters and freelancers, with roughly 1,600 team-based freelancing organisations (Kabir, 2022). According to industry sources, they earn approximately USD 500 million every year (Rahaman, 2022). According to Bangladesh Investment Development Authority (BIDA), the annual income of freelancers in Bangladesh is worth USD 100 million ((BIDA, n.d). However, according to BASIS, the number was actually significantly higher, about USD 250-300 million (Jui, 2021). The freelancers account for around 30.0 per cent of the total export of software & ITES (Rahaman, 2022). According to Bangladesh Freelancing Development Society (BFDS), there is no accurate information on the earnings of country's freelancers since PayPal services, which would have allowed tracking of actual transactions, not available in Bangladesh (Rahaman, 2022).

[15]Details in Annex 3.

[16]BASIS figures indicate that in FY2020–21 Bangladesh has received USD 1300 million as IT export proceeds. On the other hand, EPB data shows that in total USD 436.7 million worth of export proceeds have been received for Telecommunication, Computer and Information service.

[17]Findings from Key Informant Interview (KII).

[18]Total online workers across the world were estimated to be about 258 thousand as per most recent figures available (September 21, 2022). Of these, online workers from Bangladesh were about 36,800 and those from India was about 47,600. (Details are in Annex 4).

[19]Details in Annex 5.

In recent past years, multinational tech giants (e.g., Facebook, Google, Amazon, etc.) are expanding their reach in Bangladesh; this trend is expected to continue in future. According to a report[20], Bangladesh has turned out to be one of the top three countries globally where people are most active on Facebook (META, 2023)[21]. The report states that an average of 2 billion people logged on to Facebook at least once every day in December 2022. This figure was one-fourth of the total population of the world. According to sector insiders and the Association of Television Channel Owners (ATCO), digital ad spaces receive commercials worth at least BDT 2,000 crore from Bangladesh, through Facebook, Google, Amazon, and other internet-based firms every year (Noyon & Hossain, 2021). In a report to the High Court in June 2019, the Bangladesh Telecommunication Regulatory Commission (BTRC) reported that Bangladesh's five mobile phone operators paid Google, Facebook, YouTube, Yahoo, WhatsApp, Amazon, Imo and other internet-based firms about BDT 8,750 crore in five years in the form of ad revenue ('Bangladesh High Court orders', 2020).

The number of active subscribers of Netflix in Bangladesh is about 200 thousand, earning about BDT 200 crore from subscriptions (pi STRATEGY, n.d.). Along with these MNC-based OTT (Over-the-top) platforms, Bangladesh is also witnessing a significant expansion of local OTT such as Chorki owned by Transcom Group, Bioscope owned by Grameenphone and Toffee owned by the Banglalink, to name just a few. In Bangladesh, revenue from OTT video streaming platforms is projected to reach USD152.7 million in 2023 and the number of users is projected to reach 11.3 million by 2027 (Statista, 2023).

With the rise of access to digital financial products and services, the Mobile Financial Service (MFS) sector of Bangladesh has also been on a steady rise in recent years. At present, there are 13 MFS providers in Bangladesh (Bangladesh Bank, n.d.), with bKash and Nagad being the two most important players. Both these companies offer a wide range of services to their customers. According to the Bangladesh Bank data (Bangladesh Bank, n.d.a), the number of registered customers in the MFS industry was estimated to be about 7.25 crore in June 2019, which rose to 17.85 crore in June 2022, the number rising by more than double[22]. Total transactions of MFS were more than BDT 317 billion in June, 2019 which rose to about BDT 943 billion in June 2022, which is almost double (Bangladesh Bank, n.d.)[23].

The growth of the digital economy in any country crucially depends on the availability, and usage of the internet, smartphone, and computer. No doubt, the development

[20]It is an annual report of Meta, Facebook's parent company.

[21]India and Philippines hold the first and second position respectively.

[22]An individual can have subscription of multiple MFSs.

[23]In January, 2023, total transaction of MFSs was BDT 1,006 million (Bangladesh Bank, n.d.a).

of information technology and the various associated tools have contributed to this significant rise in the digital economy players in Bangladesh over recent past years.

However, the number of internet users in Bangladesh is still relatively low. According to BBS (2022)[24], 63.1 per cent of the population of Bangladesh don't feel the need to use the internet. Share of internet users in the total population rose from 6.7 per cent in 2013 to 38.9 per cent in 2022. Over the last 10 years, the usage of mobile phones has increased by 8.2 per cent; on the other hand, computer usage has risen by only 1.8 per cent and internet usage has risen by 32.2 per cent. There is a high degree of spatial differentiation though Dhaka, understandably, have the highest internet penetration. While in terms of mobile data pricing Bangladesh fares well, the low internet speed means that the actual costs turn out to be relatively high[25].

GoB Policies Regarding Digital Economy and Its Taxation

The GoB has declared ICT as a priority sector in its various policies. Indeed in 2022, 'ICT Product and Service' was declared as 'Product of the Year'. The GoB has set the target of exporting USD 5.0 billion worth of IT products and services by 2025. Towards this, the GoB is extending a number of supports: 10.0 per cent cash incentive for the exports of hardware, software, and ITES; 4.0 per cent export subsidy for individual-level freelancers for export of software and ITES service earned through online marketplaces recognised by the ICT Division. Several policy plans of the GoB highlight the potentials of the digital economy in Bangladesh as a step towards smart Bangladesh.

8th Five Year Plan: The GoB has set the ambitious target of transferring Bangladesh into a digital economy by 2021 and a knowledge-based economy by 2041. The 8th FYP sets out the following plans and actions. The Plan aims to improve Bangladesh's ICT market penetration by pursuing a strategy that incorporates taking advantages of opportunities of both the home and the global markets. The Plan observes that despite the rapid expansion of ICT business solutions, the pace has been limited by the absence of a good network. Internet and smartphone usage continues to lag behind that of other countries. In 2020, the ICT Division proposed the following short-term interventions

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[24]The BBS published a survey report titled 'Access and Use of the ICT by the Households and Individuals 2022' in 2022.

[25]According to Worldwide Mobile Data Pricing 2022 report (cable.co.uk, 2022), Bangladesh has one of the cheapest mobile data prices in the world. However, internet speed remains a problem. Bangladesh ranked 12th worldwide in terms of data pricing (cable.co.uk, 2022) and 125th among 139 countries in terms of mobile internet speed, according to the Speedtest global index released in September 2022 by Ookla (Liaquat,2022b). According to that index, countries in South Asia, except Afghanistan, have faster internet services than Bangladesh, with Nepal ranking 115th, Pakistan 116th, Sri Lanka 117th, India 118th and Afghanistan 137th. As per the report by Cable.co.uk, 1 GB of mobile data costs about USD 0.32 in Bangladesh; USD 0.17 in India; USD 0.27 in Nepal, Sri Lanka, USD 0.36 in Pakistan.

for simulating the growth of digital commerce over the next 2-4 years: (a) develop a COVID-19 code of conduct along with E-commerce policy to promote local E-commerce for the last mile; b) reform of taxation for online shopping and digital advertising; (c) launch assisted E-commerce service for easier adoption of online shopping practices; (d) ensure affordable mobile internet prices in collaboration with the BTRC; (e) promote digital platform start-ups and services and introduce new ones for SMEs (GED,2020b). As part of the 8th FYP, the GoB has initiated the development and enactment of the 'Made in Bangladesh' Policy for digital devices for domestic and international markets (for which the implementation period was set for FY2020–21); enactment of Data Protection and Privacy Law, Data Interoperability Law; upgrading National Broadband Policy 2009 for revision of Tax, VAT, surcharge to reduce internet price by FY2021–22; upgrading of the National Digital Commerce Policy 2018 for exemption of taxes imposed on digital commerce and advertising by FY2021–22; introduction of Ease of Doing Business Policy by FY2024–25; introduction of National Policy for Start-ups to promote the growth of the ecosystem, while also attracting foreign investment by FY2020–21 (GED, 2020b). Many of the deadlines have already been missed as the 8th FYP crosses its halfway line.

Perspective Plan-Vision 2021 & Vision 2041: 'Vision 2021' aims to make Bangladesh a resourceful and modern economy through extensive use of ICT. Vision 2021 had prioritised attracting local and Foreign Direct Investment (FDI) in ICT through Public Private Partnership (PPP). As is the case, this has not been realised. Both the Perspective Plan, Vision 2021 (GED,2012) and Vision 2041 (GED,2020a), envisage broadening of the tax base, raising direct and indirect taxes through rationalisation and reforms, strengthening the professional and technical capacities of the revenue administration to monitor potential taxpayers, combating tax evasion, and providing strengthened and effective services to taxpayers to raise tax compliance. An efficient digital economy management could play an important role in attaining these targets.

National Digital Commerce Policy 2018: The WTO cell in the MoC formulated the National Digital Commerce Policy in 2018 which was approved by the cabinet in 2019. It has 14 objectives and 61 targets which are geared to promoting and expanding digital commerce in Bangladesh. For promoting domestic products internationally, the GoB has taken a number of steps that include online payment of income tax, VAT and customs duty, opportunities for digital commerce businesses to invest in high-tech parks and transforming all trade into digital commerce (WTO Cell, 2018).

Election Manifesto 2018: The 2018 election manifesto of the ruling Awami League talks of creating a digitalised, technology-based, skilled, service-oriented, and accountable administration. The manifesto mentions several achievements of the GoB. It reports that thanks to the implementation of digital services, 2,265 services are now offered online. The annual proliferation rate of E-commerce, digital shopping, and mobile banking services is mentioned to be 25 per cent. Two-thirds of the population makes use of internet services. There are currently 1524 entrepreneurs working in 7602 'Union Digital Centres' across the country to provide over 300 public and private services such as banking and E-commerce services. Digital centres provided services worth BDT 68.4 billion by 2020 (Miah, 2018).

National ICT Policy 2018: The GoB unveiled a plan to boost domestic capacity by establishing high-tech parks and offering incentives to the ITES sector to enable it to compete in the international market. It has taken following measures: (i) introducing tax holidays, reduced tax rate and other incentives to encourage ICT industry entrepreneurs to invest in software technology parks and hi-tech parks; (ii) steps to waive income tax for local hardware, software, and ITES sector entrepreneurs till 2030; (iii) cash incentives to locally made hardware, software, and service exporters by 2030; (iv) duty-free facilities for import of capital machineries and spare parts required by the local computer and IT hardware industry; (v) measures to waive VAT on internet, data utilities, rent and ICT related consultancy services provided by domestic ICT institutions; (vi) incentives for the production of digital devices (ICT Division, 2018).

Export Policy 2021-2024: Export Policy 2021–2024 has come up with a number of measures to strengthen the growth of the ICT sector's export. Export Policy 2021–2024 considers ICT, software, BPO, and tourism as sectors having high potentials. Electric and electronic goods are on the Special Progressive Sector List, while software, ITES, IT goods, BPO, and freelancing are on the Highest Priority Sector List. ICT sector was geared to play a crucial role in helping Bangladesh reach the export target of USD 80.0 billion by FY2023–24. As per Export Policy 2021–2024, policy support is to be provided to stimulate the creation of virtual and online marketplaces as well as with respect to services such as electricity, water, gas, furnace oil, etc. at a concessional rate (MoC, 2022a).

Aspire to Innovate: To achieve Vision 2021, Aspire to Innovate (a2i)[26] has taken a number of measures which also include launching of EkShop. a2i aims to accelerate digital transformation of cottage, micro, small, and medium enterprises (CMSMEs) and promote rural E-commerce to empower youth, rural poor, and women to build more prosperous and secure lives for themselves, their families, and their communities. EkShop is the world's first rural E-commerce platform which aims to create a platform where marginal producers can sell their products directly to customers and take advantage of online shopping.

National Digital Commerce Cell: The GoB has established a National Digital Commerce Cell as part of the MoC to monitor developments of the country's digital economy and also to help develop operational guidelines for the digital business. The MoC issued

[26]It is one of the projects of the ICT Division.

the Digital Commerce Operation Guidelines, 2021 (MoC, 2021) in accordance with the National Digital Commerce Policy, 2018 (as amended in 2020) to ensure transparency and accountability in the digital commerce sector, create employment opportunities, protect consumer rights, and increase reliance on digital commerce by creating a regulatory framework and a competitive market. All foreign digital commerce platforms operating in Bangladesh must register and get approval from authorities concerned.

According to the aforesaid Guidelines, any online marketplace or E-commerce platform can receive up to 10.0 per cent of the product value in advance if the payments were made through a method other than Bangladesh Bank-approved escrow accounts. Any online marketplace or E-commerce platform may take the full product price in advance if paid through a Bangladesh Bank-approved escrow account. The MoC issued Digital Business Identification Digit (DBID) Registration Guidelines 2022 (MoC, 2022b). Online businesses are not eligible to operate without the DBID. DBID is issued by the Registrar of Joint Stock Companies (RJSC)[27].

Escrow Account: The Bangladesh Bank has introduced the escrow service in July 2021 to regulate fraudulent E-commerce platforms such as Evaly and Dhamaka. In escrow, customers' payments for E-commerce goods are deposited in third-party payment gateways. Companies receive payment following proof of delivery of goods and services.

Thus, one observes that, through various Plans and Programmes, the GoB aims at expanding and deepening the ambit of the digital economy in Bangladesh. Policies are being put in place and exemptions and incentives are being offered to promote the digital economy.

At the same time, from the GoB's, and particularly the NBR's perspectives, the idea is that all these policy support will have multiplier economic impacts on the economy, which in turn will create opportunities for higher taxation and opportunities for fiscal mobilisation from the resultant activities. One of the proposed capacity development activities as envisaged under the IMF[28] recommendations relate to strengthening domestic revenue mobilisation through policy reforms and tax administration reforms. Key areas for policy reforms include rationalising tax expenditures, simplifying tax rate structure, and broadening of the tax base. There is significant scope for increasing tax compliance and broadening the tax base to sustainably raise tax revenues. Key reforms concerning Tax administration include establishing compliance risk management units (CRMUs) within the National Board of Revenue (SB for end-December 2023) and

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[27]According to the Digital Commerce Business ID website (https://dbid.gov.bd/), as of February 9,2023, 473 DBIDs have already been issued, and 3207 businesses have applied for new DBIDs.

[28]The IMF has recently published a 125-page document in connection of approving the loan (IMF, 2023).

implementing a compliance improvement plan; strengthening information sharing between the income tax, VAT, and customs wings of the NBR, including to support risk-based audits; progressively expanding and integrating automation in tax administration; increasing at-source tax collection; and adopting a modernised Customs Act (IMF, 2023). Implementation and efficacy of the aforesaid measures will critically hinge on the structure of the digital platforms and the deepening of the digital economy.

In response to the proposed reforms of tax policy, the GoB is planning to, at least partially, shift the tax burden away from trade-related taxes and towards income and value-added taxes. The GoB plans to undertake the following measures: eliminate less effective tax exemptions; simplify the tax rate structure to broaden the tax base and enhance voluntary taxpayer compliance; identify measures to rationalise tax expenditures; finalise a new Income Tax Code by end-2023[29] that will address issues such as base erosion and profit shifting by global internet-based entities and transfer pricing. The GoB is planning to bring more taxpayers into the net by increasing the number of registered taxpayers to 10 million by 2026 and to install another 300 thousand Electronic Fiscal Devices (EFD) over the next five years (IMF, 2023)[30].

What are the opportunities of taxing digital economy in this backdrop? The next section will look at cross-country experiences in this regard and the lessons that Bangladesh could draw from these.

[29] New Income Tax Act 2023 has been finalised which is effective from July 1, 2023.

[30] These are expected to yield additional revenue of BDT 105 billion.

2

LITERATURE REVIEW ON TAXING THE DIGITAL ECONOMY

Policy Guidelines Regarding Digital Economy in Bangladesh

Learning from cross-country experiences concerning taxing the digital economy is important for Bangladesh since the country will have to deal with many of the involved issues- both from the perspective of domestic market-oriented activities as also those that have global interface.

In dealing with the emerging digital economy, OECD's Ministerial Conference (MC) held in Ottawa in 1998 had come out with the conclusion that the same five tax canons that apply to conventional commerce (Neutrality, Efficiency, Certainty and Simplicity, Effectiveness and Fairness, Flexibility) should also apply to the digital economy (OECD, 1998). The digital economy is indeed becoming the economy itself, and hence it would be difficult to ring-fence it for tax purposes. One key characteristic of the digital economy is its cross-jurisdictional feature. Political leaders, media, and civil society around the world are concerned that Multinational Corporations (MNCs) are taking advantage of the gaps that are there in the different tax systems. These MNCs artificially reduce taxable income and shift profits to low-tax jurisdictions with little or no economic activity. Action 1 report of OECD's Base Erosion and Profit Shifting (BEPS) project aims to address the digital economy's tax issues (OECD, 2015). The digital economy and its business models present some tax-relevant features. According to Action 1 Report of OECD's BEPS project, the features are: (i) Mobility of intangibles, consumers, and business functions due to the reduced need for local personnel to conduct certain functions and the flexibility to select the location of servers and other resources; (ii) Reliance on data, including the so-called 'big data';(iii) Network effects, understood as user participation, integration, and synergies; (iv) Multi-sided business models with multiple markets in different jurisdictions; (v) Monopolistic or Oligopolistic practices pursued in certain business models; (vi) Volatility due to low entry barriers and fast-changing technology.

According to the OECD, the main policy challenges raised by the digital economy fall into 3 broad categories (0ECD, 2015): (i) Nexus: The increased potential of digital technologies and the reduced need for extensive physical presence to do business raise questions about whether the current rules to determine tax nexus are appropriate; (ii) Data: The advancement of information technology has allowed digital economy companies to gather and use data across borders. The expanding role of data raises questions about whether current nexus rules are still appropriate or whether any profits attributable to the remote gathering of data by an enterprise should be taxable in the state from which the data is gathered, as well as whether data is being appropriately characterised and valued for tax purposes; (iii) Characterisation: New digital products or service delivery methods create uncertainty about the correct classification of payments in new business models. The question for tax treaty purposes is whether such payments should be treated as royalties, fees for technical services, or business profits.

These challenges raise questions about whether the current international tax framework is appropriate for the digital economy and the allocation of taxing rights between source and residence jurisdictions. OECD has developed options to address direct tax issues of the digital economy: (i) *A nexus based on the concept of Significant Economic Presence (SEP)*—This option creates a taxable presence in a country when a non-resident company has a substantial economic presence based on technology and automated tools. These factors are based on revenue, digital technology, and the user; (ii) *Withholding tax on digital transaction*—This refers to withholding of taxes from the payment of consideration for goods and services provided online by non-resident companies using the internet. In practice, a non-resident enterprise's withholding tax liability is often shifted to a customer or third-party payment processor.; (iii) *Introducing an Equalisation Levy (EQL)*—This is a tax levied on the turnover of non-resident enterprises with a significant economic presence to ensure domestic and international businesses are treated equally and fairly from the perspective of taxation (OECD, 2015).

According to Rukundo (2020), SEP is incompatible with Double Taxation Avoidance Agreements (DTAAs), which require a physical presence for an MNC to qualify as a permanent establishment (PE). Any domestic law amendment introducing SEP would not apply to MNCs headquartered in countries with which the market jurisdiction has a DTAA. Withholding tax on digital transactions may be passed on to consumers, increasing their cost of doing business. Argentina introduced a 3.0 per cent withholding tax in

2014 that targets online content providers such as Netflix. The law establishing the tax requires the MNCs to absorb the cost without passing it on to the consumer (Férdeline, 2014). Prohibiting MNCs from passing on taxes, as Argentina did, was, however, found to be difficult to enforce (Rukundo, 2020). EQL is often called Digital Service Tax (DST) in countries where it was implemented. In July 2019, France introduced the DST, a 3.0 per cent levy on digital companies with more than EUR 750 million in revenue, of which EUR 25 million was generated in France. The tax would affect at least 30 US, Chinese, German, Spanish, and British companies. In response, however, the US threatened France with retaliatory tariffs ('France passes tax', 2019).

The OECD/G20 *Inclusive Framework on BEPS* was established so that all interested countries and jurisdictions, including developing economies, can participate on an equal footing in the development of standards on BEPS-related issues, as well as review and monitor the implementation of the OECD/G20 BEPS project. The OECD/G20 Inclusive Framework on BEPS is working on consensus-based, long-term solutions to the tax challenges arising from the digitalisation of the economy. On 8 October 2021, after a period of consultation on draft reforms, the OECD and the Inclusive Framework released a statement outlining a two-pillar international tax reform framework. *Pillar One model* involves the reallocation among the various market jurisdictions of 25.0 per cent of profit above 10.0 per cent of very large multinationals with revenue exceeding EUR 20 billion. Under Pillar one, an MNC must have a global turnover/revenue of at least EUR 20 billion and generate at least EUR 1 million (USD 1.4 million) in the country for profit allocation purposes. Under Pillar 1, the MNCs global profits will be calculated and then separated into routine and residual profits, with 25.0 per cent of the residual profits allocated to each country based on a 'revenue-based allocation key.' The allocated profits can be taxed in each country, creating tax revenue for the concerned country. These would mostly cover the top 100 digital companies. The threshold of revenue was to be reviewed after seven years with a view to bringing it down to EUR 10 billion. India and other developing countries had proposed a threshold of EUR 1 billion to cover five thousand global companies (Seth, 2021).

Pillar Two model rules require large MNCs (those with consolidated global revenue of over EUR 750 million) to pay a minimum effective tax rate of 15 per cent in each jurisdiction where they operate. However, it was initially proposed to come into effect in 2023 but has now been deferred till 2024. OECD's opinion is that the two-pillar solution addresses concerns of countries with low capacity of enforcing tax rules. The OECD was to ensure the rules are administered effectively and efficiently and offer capacity-building support to countries which are in need of this (Choudhary, 2021).

As of December 2022, 142 countries have become members of the OECD/G20 Inclusive Framework on BEPS. For example, India, Pakistan, Indonesia, China, Sri Lanka, Thailand, Maldives and Malaysia have become members of the framework. Regrettably, Bangladesh is yet to join as a member. The members are committed to follow the Two-Pillar Solution as mandated by the OECD/G20. As with other international standards developed by the OECD, commitment comes with an obligation to implement the provision of BEPS. The implementation process is to be monitored closely by the *Inclusive Framework* (OECD, 2022).

For Pillar One to work, all countries must adopt the rules in the same way. This would avoid companies dealing with different approaches across the globe. Pillar Two is more optional. The outlined version of Pillar Two is like a template that countries can use to design respective rules. If enough countries adopt the rules, then a significant share of corporate profits across the globe would face a 15 per cent effective tax rate (Bunn & Bray, 2022).

Cross-Country Experience as Regards Taxing the Digital Economy

According to Mullins (2022), emerging Asia has responded in a number of ways to address issues of taxing the digital economy as evidenced in Table 2 and Table 3. Four major tax approaches are observed: (i) Participation in the Inclusive Framework and G20-OECD proposals (Pillars 1 and 2); (ii) Amendment to the definition of PE to include digital presence; (iii) Introduction of discrete digital taxes; and (iv) Imposition of VAT on digital transactions, especially cross-border ones.

Table 2 Discrete Digital Taxes in Developing Asia

Country	Tax type	Tax rate (in per cent)	Tax base	Threshold	Date	Status
India	EQL	6.0	Gross advertising payment	INR 100,000 for aggregate payment by each payer	Jun-16	Enacted
	EQL	2.0	Total amount of online sale of goods or service	Digital services revenue in India >INR 20 million	Apr-20	Enacted
	Withholding tax	1.0	Gross amount of sale of goods / provision of service facilitated through digital or electronic facility or platform	For individuals and families—transactions >₹0.5 million	Oct-20	Enacted
	SEP	40.0 Tax Deducted at Source (TDS)	Revenue or number of users	Transaction in respect of any goods, services or property are carried out by a non-resident with any person in India (including provision of download of data or software in India), if the aggregate of payments arising from such transaction(s) exceed the specified amount >INR 20 million or Systematic and continuous soliciting of business activities or engaging in interaction with such number of users in India > 300,000 users	Apr-22	Enacted

(Table 2 contd.)

(Table 2 contd.)

Country	Tax type	Tax rate (in per cent)	Tax base	Threshold	Date	Status
Indonesia	Electronic transaction tax	10.0	Applies to cross-border ecommerce sales (directly or via an online marketplace)	To be determined	Mar-20	Enacted
	SEP	NA	Revenue related to SEP	To be determined	Mar-20	Enacted
Malaysia	Withholding tax	10.0 (can vary under double tax treaties)	Revenue from digital services (i.e., services delivered or subscribed over internet or another electronic network)		May-19	Enacted
Nepal	DST	2.0	Value of electronic service	Value of electronic services above NPR 2 million provided by non-resident	July 17,2022	Proposed
Pakistan	Withholding tax	5.0	Payments for offshore digital services		July 1 2018	Enacted
Thailand	Withholding tax	5.0	Income from E-commerce supplies of goods and services in the country, including online advertising, gaming, shopping, and others		To be determined	Proposed
Vietnam	Withholding tax	variable	Income derived by non-residents from digital and ecommerce operations in Vietnam		Jan-21	Enacted

Source: KPMG (2023) & Mullins (2022).

Table 3 VAT on Foreign Supply of Digital Goods and Services

Country	VAT rate (in per cent)	Tax base	Vat registration	VAT reg. threshold	Date commenced
Bangladesh	15.0	Digital services	Yes	BDT 30 million	2019
Bhutan	7.0	Digital services	Yes	Nu 5 million	2021
India	18.0	Digital services	Yes	INR 2 million	2016
Indonesia	10.0	Digital services	Yes	Sales in excess of RP 600 million (USD 41,930) per year or 50 million per month Internet traffic/access in Indonesia 12,000 per year or 1,000 per month	2020
Malaysia (a)	6.0	Service tax-digital service	Yes	RM 500,000	2020
Pakistan	2.0	Online marketplace	Not applicable		2021
Singapore	7.0	Digital service	Yes	SUSD 1 million	2020
Thailand	10.0	Digital service	Yes	B18 million	2021

(a) Malaysia does not have a standard VAT, but it has a Sales and Services Tax.

Source: Mullins (2022).

Encouraged by the OECD/G20 BEPS Report on Action Plan 1 and the Expert Committee on Taxation of E-commerce, the Indian government introduced the following measures (Table 4) to plug tax leakages involving the digital economy.

Table 4 India's Initiatives Regarding Taxing the Digital Economy

Year	Provisions
2016	India was the first country to impose EQL at a rate of 6.0 per cent on Indian-sourced earnings of non-resident online advertising companies through the Finance Act 2016.
2018	The significant Economic Presence (SEP) concept was introduced in the Income-tax Act, 1961 to tax income based on economic presence rather than physical presence.
2020	The scope of EQL was expanded with effect from 1 April 2020 to include a levy of 2.0 per cent on consideration received by a non-resident 'E-commerce operator' from 'E-commerce supply or services'.
2020	A tax withholding obligation of 1.0 per cent was imposed on amounts received by resident E-commerce sellers on the sale of goods or services facilitated by an E-commerce operator through its digital or electronic facility.
2021	India prescribed a revenue threshold of INR 20 million (USD 2,70,000) and user threshold of 300,000 for the application of the SEP rules from the Financial Year 2021–22.

Source: Authors' compilation based on literature review.

It is pertinent to note here that the EQL is not a part of Income Tax Act, 1961. Accordingly, non-resident E-commerce providers will not get the credit for the same in their home country (Chopra, 2022). If it is a tax on income through Income Tax 1961, the non-resident may challenge the levy on the grounds that business income is not taxable in India without a PE as per the relevant Tax Treaty.

The United States Trade Representative (USTR) published an investigation report[31] on January 2021 concluding that the 2.0 per cent EQL or DST introduced by the Indian government (by the Finance Act 2020) discriminates against US businesses and contravenes international tax law. In the report, the USTR describes DST as 'an outlier'[32] that burdens US companies[33] by subjecting them to double taxation. Alleging that DST

[31]The USTR conducted an investigation under section 301 of the US Trade Act, 1974 which authorises it to appropriately respond to a foreign country's action that is discriminatory and negatively affects US commerce.

[32]According to Section 301 Investigation Report on India's DST, USTR, 'India's DST is indeed an outlier: it taxes numerous categories of digital services that are not leviable under other digital services taxes adopted around the world. This brings more US companies within the scope of the DST, and makes the measure significantly more burdensome'.

[33]USTR's analysis identified 119 companies likely to be subject to the DST, of which 86 (72 per cent) are US companies, whereas the next most common countries are China and the United Kingdom with seven companies each; France with six companies, and Japan with five are the next. (USTR, 2021).

creates an additional tax burden for US companies, the USTR estimates that the aggregate tax bill for US companies could exceed USD 30 million per year (USTR, 2021). Against the DST, the US has announced imposition of tariffs for each of the six countries that adopted DST[34]. On November 24, 2021, India and the US reached an agreement as regards the imposition of equalization levy or digital services tax. Under the agreement, India will continue to impose the levy till March 31, 2024, or till the implementation of Pillar one of the OECD agreements on taxing MNCs and cross-border digital transactions, whichever is earlier. The US will terminate the trade tariff actions it had announced in June 2021 against India and several other countries in response to the levy and will not take any further punitive actions (Bhardwaj, 2021).

The Two-pillar new global tax deal represents major changes in international tax rules. The global tax deal will replace country-specific digital services taxes such as India's EQL and SEP tax. The new global tax deal will cover the digital economy and tech giants such as Amazon, Apple, Google, Facebook, Netflix, Microsoft, and others. These companies will have to pay a minimum tax rate of 15 per cent, wherever they operate, according to the deal signed by the OECD. The EQL generated a revenue in India of about INR 647 crore in FY2020–21 and INR 1,618 crore in FY2021–22. It must be withdrawn as part of the OECD's global tax deal (Subramaniam, 2021). The new regime is expected to come into effect only by 2023-24 after the final details are being thrashed out at present. As part of the proposed deal, OECD wants the immediate removal of unilateral digital tax regimes such as EQL and SEP rules and a commitment to not introduce such measures in the future. India has opposed developed countries' moves to remove EQL or credit companies in lieu of it. The Indian government has stated that it will not let go off the revenues until the deal is finalised (The Tatva, n.d.).

Tax Incentives in Selected Countries to Promote Digital Economy

Providing various fiscal incentives to promote the digital economy is a common feature in many countries. India provides a number of incentives to various players involved in the digital economy. At the same time, it is also taking steps to generate revenues originating from the sector. The Start-up India campaign is geared to boosting Indian commerce and entrepreneurship. Start-ups must be less than seven years old for normal companies and up to ten years old for biotech companies to qualify for tax incentives. The annual turnover can't exceed INR 25 crore. Businesses must work

[34]On 2 June 2021, the USTR announced the imposition of 25 per cent punitive tariffs on goods from Austria, India, Italy, Spain, Turkey, and the United Kingdom in response to these countries' DST regimes. In the same announcement, the USTR suspended the imposition of tariffs for 180 days, with the collection of the duties not beginning until 29 November 2021 in an effort to provide additional time for the ongoing multilateral negotiations among the countries regarding international taxation at the OECD (EY, 2021).

towards commercialisation, development, deployment or innovation of new products, intellectual property, technology, or services. Such start-ups will get 100.0 per cent tax rebate on profit for three of the first seven years, if subject to the annual turnover not exceeding INR 25 crores in any financial year. This scheme was for start-ups formed between April 1, 2016, and March 31, 2021. Budget 2021 extended the eligibility provide to 31 March 2022 (Acharya, 2021).

Special Economic Zones (SEZs) in India were introduced to provide an internationally competitive and hassle-free climate for export promotion in India. There is income Tax exemption on the income accrued to developers of the SEZ, in a block of 10 years within a period of 15 years under Section 80-IAB of the Income Tax Act (to note, Sunset Clause for Developers has become effective from 01.04.2017) as well as 100.0 per cent income tax exemption on export income for units in the SEZs under Section 10AA of the Income Tax Act for first five years, 50.0 per cent for next five years thereafter and 50.0 per cent of the reinvested export profit for next five years (Sunset Clause for Units has become effective from 01.04.2020) (SEZ, n.d.).

Freelancers in India come under the purview of Income Tax and GST (Goods & Services Tax). As per Income Tax Law in India, any income generated by an individual by implementing their manual or intellectual skills is considered as 'profit and gains from business and profession'. As per the tax perspective, freelancing is treated as a business and profession. If freelancers' aggregate turnover in a year is more than INR 20 lakhs (INR 10 lakhs for North Eastern and hill states), then s/he needs to register under GST[35] (Groww, 2022a). Freelancers in India can deduct expenses[36], incurred to do the job, from their income; these expenses must be directly related to the job they are doing (Cleartax, 2023).

Freelancers in India can make use of the Presumptive Taxation Scheme under Section 44ADA of the Income Tax Act, 1961 and pay tax on freelance income on only half of their gross annual income, provided the total income for the year is less than INR 50 lakhs[37] (Groww, 2022a).

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[35] For most services,18 per cent is the GST rate applicable in India. Depending on the goods and services offered by the freelancer, the GST rate may vary.

[36] Conditions to claim expenses as a deduction from freelancing income: (i) The expense is for the freelancing work being carried on; (ii) It has been spent fully and exclusively for the purpose of concerned work; (iii) It is incurred during the tax year; (iv) It is not a capital expenditure or a personal expenditure of the freelancer; (v) It is not incurred for any purpose which is an offence or is prohibited by law (Groww, 2022a).

[37] This means if a person offers professional services and has gross receipts less than or equal to INR 50 lakhs then Section 44ADA will be applicable for that person. According to the section, the freelancer has to offer a minimum of at least 50.0 per cent of his gross receipts as profit. It will be the amount on which tax shall be levied. In simple words, it can be said that out of the total gross receipts of a freelancer, the government will consider 50.0 per cent as profit and 50.0 per cent as expenses (Groww, 2022b).

Pakistan has announced a series of incentives for firms, investors, and freelancers in information technology/information technology-enabled services (IT/ITES), according to a statement released on 22 February 2022 by the country's Ministry of Information Technology and Telecommunications. The incentives include a five-year tax exemption for IT enterprises and independent contractors, a 100.0 per cent capital gains tax exemption for investments in IT start-ups and a relaxation of foreign exchange restrictions. In addition, the government of Pakistan will implement Specialised Foreign Currency (FCY) accounts. Freelancers and IT/ITES companies will be permitted to keep all remittances in FCY accounts without converting them to local currency. A Pakistan Technology Startup Fund was also be established, offering seed funding worth PKR 1 billion (USD 5.6 million) to support about 50 startups each year; it is also proposed that certain locations in Islamabad will be designated as special technology zones, with the same concept to be subsequently extended to Lahore, Karachi, Peshawar and Quetta (HKTDC Research, 2022).

Impact of the WTO 1998 Moratorium on Customs Duty on Electronic Transmission

Since 1998, as per the decision of the WTO-MC taking place at the time, imposition of customs duty on electronic-transmission has been prohibited. Many developing countries (led by India, China, and others) claim that it is the developed countries that benefit the most from the moratorium (since they are the major exporters). Developing countries (as major importers) are losing revenue due to the moratorium. India, China and some of the other developing countries with interest in the issue had raised this issue at WTO-MC12 in June, 2022 and had asked the WTO to review the moratorium on customs duty on e-transmission[38]. Indian commerce and industry minister, Piyush Goyal argued at MC12 that developing countries were paying a high price in terms of foregone customs duty because of the moratorium and that poor countries had lost about USD 50 billion in tariff income on 49 digital import items, between 2017 and 2020 (FE Bureau, 2022). Banga (2019) estimated that India lost about USD 497 million between 2011 and 2017 because of this. However, some of the developed countries contested this figure and argued for continuation of the moratorium. At the MC-12, WTO members failed to reach an agreement. In the end, the moratorium on customs duty on e-transmission was extended until MC13 or March 31, 2024, whichever comes first. If no agreement is reached, the moratorium was to come to an end and countries will be able to impose customs duty on e-transmission. The revenue implications of the moratorium are estimated to

[38]WTO Mc12 was held on June 12-16, 2022, in Geneva, after five years following MC11 in Buenos Aires in 2017.

range between USD 280 million to USD 8.2 billion. This large gap in estimation is due to different measurement methods (Andrenelli & González, 2019)[39].

In light of the global experiences, and the initiatives being taken to tap into the digital economy for purposes of DRM, what are the initiatives that Bangladesh can undertake in this region? The next section deals with some of the key issues in view of this.

[39]Revenue loss by different countries' details in Annex 6.

3

TAXING THE DIGITAL ECONOMY IN BANGLADESH
Current State and Opportunities

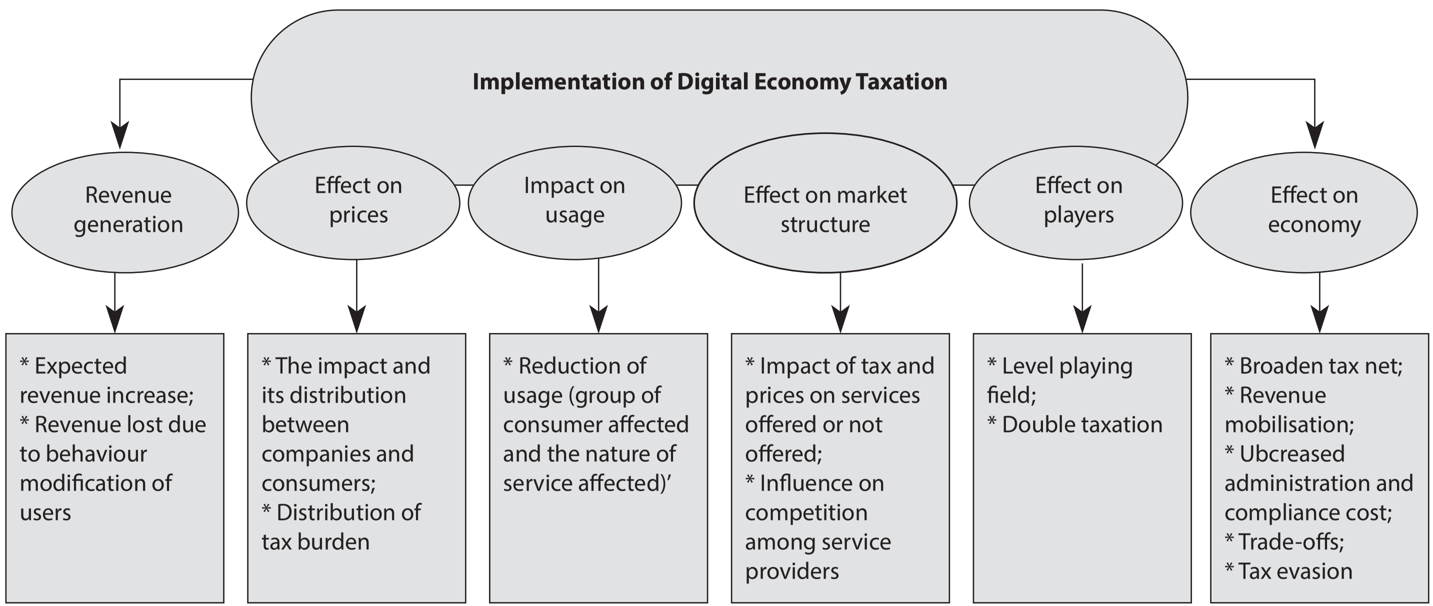
This section looks at the current scenario as regards taxing the digital economy in Bangladesh, direct and indirect tax incentives, plans about feasibility and future prospects of digital economy taxation in Bangladesh.

The Involved Trade-Offs

According to Mpofu (2022), the implications of taxation of the digital economy are multi-dimensional (Figure 5). These involve both the opportunities and challenges and there is a need to tease out the attendant tensions. There are a number of issues to consider: interests of local versus overseas companies; the short-term versus the medium to long-term aspects of the growth trajectory of the digital firm; revenue earrings versus non-financial developmental impacts; foregone revenue versus future prospects of revenue earnings; tax on entrepreneurs (income tax) versus tax on consumers (VAT); consumer welfare versus fiscal mobilisation; firm's fiscal burden versus growth prospects; offensive interests and defensive interests in the globalising digital economy context.

Before going for taxing the digital economy, tax authorities will need to assess the various aspects noted above in order to be able to take a balanced decision. While the issue of digital economy taxation must merit adequate attention on the part of policymakers, as was noted, other factors, including other contextual ones, must also be considered to arrive at a balanced decision in this connection.

Figure 5 Implications of Taxing the Digital Economy



Source: Adapted from Mpofu (2022).

Tracking ITESs Taxation

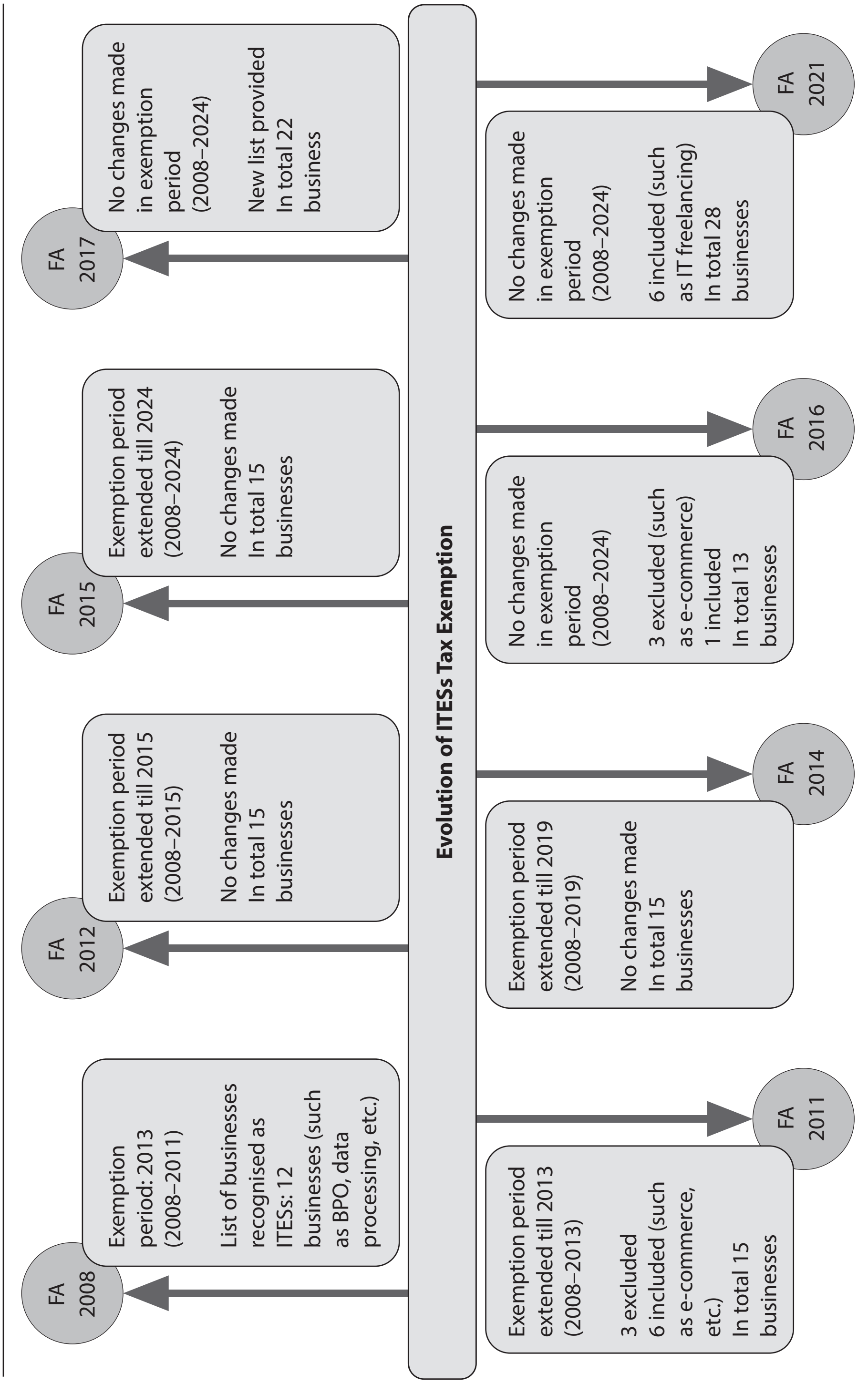
The definition of ITESs in Bangladesh has undergone notable evolution over the past years (Figure 6).[40] Till June 30, 2024, businesses or items listed in the para 33 of 6th schedule of Income Tax Ordinance (ITO) 1984[41], known as ITESs, have been exempted from paying direct income tax on any type of income derived from the ITES businesses of a person being a resident or a non-resident Bangladeshi.

Through Finance Act 2011, E-commerce and online shopping were brought under the net of ITESs, however, these were excluded in Finance Act 2016, with these coming under tax net from FY2016–17. Cloud service; System integration; E-learning platform; E-book platform; Mobile application development service; IT freelancing- these six businesses were brought under the ITESs through Finance Act 2021. As of now, 28 businesses are listed under the ITES (Table 5).

[40]Details in Annex 7.

[41]Income Tax Ordinance 1984 has been replaced by Income Tax Act 2023 which is effective from July 1, 2023. The report has been prepared based on Income Tax Ordinance 1984.

Figure 6 **Summary of Evolution of Tax Exemptions for ITESs**



Source: Authors' visualisation based on Finance Act, ITO,1984.
Note: FA denotes to Finance Act.

Table 5 List of ITESs not Under Tax Net

1. Software development	8. Web listing	15. IT support and software maintenance service	22. Cyber security services
2. Software or application customisation	9. IT process outsourcing	16. Software test lab service	*23. Cloud service
3. Nationwide Telecommunication Transmission Network	10. Website hosting	17. Call centre service	*24. System integration
4. Digital content development and management	11. Digital graphics design	18. Overseas medical transcription	*25. E-learning platform
5. Digital animation development	12. Digital data entry and processing	19. Search engine optimisation services	*26. E-book platform
6. Website development	13. Digital data analytics	20. Document conversion, imaging and digital archiving	*27. Mobile application development service
7. Website services	14. Geographic Information Services	21. Robotics process outsourcing	*28. IT freelancing

Source: Authors' compilation based on Finance Act.
*These were added through Finance Act 2021.

Any income derived from the ITES business of a person being a resident or a non-resident Bangladeshi for the period from the 1 July 2008 to 30 June 2024 have been exempted from paying direct income tax on the condition that the person shall file an income tax return in accordance with the provision of section 75.

Imposition of VAT on E-commerce, ITESs and Other Digital Services

Issues of imposing VAT on E-commerce sector of Bangladesh have been controversial, to say the least. The evolution of VAT on E-commerce, as depicted in Table 6, provides some ideas in this regard.

In FY2015–16 budget, a 4.0 per cent VAT was proposed on E-commerce; however, this was hastily rescinded in response to pressure from interested parties. In the FY2018–19 budget, 5.0 per cent VAT was imposed on E-commerce; subsequently at a post budget discussion, the VAT was rescinded stating that this was a printing mistake! In the proposed budget for FY2019–20, 7.5 per cent VAT was proposed on social media and virtual business under service code (SO) 79.00. However, the SO79.00 has been omitted from VAT and SD Act 2012 vide SRO no. 234-Law/2019/70-VAT dated 30 June 2019 meaning that this SO79.00

Table 6 **Summary of Evolution of VAT on E-commerce**

FY	VAT Rate and explanation
2015–16	4.0 per cent VAT was suggested in the Budget. But it was swiftly rescinded in response to pressure from interested parties.
2018–19	5.0 per cent VAT was imposed. Then in a post-budget discussion, the VAT was rescinded by stating printing mistake.
2019–20	7.5 per cent VAT was suggested on social media and virtual business under SO79.00. However, SO79.00 has been omitted from VAT and Supplementary Duty (SD) Act 2012 vide Statutory Regulatory Order (SRO) no.234-Law/2019/70-VAT.
2019–20	5.0 per cent VAT was imposed on commissions and fees charged by the E-commerce agencies under service code 99.60 'Sales of goods through online'.

Source: Authors' compilation based on literature review.

will not be applicable in this instant. Through SRO no. 186-Law/2019/43-VAT dated 13 June 2019, SO99.60 was introduced with the definition for Sales of Goods through Online. In the Finance Act 2019, 5.0 per cent VAT was introduced for this service code. In VAT and SD Act 2012, this service code is listed under Part B of Table 1 of 3rd schedule. According to SRO no-234-Law/2019/70-VAT and SRO no-172-Law/2022/185-VAT, 'Sales of Goods through online' means the buy and sale of those goods or services, through the use of electronic network, which has been brought from the manufacturer or from the service renderer or from businessman with the payment of VAT and which doesn't have any sales centre. The VAT imposed on E-commerce resulted in hassles for entrepreneurs.

They were in confusion as to the base on which the VAT was to be determined: value addition or the sales volume. For this confusion, on 22 September 2019, a directive was issued by the NBR which mentioned that if the organisation selling this product online collects the taxable goods from the main producer or supplier by paying VAT and delivers it to the final consumer at the same price, then there will be no VAT on the price of the entire product once again. This was done to avoid the incidence of double taxation which would have fallen on the customers. The 5.0 per cent VAT imposed on online shopping will be applicable only for the commissions and fees charged by the E-commerce agencies. Regardless of whether supplying VAT-imposable goods or VAT-exempted goods by online selling business, this 5.0 per cent VAT on commission was to be applicable. However, there is a condition that if an online retailer acquires the goods or services without paying VAT, consumers must pay the applicable VAT rates on the purchase price (including product price and service charge).

In VAT and SD Act 2012, under Part B of table 1 of 3rd schedule, 5.0 per cent VAT was placed in SO99.10 which is for IT Enabled Service as well as 5.0 per cent VAT is on SO80.00 which is for Ride Sharing Service. According to clause c of para 2 of 1st schedule, VAT and SD Act 2012, services provided by all riders will be considered as personal services and this was to be exempted from VAT. So, of the total amount of ridesharing service, the portion allocated for riders will be exempted from payment of VAT and the rest of the part allocated for Uber, Pathao was to come under VAT payment at 5.0 per cent.

According to SRO NO-141-Law/2021/138-Musok, under SO74.00, IT-enabled service organisations registered under service code 99.10 don't have to pay 15.0 per cent VAT on rent. However, rent paid by companies involved in online selling has to pay this VAT on their rent under the aforesaid service code. There have been instances of misuse of this through miss-referencing of service code[42].

Imposition of VAT and Tax on Non-Resident Digital Service Providers

According to VAT and SD Act 2012, a non-resident business not having any physical presence in the country, must have to appoint a local agent for executing its VAT related activities. Such non-residents business entities are to pay VAT at the standard 15.0 per cent on revenue earned locally.

It is important to note that, local agents of non-resident digital service provider (e.g., A particular company in Bangladesh is the local agent for Facebook and a number of other non-resident digital service providers) are supposed to submit VAT return to the NBR on behalf of their clients, the unregistered users (not having Business Identification Number-BIN). Registered users (having BIN) have to pay VAT through dealing banks.

The VAT Act 1991, VAT Rules 1991, Finance Acts, and various rules, regulations, and notifications issued under VAT Act 1991 were effective till 30 June 2019. On 10 December 2012, Parliament passed VAT and SD Act 2012, but it only became effective from June,2019. However, chapters 2, 12, 15, and sections 128,132,134, and 135 of the new VAT and SD Act 2012 came into force immediately. Chapter 3 of the VAT and SD Act 2012 requires non-residents who provide certain services[43], on or through a telecommunications network, a local or global information network, or similar means in Bangladesh, to appoint a VAT agent. Digital service providers such as Facebook, Google, YouTube, and other digital platform were supposed to complete VAT registration to run respective business in Bangladesh before the Act became effective as of that date.

[42]One company involved in E-commerce business was found by the VAT wing of the NBR to be claiming itself as ITES and avoided paying the 15 per cent VAT on rent although as per existing rules, it was not eligible for this exemption.

[43]These are: websites, web hosting or remote maintenance of programmes and equipment; software and updating thereof by way of remote delivery of services; images, texts and information delivered; access to databases; self-education packages; music, films and games; political, cultural, artistic, sporting scientific and entertainment broadcasts and telecasts and events, including telecasts.

In April 2018, in response to a writ petition filled by a group of lawyers, the High Court ordered the GoB to constitute a committee and assess the amount of non-resident tech giant's financial transactions in Bangladesh over the previous 10 years and to realise appropriate Tax, VAT and other charges from their revenue ('High Court orders', 2018). According to a report, the top three mobile operators spent BDT 104 crore (Grameenphone -BDT 43.31 crore; Robi-BDT 32.14 crore; Banglalink-BDT28.65 crore) in FY2017–18 to reach their target audience via the various digital platforms, with Facebook being the most popular medium (Islam, 2018). According to another report, the telecom regulators, Bangladesh Telecommunication Regulatory Commission (BTRC) in a report submitted to the High Court in June 2019 informed that the five mobile phone operators of Bangladesh paid Google, Facebook, YouTube, Yahoo, WhatsApp, Amazon, Imo and other internet-based firms nearly BDT 87.5 billion in five years in advertisement revenue. However, the NBR, in its own report submitted to the high court stated that the amount collected over the said period was actually BDT 1.33 billion ('Bangladesh High Court orders', 2020). In response to the order of the High Court of 2018, the new VAT Act which came into effect obligated the tech giants to either set up offices in Bangladesh or appoint agents so that the NBR could collect VAT on the services provided by such platforms to the local firms.

According to the VAT act, if the service recipients of Bangladesh receive any service (internet service, ad on Facebook, google, YouTube, etc.) from outside the geographical territory of Bangladesh, in such cases the 15.0 per cent VAT will be applicable in case of payment for the services which was generated outside the geographic territory of the country but consumed inside the country and the payment for the services consumed was made from Bangladesh itself.

According to an article published in a local daily (New Age, 2019) , Bangladeshi companies paid BDT 197 crore (USD 2.35 crore) in digital advertisement bills to global internet giants, mainly Facebook and Google, over the last five years (2014–2018) through the banking channels. The GoB has received BDT 41.59 crore in VAT and Advance Income Tax (AIT) against such payments. VAT had been collected from those oversea payments based on the stipulated rules mentioned above. Of the paid bills, Google Asia Pacific Pte Ltd which got VAT registration in Bangladesh on May 23, 2021, received the highest—BDT 103.47 crore (USD 1.23 crore), followed by Facebook Ireland Limited (BDT 89.24 crore or USD 1.06 crore). A small amount also went to two India-based company-Ultimedia E Solution Pvt Ltd and SRB Technologies Pvt Ltd.

In response to the concern about issues leading to tax evasion[44], the VAT wing of the NBR requested the Bangladesh Bank (on January 22, 2019) to instruct all banks to deduct the 15.0 per cent VAT on all payments, irrespective of mode of payment, made by the banks' clients against services including royalty, various internet services, advertisement on digital platforms and other services received from abroad. The Bangladesh Bank (on March 3, 2019) ordered all the banks to follow the NBR directives mentioned in the BRPD Circular letter-08.

Though the new VAT Act came into effect since July, 2019, until May 2021, non-resident digital service providers didn't get the VAT registration number or BIN due to some complexities. As per the new VAT and SD Act 2012, VAT agent of a non-resident would have to bear all responsibilities and carry out all activities on behalf of non-resident clients and would be jointly and severally liable for the payment of all dues including taxes, fines, penalties, and interests that may be imposed. This wide-ranging ruling about the agent's risks and responsibilities discouraged many of the prospective agents (CA firms) from registering or agreeing to act as VAT agent of non-residents. In view of the apprehensions, through the Finance Act of 2021, it has been instructed that the VAT agent will not to be jointly and severally liable for the payment of all taxes, fines, penalties, and interest which may have been imposed on a non-resident.

Till now, nine companies have received their BIN identification number and paid a VAT amount of BDT 57.72 crore in FY2021–22 on a total revenue of BDT 384.8 core in FY2021–22 (Table 7).

At present, Non-resident digital service providers are not under the tax net of the NBR and hence are not liable to submit their tax returns in Bangladesh and they don't have any Tax Identification Number (TIN). Thus, these companies don't pay income tax in Bangladesh. However, under section 56 of ITO 1984– Deduction from the income of non-residents, these companies come under the provision of withholding tax. Specified persons (as per the list of sub-section 2 of section 52) including company, firm, E-commerce, hotel, community centre, transport agency having an annual turnover exceeding BDT 1 crore, when responsible for making payment to non-residents of any amount, are liable to issue TDS challan on the said amount.

[44]There were allegations against some banks that these were not deducting VAT, and AIT while clearing oversea payment on behalf of the clients since some banks were not asking the purpose of the payments if the amount of the transaction tended to remain small.

Table 7 **MNC Tech Giants Submitted VAT and Income in FY2021-22**

(in BDT crore)

Companies	Facebook Ireland ltd	Facebook Payment International ltd.	Facebook Technologies Ireland ltd.	Google Asia Pacific ltd.	Google Ireland ltd.	Microsoft Regional Sales PTE ltd	Amazon Web Service Incorporation	Amazon.com service LLC	Netflix
Income	200.87	0.40	0.33	127.53	3.47	9.13	26.73	1.6	14.87
VAT	30.13	0.06	0.05	19.13	.52	1.37	4.01	0.24	2.23

Source: Authors' compilation based on Finance Act.
*These were added through Finance Act 2021.

Income Tax Provisions and Exemptions Concerning Bangladesh's Digital Economy

There are a number of provisions in Bangladesh's income tax laws which are geared to incentivising the digital economy of the country, most often through various tax exemptions.

Section 52Q of ITO 1984: It is clearly stated that a 10.0 per cent TDS will be imposed on the earnings of a person who is a Bangladeshi citizen and providing service to a foreign organisation or a person. However, according to finance bill 2018, anyone providing software or online service to any foreign entity or individual will not have to pay any tax. This applies to all the ITES.

Section 53BB of ITO 1984: The bank that receives export proceeds of goods is to deduct 1.0 per cent TDS of total export proceeds before crediting them to the exporter's account. When the Board certifies in writing that an exporter's income is partly or fully exempt from tax under the Ordinance, the Bank credits an assessor's account without tax deduction or at a lower rate than specified in this section for the period specified in the certificate.

Section 52 of ITO 1984: E-commerce companies having an annual turnover exceeding BDT 1.0 crore, is considered as Tax Deducting at Source (TDS) authority[45]. When any payment is to be made by E-commerce companies to a resident on account of supply of goods, the tax deduction on payment shall be at the rate ranging from 3.0 per cent and 7.0 per cent.

Section 52AA of ITO 1984: Along with other specified person, E-commerce having an annual turnover exceeding BDT 1.0 crore, at the time of making payment to a resident on account of service -advisory or consultancy, professional, technical, courier, any other service under the platform including ride sharing service, coworking space providing service, etc., have to deduct TDS from the payment at a specified rates based on service ranging from 0.65 per cent and 10.0 per cent.

Section 56 of ITO 1984: Any specified person or other person responsible for making any payment to a non-resident must deduct tax at the specified rate based on types of payment of service. If as per tax treaty, a non-resident is not liable to pay tax in Bangladesh or is liable to pay tax at a reduced rate, the payment shall be made without any deduction or with a reduced deduction.

Start-up Sandbox: The Finance Act 2022 introduced a separated chapter in ITO 1984 related to exemptions and incentives to sustain growth of start-ups (chapter XIIIA:

[45]Through Finance Act 2021, this provision has been incorporated.

Start-up Sandbox, under section 111A). Start-up refers to the followings: any company with annual turnover not exceeding BDT 100 crore in any financial year; incorporated under the Companies Act 1994; working towards deployment or commercialisation of new products, process or service driven by innovation, development, technology or intellectual property; not a subsidiary of another company holding 50.0 per cent or more of its shares; not a resulting company of a scheme of amalgamation or demerger. It must be incorporated after 2017-18 but registered by June, 2023. These five years will be a start-up's growth years. During growth years, start-ups can receive the following benefits and exemptions: (i) provision and treatment of disallowance of deductions/expenses pursuant to Section 30 and 30B of ITO 1984 will not apply (removing the expense ceiling); (ii) business losses that cannot be set off in any particular year can be carried forward over nine successive assessment years; (iii) the rate of minimum tax as specified by section 82C(4) will be 0.1 per cent ; (iv) no reporting obligation will be applicable except the annual return of income if companies grant access to its system and records to the income tax authority .

According to SRO no-163/Law/Income tax/2021[46] (NBR, 2021), companies producing motherboard, casing, UPS, speaker, sound system, power supply, USB cable, CCTV and pen drive, are exempted from paying income tax for 10 years on the income generated by aforementioned products. Companies that will start producing the aforementioned product commercially within June 30,2030, will be entitled to avail this exemption.

According to FE circular No-03[47] by Bangladesh Bank (FEPD, 2018), a 10.0 per cent cash incentives will be applicable on Net Free on Board (FOB) value of Software, ITES and Hardware export. This cash incentives will not be applicable to businesses established in Export Processing Zone, Economic Zone, Hi-Tech Park.

According to FE circular No-07[48] *by Bangladesh Ban*k (FEPD, 2022), freelancers who are not members of BASIS will enjoy a 4.0 per cent incentive package. The GoB has endorsed 55 international online marketplaces[49] for country's freelancers, making their earnings from these platforms eligible for a 4.0 per cent cash incentive against exports of software, information technology-enabled services (ITES) and hardware. The decision is also geared to bringing freelancers' earnings through official channels.

[46]Published by the NBR on June 03, 2021.

[47]Published by the Foreign Exchange Policy Division of Bangladesh Bank on February 08, 2018.

[48]Published by the Foreign Exchange Policy Division of Bangladesh Bank on January 30, 2022.

[49]Popular marketplaces such as Upwork, Fiverr, Freelancer and Guru were among the selected marketplaces.

According to SRO No-158/Law/Income tax/2022[50] (NBR, 2022), the GoB has exempted tax on all income generated by export[51], which will be applicable for the period between 01 July 2022 to 30 June 2028 in the following manner: (i) 50.0 per cent export income of individual, Firm, and undivided Hindu family will be tax exempted; (ii) 12.0 per cent tax will be paid on export income earned by others, except individual, Firm, and undivided Hindu family ; (iii) 10.0 per cent tax will be imposed on any income earned by other than Individual, Firm & Hindu Undivided Firm from exporting goods manufactured in Leadership in Energy and Environmental Design (LEED) Certified Factories. Any Transportation Service, Mobile Telecommunication Service, Internet, and Internet-Related Service will not be covered under this SRO.

Bangladesh Hi-Tech Park (BHTP): BHTP Authority was created under the 'Bangladesh Hi-Tech Park Authority Act 2010' to create an investment-friendly environment and jobs through the proliferation of high-tech industries in the country. There are 10 BHTP and 134 investors as of March 20, 2023 (BHTPA, n.d.). A number of well-known businesses, including Chaldal.com, Shop up.com, Aamra Network Ltd., Aamra Holding Ltd., Aamra Technologies Ltd., Sheba Platform, Technosoft, Chaldal limited, etc. are listed as investors in the BHTP. By 2025, these companies are expected to make BDT 24 billion worth of investment; about BDT 3.27 crore has been invested in the parks till 2020 (BHTPA, 2022). The GoB exempts income tax for park developers, investors, and employees in BHTP. BHTP developers are exempt from income tax when they start earning income. For the initial 10 years, developers will get 100.0 per cent tax waiver, they will receive 70 per cent tax waiver on the 11th year and 30 per cent on the 12th year. The benefit will be discontinued from the 13th year (NBR, 2015). BHTP investor also gets tax exemption when they start to earn. Under this scheme, investors will enjoy 100.0 per cent tax waiver for the initial 7 years and 70.0 per cent tax waiver for the next three years (8th to 10th) (NBR, 2018).

Bangladesh Economic Zone: The Bangladesh Economic Zones Authority was established in November 2011 to develop and manage the economic zones. In 2015, the GoB introduced tax exemptions to encourage investors to set up industries in SEZ and for developing the Economic Zones. Developers' business income is tax exempted for the subsequent 12 years from the date of commercial operation in the following manner- for the first 10 year, 100.0 per cent of income; for the 11th year 70.0 per cent of income; for the 12th year 30.0 per cent of income will be tax exempt. Investor business income is also tax exempted for the next 10 years from the date of commercial operation.

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[50]Published by the NBR on June 01, 2022.

[51]These 10 parks are: Sheikh Hasina Software Technology Park; Bangabandhu Hi-tech City; Vision 2021 Tower-1; Bangabandhu Sheikh Mujib Hi-Tech Park, Rajshahi; Bangabandhu Sheikh Mujib Hi-Tech Park, Sylhet; Sheikh Kamal IT Training & Incubation Center, Natore ; Sheikh Kamal IT Training and Incubation Centre, Rajshahi; Sheikh Kamal IT Training and Incubation Center, KUET; Heroic Freedom Fighter Lieutenant Sheikh Jamal Software Technology Park; Sheikh Kamal IT Training and Incubation Center, CUET.

Bangladesh Export Processing Zone: It is responsible for the creation, development, operation, and management of industrial zones such as Export Processing Zone, in addition to promoting investment in Bangladesh. If established before January 1, 2012, these industries enjoy a 10-year tax holiday. Industries established in Mongla, Ishwardi & Uttara EPZ and Chattogram, Dhaka, Cumilla, Adamjee, & Karnaphuli EPZ set up after January 1, 2012, are enjoying tax exemption for 7 years and 5 years respectively. Industries in EPZs are also enjoying duty free import of construction material, machineries, office equipment & spare parts, etc and duty-free import and export of raw materials and finished goods; exemption from dividend tax; accelerated depreciation on machinery or plant are also allowed.

Current Bangladesh Scenario as Regards Taxing the Digital Economy

This section examines the overall tax expenditure in Bangladesh, estimates the value of some of the digital economy's tax exemptions, and a number of key issues that inform the taxation scenario in Bangladesh in general.

Tax Expenditure in Bangladesh

In general, Bangladesh's tax expenditures appear to be quite high. According to the Policy Note of Bangladesh Bank (Mortaza & Begum, 2006), tax expenditures in FY2004–05 exceeded 2.5 per cent of GDP and 31.25 per cent of total revenue. In FY2004–05 tax expenditures totalled BDT 93.8 crore. As previously mentioned, tax exemptions were worth about BDT 2,500 billion in FY2019–20, or 7.9 per cent of GDP[52] of FY2019–20. Of these, BDT 467.6 billion related to import of raw materials, capital machineries, and other goods, BDT 1,517.4 billion was waived on account of export- bond facilities enjoyed by export-oriented industries and VAT and income tax exemptions amounting to BDT 500 billion (presumed). According to estimates of the NBR, Bangladesh's tax-GDP ratio would have been 17.8 per cent had the GoB not provided tax exemptions.

Two issues are to be noted here: firstly, no one denies the need to provide incentives and support to a developing industry such as the digital economy; secondly, a key objective of this support is that at some future time, these supports will generate income and earnings which then could be sources of government revenue. Because in resource-constrained developing countries, exemptions must be justified over the medium to long-term on economic development and fiscal grounds.

[52] In FY2019–20, GDP of Bangladesh amounted to BDT 31,704.7 billion.

To note, in order to measure the impact of tax exemptions on government revenue collection, the Government of India started to publish the Statement of Revenue Foregone under the Central Tax System as part of the Union Budget documents back in 2006. This document presents a discussion on the exemptions with respect to major taxes levied by the Union Government (or the Centre) and also presents an estimation of the potential tax revenue lost or foregone due to the same. In the Receipt Budget 2023–2024 of the Indian Government under annex 7 (Government of India, 2023), the revenue impact of tax incentives for FY2020–21 was presented based on the returns filed for Assessment Year 2021–22. An attempt has also been made to project the revenue impact for FY2021–22 on the basis of tax expenditure figures for FY2020–21. The revenue impact of each tax concession for corporate taxpayers and non-corporate taxpayers (Firms, Association of Persons, Body of Individuals) was calculated by applying the weighted average tax rate on the amount of each tax deduction. Based on the tax expenditures figures for FY2020–21, the tax expenditure for FY2021–22 has been projected by multiplying the tax expenditure on each tax incentive for FY2020–21 by average GDP growth of four years (FYs2017–18, 2018–19, 2019–20 and 2021–22). The total amount of foregone tax revenue for FY2020–21 was estimated to be INR 2.78 lakh crore (which was equivalent to 13.7 per cent of tax revenue) and 1.4 per cent of the GDP for the corresponding year. The total amount of foregone tax revenue for FY2005–06 was estimated to be INR 2.07 lakh crore, equivalent to 56.4 per cent of tax revenue (Government of India, 2006) and 5.7 per cent of the GDP for the corresponding year.

At a public dialogue held on April 29, 2023, CPD had suggested that GoB should consider publishing statement of foregone tax revenue as is the case in many countries. It is encouraging to note that in the budget speech for FY2023–24, the GoB has, for the first time in Bangladesh, presented an estimation of 'Direct Tax Expenditure'. The total estimated amount of the 'Direct Tax Expenditure' applicable for the FY2020–21 was to be BDT 1,25,813 crore[53] (3.56 per cent of total GDP or 39.8 per cent of Tax revenue and 131.1 per cent of direct tax revenue). The total amount of projected 'Direct Tax Expenditure' for the current financial year is projected to about BDT 1,78,241 crore (3.56 per cent of GDP or 39.6 per cent of Tax revenue or116.3 per cent of direct tax revenue). However, the estimated tax expenditure mentioned only accounted for direct taxes also the methodology used to measure tax expenditure was not clearly articulated in the budget.

Tax exemptions aren't always detrimental to a country; these support industries, enterprises and businesses at the early stages of their development and encourages investment, which boosts GDP and employment. Problem arises when such exemptions

[53]In the fiscal year 2020–21, out of the total direct tax expenditure of BDT 1,25,813 crore, the IT/software industry received a tax exemption of BDT 1,477 crore (1.2 per cent of total tax expenditure), while economic zones and hi-tech industry received BDT 4,612 crore (3.7 per cent of total tax expenditure).

carry on for indefinite periods and concerned entities keep showing losses year after year. Some authors tend to outright the veracity of providing tax exemptions. For example, according to Jaiswal and Biyani (2019), tax incentives directly reduce government revenues and burden developing countries. Such exemptions are often lobby-driven and create opportunities to shift money to tax havens which are also matters of concern. While not arguing with such sweeping observations, it is safe to recall the earlier observation that the exemptions should be justified and should provide dividends subsequently in fiscal employment and overall development terms. An analysis of the income tax wing of the NBR found that 34 tax waivers related SROs were issued in FY2018–19 after the budget was passed. A senior VAT official observed that the new VAT and SD Act 2012 allows for more tax exemptions and concessions (Mala, 2020)[54].

A Rough Estimation of Implication of Digital Economy's Tax Waiver

ITES-listed businesses in Bangladesh have been given tax-exemption status since 2008. The Finance Act of 2008 proposed tax exemption to continue to till 2011. In the Finance Act of 2016, the time period was extended to June 30, 2024.The trade body, BASIS, has proposed that tax exemption for ITES-listed businesses be extended till 2030. As of now, no decision has been taken in this regard in the budget for FY2023–24. As it is expected that the budget for FY2024–25 will deal with the issue, adequate consultation should be carried out prior to addressing the issue. Along with the 10.0 per cent income tax exemption, the ITES sector also enjoys several other tax exemption benefits such as exemption of 10.0 per cent TDS on export proceeds, reduced VAT rate, VAT exemption on rent (Figure 7).

The revenue estimates made by the Bangladesh Association of Call Centre & Outsourcing (BACCO) were taken as the basis for projecting revenue stream and potential tax earnings from the BPO sector (BACCO, 2021)[55]. These are presented in Table 8.

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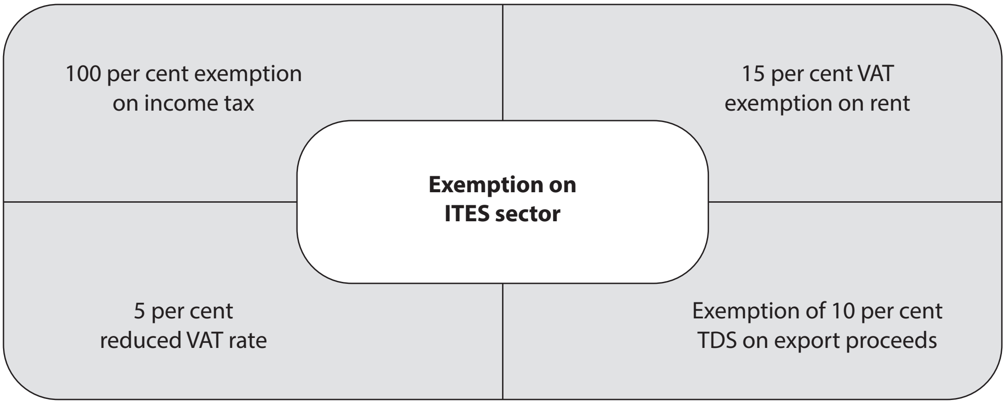
[54]There are, however, instances of misuse of the tax exemption facilities. According to a report ('Foodpanda faces Tk. 2.4 cr', 2020), a well-known online delivery company was accused of misreporting the service code. The business registered itself under SO99.10 (ITES), which allowed them to avoid paying VAT on rent, even though it was clear that the code did not apply to the business's circumstances. One of Bangladesh's largest electronics manufacturers is exempt from income tax for 12 years, beginning in FY2020–21 (Tuhin, 2021). This company paid an income tax of BDT 215 crore in FY2019–20, as was noted in the preceding text. There needs to be more transparency in taking such exemptions, articulating clearly the justifications for such waivers.

[55]BACOO's report covers call centres, data & document processing, IT support, CRM support, Image processing, Email and Chat Support, Financial Process, Call auditing and analysis, Medical, Document conversion, Legal outsourcing, Teaching for determining the size of revenue and cost of BPO sector, most of which are under the tax-exempted ITES sector.

Figure 7 **Multiple Exemptions for ITES Sector**



Source: Authors' compilation based on ITO 1984.

Table 8 **Foregone Tax Revenue from BPO Sector**

(in BDT crore)

Year	2018	2019	2020	2021	2022
Revenue (a)	623.23	971.94	1,545.14	1,976.01*	2,442.47*
Cost (b)	470.25**	746.55**	1,383.9	1,517.92	1,876.06***
Profit (c)= a-b	141.98	225.44	161.24	458.09	566.41
Tax (Assumed 12 %) (d)= c*12%	17.03	27.05	19.35	54.97	67.97

Note: *the revenues for 2021 and 2022 were forecasted linearly; **figure is approximated based on the ratio of cost to revenue for 2021; the rest of revenue and cost figure in the table are from the report of BACCO. The above-mentioned revenue figures include only local market revenue, export revenue isn't included; a part of E-commerce may have been included in the above-mentioned revenue figure which is currently under tax net; a reduced income tax rate of 12.0 per cent is considered for the calculation of foregone tax revenue.

If the reduced tax rate of 12.0 per cent had been imposed on this industry, the GoB would have collected approximately BDT 186 crore between 2018 and 2022 from the BPO sector which is a major sub-sector belonging to the tax exempted ITESs.

As previously mentioned, ITES businesses listed under paragraph 33 of Part A of 6th Schedule of ITO,1984 have been exempted from income tax as well as from paying the 10.0 per cent TDS on export proceeds under sector 52Q of ITO,1984. Below, in table 9, an attempt has been made to calculate the revenue foregone due to the exemption of 10.0 per cent TDS on ITES export proceeds. Export proceeds data was collected from the Export performance of the Service Sector dataset of the EPB[56]. Due to the unavailability of the exact amount of export proceeds enjoying 10.0 per cent TDS exemption, export proceed under code 9.2.3[57] has been considered for the calculation of revenue foregone.

Table 9 Revenue Foregone Due to Exemption of 10 per cent TDS on ITESs Export Proceeds

(in USD million)

Period	Export proceeds from ITES (a)	Foregone tax revenue due to exemption of 10.0 per cent TDS (b)= a*10.0 per cent
2019–20	171.6	17.2
2020–21	217.2	21.7
2021–22	484.4	48.4
2022–23 (July–December)	233.6	23.4
2022–23 (Targeted)	485	48.5

Source: Authors' estimation based on data of Export performance of Service Sector published by EPB.

As we can see, export proceeds from ITESs rose from USD 171.6 million in FY2019–20 to USD 484.4 million in FY2021–22. Along with the increment of export proceeds from ITESs, the GoB is losing a significant share of TDS from this sector due to the exemptions. Estimated revenue foregone due to 10.0 per cent TDS exemption rose from USD 17.2 million in FY2019–20 to USD 48.4 million in FY2021–22.

Double Taxation Avoidance Agreements Issues

MNCs are exempted from paying taxes on the income generated in concerned countries as per double taxation avoidance agreements (DTAAs). In Article 7 of UN Model Double Taxation Convention (UN, 2021)[58], it is stated 'the profit of an enterprise of a contracting

[56]In this dataset, IT-related export information is provided under code 9 (Telecommunication and Information Services). This code is divided into three sub-headings: 9.1 (Telecommunications service); 9.2 (Computer service (software, data processing, consulting, etc.)); 9.3 (Information service). Code 9.1 is further subdivided into two categories: 9.1.1(Telecommunication and maintenance services); 9.1.2 (Export of International gateway services); 9.1.3 (Export of bandwidth service). And Code 9.2 is sub-categorised into 5 ways: 9.2.1 & 9.2.2 (Export of computer software); 9.2.3 (Computer data processing and hosting services also known as IT enabled services); 9.2.4 (Computer consultancy service); 9.2.5 (Installation, Maintenance and Repair of Computers and peripheral equipment services)

[57]This is stated as Computer data processing and hosting service (IT-enabled service).

[58]There are 2 models of avoidance of double taxation agreement – UN Model and OECD Model. Bangladesh

state shall be taxable only in that State unless the enterprise carries on business in the other Contracting State through a PE situated thereon. If the enterprise carries on business as aforesaid, then so much of the profit of the enterprise as is attributable to that PE shall be taxable only in that other Contracting state'. Currently, Bangladesh has DTAAs with 36 countries (BIDA, n.d.). Till now, the NBR has exempted non-resident firms without offices in the country from filing income tax returns as per provisions of the DTAAs. The DTAAs allow non-resident companies not to pay taxes. At present, the Bangladesh tax authorities are revising the old double taxation avoidance treaties with major trading partners and adding digital economy-friendly protocols (Mala, 2022)[59].

The budget speech for FY2022–23 (MoF, 2022b) had proposed removing the exemption from filing income tax returns for those without a PE in Bangladesh. It was also proposed that the NBR should formulate proper rules defining the remit and areas of income and exemption of non-residents to ensure proper revenue collection from them. Global tech giants such as Google and Facebook were likely to come under the tax net from the FY2023–24 as the authorities were instructed to make submission of returns mandatory for the firms that have no physical presence in Bangladesh but are doing business here[60]. These companies are currently regularly submitting their VAT returns through their representatives. According to the Income Tax Ordinance, these companies do not have any scope of taking a Tax Identification Number (TIN) as they are not registered in the country.

Tax Loophole and Definitional Ambiguities

According to experts, defining the size of businesses in the context of the digital economy remains a difficult task. If the value of a company could not be accurately determined, taxation becomes difficult. Some businesses reliant on electronic payment and transaction systems generate revenue with an independent ATM network. According to a leading expert, these companies intend to treat this revenue-generating network as a strategic asset. When such strategic assets appear on a company's balance sheet, the balance sheet expands significantly. Another subtle benefit the firm gets is that it is then able to charge a higher depreciation rate against the asset on their financial statements. This results in a significant tax advantage for the concerned entity. Beleaguered E-commerce platform, Evaly had shown BDT 422.62 crore, an amount equal to the deficit, as the brand value in the balance sheet of the company which was submitted to the commerce ministry

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generally follows the UN model of avoidance of double taxation agreement.

[59]The NBR is scheduled to revise DTAA protocols with the Netherlands, Canada, the UK, France, Switzerland, Singapore, Sweden, Norway, India, and Mauritius.

[60]However, no initiative was taken in this connection in FY2022–23, nor has any initiative been proposed in the budget speech for FY2023–24.

(Kashem, 2021). However, this contradicts the IFRS-3 (Recognition of Goodwill). Window dressing type of practices, where intangible assets such as patents and trademarks are shown to be valued at higher than their actual worth, contradict accounting standards and can lead to misleading financial reporting. The majority of 28-ITES businesses in Bangladesh rely on intangible assets, which poses difficulties in accurately assessing their actual assets. This could result in potential manipulation in terms of valuations and misleading financial reporting. It is thus essential for businesses to comply with established accounting principles, standards and practices to ensure transparency and accuracy in financial reporting. Tax evasion is also a concern, as sometimes the number of challans (vouchers) in the system exceeds the amount of actual VAT collected, which in turn exceeds the amount of actual amount of VAT deposited with the NBR. Authorities need to look at these anomalies to address tax evasion.

According to the experts, the SO99.60 (applicable for FY2022–23) relating to sales of goods and service through online, was narrow. Sales of goods or service through online means the buy and sale of those goods or service, through the use of electronic network, which has been bought from the manufacturer or other providers or from the service renderer with the payment of VAT and which doesn't have any sales centre. As per the definition of Sales of goods and service through online, it didn't cover online businesses carried out through Market place or Platform. There are e-commercial sites that are primarily platform-based. For example, Daraz, Ajkerdeal, and Bikroy.com where sellers can advertise their products in exchange for a fee or commission to the platform providers, and where buyers pay the seller for the product price and a commission to the platform. This platform-based business model is a zero-inventory led model. Platform-based businesses don't buy or maintain any inventory model.

According to the ICAB's Tax Planning and Compliance Study Manual (ICAB, 2021), SO99.60 (applicable for FY2022–23) was unlikely to be applicable, and accordingly 5.0 per cent VAT was not applicable to online marketplace or platform. Such services of online marketplace and platforms were likely to be considered under the SO99.20 which relate to any other services for which 15.0 per cent VAT is applicable. However, e-CAB and other industry experts were claiming a separate service code or extension of SO99.60 for online businesses carried out through Marketplace or Platform[61].

In ITO 1984, E-commerce is considered as TDS authority but there is no definition of E-commerce in ITO 1984. At present, many businesses have both an offline store and Facebook page, group, or website. According to some experts, business transactions conducted via online should be considered as E-commerce and rest of the part of

[61] In the budget speech for FY2023–24, the GoB has proposed to include marketplace in the definition of SO99.60.

transactions done manually should be considered as traditional business. A comprehensive definition of E-commerce is needed in ITO 1984 as well as VAT and SD Act 2012.

As was noted, a number of ITESs in Bangladesh are enjoying various types of tax incentives such as no tax on income, no VAT on rent paid by ITESs, no TDS against the remittance, provision of 10.0 per cent cash incentives on export value. In Finance Act 2008, 11 types of businesses were registered as ITESs, with periodic inclusion this has now risen to 28 businesses at present. The list, however, is being expanded primarily driven by lobbies. There is also widespread misuse of codes by some companies which enable them to enjoy various types of tax incentive which were geared for ITESs.

Level Playing Field Issues

According to industry experts, discrimination between online and offline businesses violates the principle of the level playing field. In general, the tax structure in Bangladesh incentivises enterprises to remain in the informal economy. According to VAT and SD Act 2012, if annual turnover is less than BDT 50 lakh annually, there is no VAT. Between BDT 50 lakh and BDT 3.0 crore turnover, a 4.0. per cent turnover tax is to be imposed. If the turnover is higher than BDT 3.0 crore, VAT registration is mandatory, and VAT is to be paid at the rate of 15.0 per cent (with various adjustments). However, according to General Order No-17/VAT/2019, any online shop, ITES, ride sharing business with SO99.60, SO99.10, and SO80.00 respectively along with super shop, shopping mall are required to be VAT registered regardless of annual turnover. According to industry experts, this provision violates the principle of level playing field. All economic participants should receive the same tax treatment, regardless of whether they engage in digital commerce or not.

According to industry experts, an online store serving the same customer of a traditional business must pay VAT, TDS, and all other corporate income taxes because it is easier for the NBR to inspect them. The NBRs officials can obtain the list of E-commerce businesses from various organisations. In addition to these, according to 186-Law/2019/43-VAT, all E-commerce companies are required to pay VAT on the purchased products for selling purposes. But this is not applicable to traditional shops. Through Finance Act 2021, E-commerce businesses exceeding BDT 1 crore is considered as TDS Authority whereas in traditional business, merchants and vendors don't have to take the responsibility of the TDS. Industry experts are of the opinion that E-commerce companies have to comply with ITO 1984 and VAT act, which raises operating costs while those of the traditional businesses are lower due to lower compliance requirements.

At present, publicly listed MFS companies pay taxes at the rate of 37.5 per cent and non-publicly listed MFS companies at the rate of 40.0 per cent. According to some industry experts, the overall tax structure of MFS is onerous for these entities; the high tax rate stifles growth and was likely to adversely affect the development of digitisation process in the country. On the other hand, The MFS sector is charging a high cash-out charge, such as bKash's cash out charge rate of 1.85 per cent, Nagad's charging 1.45 per cent; and that of Rocket is 1.8 per cent. Platform gateways in Bangladesh such as (SSLCOMMERZ; Qcash) which provides network to customer and MFS providers and card issuer for completing transactions also charge significantly high commission per transaction. Industry experts believe that lowering of commission fee of the payment gate and the consequent lowering of transaction fees of MFS will stimulate the growth of the E-commerce industry, which by raising the profitability of MFS will create opportunities for tax earnings. Additionally, the current tax rates for MFS should also be revisited.

VAT-Related Issues Concerning Non-Resident Digital Service Providers

The 15.0 per cent VAT on the revenues of the non-resident tech giants in Bangladesh raises some serious concerns. One of these relate to resident MNCs operating in Bangladesh. Majority of these companies, which are registered in Bangladesh, do not pay advertising fees to non-resident tech giants such as Facebook, YouTube, Google, etc from their bank accounts held in Bangladesh[62]. Payment is made by parent companies, a large part of which are mostly located in tax havens. Consequently, the GoB is losing a substantial amount of VAT. Another concern relates to payments made to tech giants through informal channels. According to industry experts, small online businesses typically rely on Facebook pages or groups for social media boosting services in exchange of payments made. However, these pages or groups pay social media sites for receiving their services through foreign bank accounts. Because of this as well, the GoB is losing a significant amount of VAT.

Yet, another concern arises from violation of the principle of taxation because of double taxation. A large number of unregistered small businesses, without BIN, as also individuals, suffer from double taxation when they make payments to these tech giants through the banking channel. The situation arises when after the non-resident tech giants began to register with the VAT (value-added tax) wing of the NBR and started submitting VAT returns since (August 2021) in compliance with the country's law. As per VAT law, non-resident businesses charge 15.0 per cent VAT for customers with the bill charged for the service taken by the customers; on the total bill, the bank again charges 15.0 per cent VAT as this is considered as overseas payment. This results in double taxation – payment of about 32.5 per cent as VAT. VAT officials of the NBR find it difficult to disentangle this Gordian knot. Small and medium businesses are not very keen to

[62]This was mentioned by a number of experts present at the EGM as also during KIIs held as part of the present study.

obtain VAT registration since they have to incur some additional costs associated with compliance awareness. Businesses have to pay hefty penalty if they fail to submit VAT returns by the 15th of every month.

Tax Compliance and Other Issues Related to Digital Economy

According to the Office of the RJSC, 2,75,460 public and private limited companies were registered with the office in September 2022 and according to the NBR data, nearly 40.0 per cent of registered businesses, or 1,08,360, operate in the country without a TIN (Hasan, 2022). At present, corporate taxpayers are required to submit 29 types of documents, primarily in paper form, to the tax department each year. Thus, corporate taxpayers are required to submit multiple documents that are validated at multiple stages; consequently, the cost of filing tax returns rise[63].

As previously mentioned, till now 9 non-resident MNCs have received VAT registration and started submitting VAT return. Until August 2022, the NBR didn’t have any mechanism to verify the actual payable VAT by non-resident MNCs. In FY2022–23, an initiative was taken to prepare an audit manual with specific guidelines for scrutinising the furnished information in the VAT returns to ensure proper collection from entities. The NBR issued the VAT Audit Manual 2022 in August 2022. Topics covered included: a) the purpose and scope of VAT audits; b) audit inquiries; c) pre-audit preparations, and audit information processing; d) procedures for identifying tax evasion; and e) the audit performing procedure, audit report reviews, and tax assessments based on audit reports.

To restore confidence in E-commerce, RSJC has started issuing DBID since June, 2022. However, the number of DBIDs which was issued following this has remained very low compared to the number of businesses which applied for the same. According to industry experts, RSJC actions relating to DBID issuance are not automated and are rather done manually, which is rather time-consuming. Moreover, in addition to the trade license, applying for a DBID is financially burdensome for an online licensing entity which does not see any tangible benefit from registration.

Startup Investment in Digital Economy

According to Bangladesh Start-up Ecosystem 2021-2022 (LightCastle, 2023), in 2021, the country has attracted a total of USD 415.0 million in startup investment which was 8.95 per cent of total FDI flow[64] to the country in the corresponding year. The Top 6 Sectors

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[63]In the budget speech for FY2023–23, it is proposed that businesses will have to maintain 12 types of documents for their tax return submission, this will make tax return process easier for businesses.

[64]Total FDI to the country in FY2021–22 was USD 4,636 million (MoF, 2023a).

(Fintech, Logistics & Mobility, E-commerce & Retail, Healthcare, Consumer Service, Software & Technology) raised more than USD 692 million in the last 10 years, of which more than USD 500 million went into the fintech sector.

Funding for startups was to the tune of USD 630 billion in 2021 which was projected to fall to USD 439 billion in 2022. The Russia-Ukraine war, economic slowdown and rising inflationary pressures were attributed to this (LightCastle, 2023).

The start-up ecosystem in the Bangladesh is at a nascent stage of development and needs to be supported. Foreign investors in Bangladesh typically complain about bureaucratic hurdles that constrain business operations and receiving licenses. Industry experts mention about time-consuming bureaucratic procedures, weak socio-economic and physical infrastructure, widespread corruption, lack of effective governance, high cost of doing business, delays in decision making, and a complicated tax system which impede international investment.

According to BIDA, foreign investors are reluctant to invest in Bangladesh since the country's tax rates are higher than those of competing countries. Country's corporate tax rate comes to about 40–45 per cent due to various taxes such as advance income tax and source tax, whereas the average global corresponding tax rates happen to be in the range of 21and 24 per cent. The rate is 20.0 per cent in Vietnam, 25.0 per cent in Indonesia, and 24.0 per cent in Malaysia ('Foreign investors turn', 2022).

With the Digital Bangladesh agenda being championed by the government, it is essential that policy for start-ups is designed to support the relevant ecosystem players. These could include ease of access to debt finance, lowering the cost of doing business, and ease of doing business, as well as fiscal policy support in the form of VAT/tax exemptions and rebates. In FY2021–22, in response to the rise of the number of start-ups in the country, the GoB has introduced the start-up sand box plan, subject to certain conditions. The entity must be incorporated after FY2017–18 but registered by June 2023. According to start-up experts, the majority of funding-eligible start-ups were formed prior to FY2017–18. There is a need to revisit the time frame.

Potential Impact of Withdrawal of Moratorium 1998 for Bangladesh

As per the 1998 moratorium on customs duty on e-transmission, WTO members agreed not to impose any customs duty on imports of electronically transmitted goods and services. However, the moratorium has come under close scrutiny and many developing countries such as China and India have questioned the justification of continuation of the moratorium.

Banga (2019) estimated the total e-transmission of 49 products by calculating the difference between actual physical imports and the projected physical imports for 2017. This difference is thought to be the magnitude of digital transactions. The author then applied tariff rates applicable for each of the 49 products to estimate product-wise tariff revenue loss which, was then aggregated to arrive at the amount foregone revenue. This gave a rough estimate of total tariff revenue loss arising from the moratorium. However, Banga (2019) did not calculate the figure for Bangladesh. According to estimates carried out by Andrenelli & González (2019), the total tariff revenue loss for Bangladesh in 2016 was to the tune of about USD 47.6 million (although the number of products they have considered was not spelt out).

The present study has estimated the tariff revenue loss for Bangladesh by considering the imports of 24 digitalised goods, following the methodology developed by Banga. In the first stage, the study used actual physical import data from 1996 to 2014 to calculate the average annual growth of imports. Following this, the average growth rate was used for purposes of making a linear projection of actual physical imports for the years 2015 through 2021. The difference between the actual physical imports and projected physical imports, for each of these years, for each of the products, was then considered as the estimated electronic transaction of digitalised goods. By considering applied tariffs for each of the products, tariff revenue loss, both product-wise and total, was estimated for each of the years. The results have been presented in Table 10.

Table 10 Estimated Revenue Losses Arising from the Moratorium 1998

(in USD million)

Year	Total Physical Imports of digitalised goods (24 products) (a)	Projected physical imports of goods based on average import growth rate. (24 products) (b)	Estimated electronic transaction of digitalised goods. (24 products) (c)= b-a	Estimated Tariff Revenue Loss using applied tariff. (24 products) (d)
2017	165.15	412.03	246.88	12.34
2018	179.60	504.32	324.72	16.24
2019	161.96	596.61	434.64	21.73
2020	157.61	688.89	531.28	26.56
2021	184.06	781.18	597.12	29.86

Note: Average growth rate of imports from 1996–2012 has been used to make a linear projection of imports for 2017 to 2021.

As can be seen, the estimated E-transmission of these 24 products rose from USD 246.88 million in 2017 to USD 597.12 million in 2021 while actual physical import figures remained relatively stable over the years. Projected tariff revenue loss (for the 24 digitalised products) rose steadily from USD 12.34 million to USD 29.86 million over the corresponding period. The magnitude of tariff revenue loss is significant and perhaps represents only a partial picture since only 24 digitalised goods were considered (while the total number of items and their imports are much higher). A more thorough study of the issue is called for to arrive at possible revenue implications.

If and when the moratorium 1998 is lifted, developing countries which are net importers of e-transmission services will stand to gain through additional tariff income. However, this could also entail consumer welfare loss. According to a study (Makiyama & Narayanan, 2019) the imposition of tariffs on electronic transmissions, including content, could also lead to a decline in the gross domestic product. The present study, however, could not undertake an estimation of GDP or consumer welfare loss arising from possible withdrawal of the moratorium.

Opinion of Different Organisations

In a pre-budget discussion[65] in 2022, the e-CAB leaders had put forward several demands to the NBR ('E-cab for withdrawing source tax', 2022). As regards setting a limit for eligibility of VAT registration, the e-CAB leaders demanded elimination of inequalities in VAT rates between E-commerce and conventional businesses. For E-commerce, VAT registration is mandatory in all cases regardless of annual turnover. e-CAB wants to have parity between the two through alignment. e-CAB leaders also proposed that a distinction be made between online and traditional shop under the VAT law. They claimed that lack of classification for online marketplaces is creating barriers for the business, as their activities are being considered as retail business. The e-CAB demanded removal of VAT imposed on the rent of a business's office, warehouse, fulfilment centre, and sorting houses. The Business representatives also demanded bringing the entire VAT system under digitalisation as paperwork tends to slow down E-commerce businesses.

The association also demanded lowering of VAT on takeaways for online and app-based food delivery services to 5.0 per cent, which currently stands at 15.0 per cent ('E-cab wants VAT omission', 2022). As part of SO28.00, 15.0 per cent VAT is imposed on courier and express mail service. According to the e-CAB blog (e-CAB, 2021a), all logistics and product delivery services which deliver products of E-commerce enterprises for a fee should be subject to 5.0 per cent VAT.

Some E-commerce industry experts and the e-CAB (e-CAB, 2021c) have proposed the elimination of the minimum tax rate of 0.60 per cent on gross receipts. E-cab has

[65]Pre-budget discussion held between e-CAB and the NBR on February 16, 2022.

argued that the E-commerce sector is yet to be profitable and thus should not be liable for payment of this. However, some IT industry experts have reservation as regards the loss-making figures. According to some industry experts, most goods providers and manufacturers do not want to comply with the TDS provision, so E-commerce has to bear the cost of non-tax compliance. According to industry experts, based on E-commerce sales report, the NBR should collect tax from manufacturer instead of imposing the onus on E-commerce business. They also argue that NBR should expand the turnover limit for collecting TDS from manufacturers and goods providers. The e-CAB has proposed that the NBR should consider E-commerce as TDS authority from 2027 (e-CAB, 2021c).

Regarding double taxation, advertising expenditure has been on the rise, leading to the rise in product prices. This acts as a barrier for entrepreneurs who aspire to grow. The e-CAB has suggested to find ways to address this emergent issue. The Bangladesh Bank has requested the NBR to issue an order exempting banks from the task of deducting VAT at source from the service charges which non-resident companies are repatriating to their home country. VAT officials feel that it is difficult to issue instructions waiving the 15.0 per cent VAT deducted at source since VAT officials have to assess the number of sales or services delivery first. A separate monitoring team dealing with E-commerce businesses is needed in the VAT wing to track such services, according to NBR officials (Mala, 2021). The e-CAB has proposed to waive all types of taxes and VAT on E-commerce transactions using digital payment systems (e-CAB, 2021b). The e-CAB has proposed The Trade license Act 2016 be amended (e-CAB, 2021c). According to e-cab, there is a need to add 'E-commerce' under the types of business category in the trade license.

According to BASIS, budget for FY2022–23 does not reflect the ICT sector's demands which are, according to them, aimed at accelerating the development of the industry. However, BASIS welcomed the budget proposal to exempt start-ups from all types of reporting obligations, excepting the filing of income tax returns. BASIS had earlier also proposed extending the exemption of corporate tax to businesses related to software development and IT-enabled services (ITESs) from 2024 to 2030. ('ICT sector's demand', 2022).

To note, BIDA has called for bringing tech giants, such as Facebook, Google or Amazon under corporate tax net ('Foreign investors turn', 2022). At present, these companies are required to pay only the VAT.

Market Openings and Opportunities

Bangladesh has a potential opportunity in digital device manufacturing, low-cost manufacturing of digital appliances and semiconductor design. In view of the ongoing conflict between the US and China, product diversification seeking FDI could play an important role in this regard. A large number of prominent business houses have evinced interest in digital device manufacturing[66]. However, digital economy in Bangladesh is facing a number of challenges. For example, a locally produced laptop, assembled by a domestic firm, at Hi-Tech Park in Bangabandhu Hi-Tech City of Kaliakor, is an example of promises belied (Jui, 2022). High excise duty on imported computer parts and a complicated bureaucratic process have constrained its potentials for growth. Importing a fully assembled laptop incurs a 9.0 per cent duty fee, whereas for some laptop components the duties are as high as 47.0 per cent. SMEs were promised tax exemptions on imports when setting up factories at Hi-Tech Park, but in reality, they enjoy no such exemptions. A number of companies which have set up units in Hi-Tech Park are not being able to enjoy tax benefits since it takes a long time for them to begin production and the tax exemption period often expires before the enterprises start to make profit. Lack of co-ordination among various concerned entities creates problems for these enterprises. As a result, local manufacturers lose competitiveness against established brands.

As previously mentioned, Bangladesh is among the top three countries with the most active Facebook users. The connected nature combined with a robust user base has given rise to the F-commerce ecosystem. There are over 2,00,000 active F-commerce pages doing business in Bangladesh (e-CAB, 2021a). However, F-commerce in Bangladesh is encountering several challenges. There is no legal framework to regulate the F-commerce sites. Regulations and permission required to set up a business are not applicable as there is no regulatory authority overseeing the process. Recently, Httpool, Meta's sales partner in Bangladesh, has limited the availably of ad space on the Meta Platform for Bangladesh as it failed to repatriate funds following curbs on dollar outflows. This restriction will be particularly damaging for small F-commerce businesses which are inextricably reliant on Meta's social media platform such Facebook, Instagram.

According to DBID registration guideline, all Facebook-based businesses will have to register, and will not be allowed to operate without DBID. However, the number of application and issuance of DBID has been very low. Though there are formidable challenges, F-commerce in Bangladesh has a lot of prospects. The Covid-19 has shown that people have a keen interest to go for online shopping. The government should take regulatory steps to formalise F-commerce and bring it within the ambit of formal economy. Securing personal data should also merit attention on the part of policymakers[67].

Issues of smooth transfer of payment against digital service provisions such as services of freelancers has also emerged as a concern. Widely recognised platforms such as PayPal

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[66]Indeed, an IoT-based smart water monitoring system has been introduced recently in Fish Farming in Bangladesh which could boost productivity by 30.0 per cent (insights from experts).

[67]A leading ride-sharing company in Bangladesh was accused of extracting data without authorisation from customers who downloaded the particular app. Another leading E-commerce platform in Bangladesh was is-

are still not available in Bangladesh. Payoneer and Skill type of gateways could serve as possible openings for digital transactions; however, these are not very popular. The absence of easy transfer of money to countries of service providers includes consumers of such services to go for other countries. India has access to Payoneer, PayPal, Direct Bank Transfer, Stripe and Escrow which is a plus point for the country. Due to the absence of PayPal, majority of the freelancers in Bangladesh are forced to take their remuneration in dollar in their respective bank account through wire transfer. However, since the bank doesn't treat these transactions as service earnings from foreign entities, a 10.0 per cent source tax is applied on the earnings. As a result, even though the government has tax exemptions in place for freelancers, the source tax is nonetheless deducted for the service providers (Rabab, 2021).

The above is one of the key reasons why accurate information as regards the actual earnings made by the country's freelancers through informal channels remains a grey area in Bangladesh. One of the main reasons why PayPal is not available in Bangladesh relates to bureaucratic complexities. The latest Foreign Exchange Transaction Guideline Volume 1 Chapter 8, Para (23), sub-Para (2) illustrates that the Authorised Dealers (AD) shall enter into standing arrangements with international Online Payment Gateway Service Providers (OPGSP) and are to maintain separate Nostro collection account for each OPGSP (Bangladesh Bank, 2017). There is ostensibly no bar put up by the central bank and this can be addressed through energetic steps.

Automation of VAT System

The NBR has set a revenue collection target of BDT 3,88,000 crore for FY2022–23. VAT was to be collected to the tune of BDT 1,41,192 crore, which accounted for about 36.4 per cent of the total revenue collection target (MoF, 2022c). In FY2023–24 budget, the revenue collection target has been set at BDT 5,00,000 crore and the VAT target at BDT 1,63,837 crore (MoF, 2023b).

Since the NBR's VAT system generates significant revenue for the public fund, the government has planned to make VAT collection more transparent. As is known, manual VAT collection is susceptible to fraudulent practices. The NBR has now taken the initiative to instal EFD as a step towards increasing internal revenue collection. EFD devices are to remain connected to the NBR's EFDMS (Electronic Fiscal Device Management System) server. EFD technology will allow the NBR to track shop sales in real time and prevent VAT evasion. At an event on the implementation of the EFD project, the NBR stated that proper implementation of the project would increase annual revenue by more than BDT

sued legal notice for using an individual's email address (identity information) without getting consent from service takers (Misbah, 2019).

20 thousand crore (New Age, 2022). According to the NBR website[68], till now EFD has been placed and is being operated by only 1,054 businesses. By June 2023, 10 thousand EFDs are planned to be installed in various businesses, according to VAT officials; the NBR has been able to install only 4 thousand machines at different stores, mainly in Dhaka and Chattogram (New Age, 2022). The small traders are unwilling to pay more than BDT 20 thousand for installation of devices at their business establishments (Shaolin, 2021). Some businesses which have installed EFDs continue to carry out transactions without giving inputs to the devices.

IMF Programme and Tax Mobilisation Implications

The IMF has put forward a number of recommendations as part of the USD 4.7 billion balance of payment (BOP) support extended to Bangladesh. One of these related to raising the tax-to-GDP ratio by 1.7 per cent points from the current 7.8 per cent to reach 9.4 per cent at the end of the FY2026–27. IMF has set target of tax revenue of BDT 3,456 billion in current FY2022–23. This would imply that an additional BDT 2,340 billion will need to be collected over the three years from the current fiscal year in order to meet the IMF's condition, as is evidenced by Table 11.

Table 11 **IMF Tax-Revenue Target for Bangladesh**

FY	Total Physical Imports of digitalised goods (24 products) (a) (in per cent)	Projected physical imports of goods based on average import growth rate. (24 products) (b)	Estimated electronic transaction of digitalised goods. (24 products) (c)= b-a
2022–23	7.8	3,456	—
2023–24	8.3	4,104	648
2024–25	8.8	4,839	735
2025–26	9.4	5,796	957

Note: IMF country report no 23/66.

IMF has indicated concerns as regards Bangladesh's tax exemption scenario and has suggested that the tax exemptions be reviewed and revised in light of current developments. As was noted earlier, revenue to GDP would have been more than 17.0 per cent had there been no exemptions. It has been argued in the paper that any exemption should be time-bound, the tax expenditure should be transparently articulated and there should be sunset clauses when these are put in place.

[68]https://the NBR.gov.bd/frontend_controllers/efd_controller/index/eng

4

A MIDTERM ROAD MAP FOR DIGITAL ECONOMY TAXATION

Drawing on the preceding discussions, the present section puts forward a number of recommendations as regards taxing Bangladesh's digital economy. As was noted, digital economy is expanding at a fast pace in Bangladesh, however, commercial and entrepreneurial activities taking advantage of the various digital platforms are still at a nascent stage in the country. This is true both for domestic as well as export-market oriented businesses. A part of the digital economy has already been brought under various types of taxation. On the other hand, there are other areas which need careful examination and consideration for purposes of taxation either for now or in future. There are areas where the ambiguities need to be clarified and loopholes need to be plugged. Thus, based on the previous discussions, the proposals here consider both opportunities of revenue mobilisation, as also the trade-offs between tax collection and growth potentials of an otherwise nascent digital economy of Bangladesh.

Review Tax Exemptions and Broaden the Tax Net

The discussion on tax exemption and how far tax incentives should go is an old one in the Bangladesh context. Misuse of tax incentives such as tax holiday had brought under question the justification and the efficacy of many of the incentives in places. The previously mentioned NBR study highlights the substantial amount of foregone taxes because of various exemptions. There is a need to undertake a thorough review of these policies in place. Taking cue from the foregone tax revenue estimated by the authors and presented in Section 3, it is seen that the GoB has the potential to generate a substantial amount of annual revenue from various tax-exempt areas, as provided in Table 12 below.

Table 12 Summary of the Calculated Foregone Tax Revenue

Potential Area	Amount
Moratorium 1998	USD 29.86 million
10% TDS exemption on ITES export	USD 21.7 million
BPO sector	BDT 540.97 million

Note: The figures pertain to the FY2020–21 (as also calendar year 2021 in some cases).

As the NBR figure, quoted earlier has shown, the total value of VAT and income tax exemptions in FY2019–20 was equivalent to BDT 500 billion. Obviously, some rationalisation of the exemptions is called for. If the VAT and tax exemptions can be reduced by 10.0 per cent annually, the GoB can increase its DRM by BDT 50 billion each year. On the other hand, in view of the dynamics and shifting changes in the economy, new opportunities of taxation will also need to be explored on an ongoing basis. There is no denying that in going forward Bangladesh's tax-GDP ratio will need to be significantly raised. There are important trade-offs involved as far as digital economy taxation is concerned; there is also short and medium to long-term issues involved. Decision as regards taxation ought to take into cognisance the multi-dimensional impacts in the economy. Cost-benefit analysis of specific tax exemptions must precede any new move in this connection. Considering the above, following steps are recommended in view of digital economy taxation in Bangladesh.

Make Tax Incentive Decisions in a Transparent Manner

A comprehensive approach is required from a macro perspective to assess the rationale of tax exemptions. Tax expenditure should be seen as an integral part of an efficient and effective tax system and there should be accountability and transparency since tax expenditures are viewed as part of government expenditure. A set of guidelines for evaluating tax exemption should be prepared, shifting away from the current practice of ad hoc decisions. Before granting tax exemptions, the following factors should be considered: development status of the specific sector, maturity of the industry, number of years the exemption has been in effect, rationale for the protection and justification of extension of exemption or new exemption.

It is of interest to note that the Indian government had started to publish the Statement of Revenue Foregone back in 2006. It is also worth mentioning in this connection that the GoB has for the first time in Bangladesh provided the estimation of 'Direct Tax Expenditure 'in the budget speech of FY2023–24. Earlier, at a public dialogue held on April 29, 2023 to discuss a draft of the present report, CPD had suggested that policymakers should publish the statement of foregone tax revenue. CPD welcomes this practice.

However, the GoB estimate of tax expenditure was limited to direct taxes, and the methodology used to calculate tax expenditure was not specified. NBR should undertake a similar initiative for 'indirect tax expenditure' as well. It is recommended that a detailed assessment of tax expenditures including an appropriate definition and a methodology for measuring tax expenditure be developed towards a restructuring of the existing tax expenditure measures in Bangladesh.

Tax Selected ITES Sector in View of Expiration of Tax Exemption in FY2023–24

On expiration of income tax holidays of ITESs enjoyed by the 28 (to come to an end in FY2023–24), there is a need for an immediate revisiting of the exemptions. As was noted, many of these ITESs are currently enjoying income tax exemption for several years, ranging between 2 to 15 years. Table 13 presents some of the details in this connection.

Table 13 Summary of the Calculated Foregone Tax Revenue

Year	List of Businesses under ITESs
Since 2008	*8 businesses:* Digital content development and management; Digital animation development, Geographic Information Service (GIS); IT support & software maintenance; Website service; BPO (only IT Process Outsourcing and Robotics Process outsourcing)[69]; Call centre; Digital data entry and processing[70]
Since 2011	*4 businesses:* Digital Graphic design; Search engine optimisation; Website listing; Document conversion, imaging and archiving
Since 2017	*9 businesses:* Software development; Software or application optimisation; National Telecommunication Transmission Network (NTTN); Website development; Website hosting; Software test lab service; Digital Data Analytics, Cybersecurity service; Oversee medical transcription
Since 2021	*6 businesses:* Cloud service; System integration; e-learning platform; e-book platform; Mobile application development service; IT freelancing

Source: Authors' compilation based on the Finance Act.

Note: Some definitions as regards the various ITESs have changed over time.

[69]In the Finance Act 2008, there is no mention of IT process outsourcing and Robotics process outsourcing. Instead, these are mentioned as BPO. However, in the Finance Act 2017, a new list was provided where these are mentioned separately.

[70] In the Finance Act 2008, there is no mention of Digital data entry and processing, instead Data entry and Data processing are mentioned separately. In the list of the Finance Act 2017, digital data entry and processing (as a single item) was mentioned, instead of Data entry and Data processing separately.

It is not known whether the NBR has taken any study to estimate what is the base for taxation and what is the amount of taxes foregone on account of the attendant exemptions. NBR should examine which services need continuation of the incentives and which have attained some degree of maturity and should come under income tax net. In view of the current exemptions coming to an end in FY2023–24, an independent assessment in this regard is called for so that a decision that balances cost and benefits can be taken. Since these tax-exempted services are required to submit their return files, NBR is in a position to make the necessary calculations and find the amount of tax foregone. The case of businesses that have enjoyed ITES tax exemptions for more than a certain period (for example 10 years) and are making profits should be re-examined and should be considered for purposes of imposition of income taxes.

Impose Sunset Clause with Respect to Tax-Exempted Areas

In line with other countries, it is suggested that the NBR should consider implementing sunset clauses for both existing and future tax exemptions including the Hi-Tech Park and ITESs. The Hi-Tech Park developers and investors are exempt from income tax for a specified period. However, without any specific timeframe, some businesses could take advantage of the tax breaks by liquidating old companies and registering under new names. Cross-country evidence suggests that several countries have implemented sunset clauses in connection with tax exemptions and incentives. For example, India has imposed a sunset clause regarding incentives for investors in the Special Economic Zones (SEZs). As in India, when an incentive is proposed, a sunset clause should be added whereby only units which will go for investment before a set timeline will be eligible for reduced tax or full tax exemption as per stipulated law. India also specifies the types of income eligible for tax exemptions. For example, only export income for SEZ units is exempted from taxation for the first five years under Section 10AA of the Income Tax Act.

To promote transparency and tax equity, it is recommended that the GoB considers imposing a sunset clause on tax exemptions for the Hi-Tech Park and the tax-exempted ITES sectors which have enjoyed these exemptions for a significant period. For example, profitable ITESs which have been enjoying tax exemptions since 2008 could be brought under the tax net by the Finance Act 2027, and the rest of the profitable ITESs could be brought under the tax net by the Finance Act 2030. In addition, to address the taxation of IT freelancing, which is currently tax-exempted under the ITESs, the NBR and GoB may take lessons from India which has imposed tax on freelancing.

Bring Non-Resident Tech Giants into Income Tax Net

Till now, the NBR has exempted non-resident firms having no offices in Bangladesh from filing income tax returns. In the budget statement of FY2022–23, the NBR was asked to take preparation to collect income tax from non-resident businesses. To do this, the NBR will need to ensure submission of accurate income tax returns and establish appropriate rules regarding the scope and area of income and exemption for non-residents. At present, non-resident companies do not have the scope of taking a TIN since these are not registered in Bangladesh. To remedy this, it is recommended that legal provisions need to be put in place for non-resident businesses to get TIN and submit respective tax returns. This should be addressed through changes in the Finance Act and Income Tax Law.

Address Definitional Ambiguities as Regards Digital Economy

Extend the Scope of Service Code 99.60

The definitional scope of the SO99.60 (applicable for FY2022–23) relating to sales of goods through online was considered to be rather narrow. It didn't cover businesses carried out through online marketplaces and platforms. There are E-commerce sites that are primarily platform-based (for example, Daraz, Ajkerdeal and Bikroy.com) where sellers are able to advertise their products in exchange of a fee or commission to be paid to concerned platform operators, and where buyers pay the sellers for the product and a commission to the platform operators. At the public dialogue held on April 29, 2023, on the draft of the present report, CPD had proposed to policymakers to consider either extending the scope of existing definition of S099.60 to include marketplace or introducing a new service code for online marketplace.

It is encouraging to note that, in the backdrop of CPD's recommendations, the budget speech for FY2023–24 has put forward a proposal to incorporate marketplaces within the definition of SO99.60, which is a positive development. CPD welcomes this move.

Introduce a Precise Definition of E-commerce in Income Tax Law

The ITO,1984 has recognised the E-commerce sector as a tax deducting authority. However, the ordinance does not provide a clear definition of E-commerce. In the present scenario, a significant number of businesses have an online presence in addition to physical presence. Consequently, it is suggested that a precise definition of E-commerce be included in the Income Tax Law.

Introduce a Comprehensive Definition of ITESs

The concept of 28 ITESs such as IT Process Outsourcing, Website service, freelancing etc. is indeed very broad. It is found that certain companies disguise themselves as ITESs to evade the various taxes including the VAT. This can be attributed to lack of clear-cut definition, and the ambiguities in the classification criteria. In this backdrop, it is recommended that the NBR needs to come up with a precise and comprehensive definition of each of the ITESs which are granted exemptions so that misclassification can be avoided and the NBR does not end up with collecting lower amount of taxes. HS classification of services needs to be introduced for this purpose.

Introduce Standardised Accounting Practices for Valuation

It is found that some digital businesses resort to overvaluation to avoid paying taxes, by charging higher depreciation. This allows companies to show lower profit resulting in lower tax obligation. To address this issue, it is recommended that the Financial Reporting Council of Bangladesh monitors the process of valuing ITES services and establishes specific valuation guidelines considering the specific type of intangible assets involved. This approach will provide businesses with a clear framework to follow when making a valuation of their intangible assets. This will help in more accurate and transparent financial reporting. This will also be helpful in selling the company as well as public offloading of shares of the concerned company. A Standardised Accounting Framework may be developed expressly for the digital economy to address this. This would allow the NBR to determine actual tax liabilities of digital companies and will help with enforcement of tax regulations by NBR officials.

Take Steps to Broad Base Tax Net to Include Digital Economy

It is important that all concerned entities in Bangladesh are geared to identifying areas of opportunities to gradually bring the whole spectrum of the various digital business under the tax net. It may be recalled that the BBS periodically undertakes review of National Income estimation whereby new areas of economic activities are identified for purposes of national income accounting. To recall, in the latest such exercise, several new service sectors were brought under the ambit of national income accounting. Several new sectors were added in the national income calculation while establishing the new base year for FY2015–16. For example, mobile financial services, ride sharing services and agent banking services were added for purposes of national income calculation. The NBR should co-ordinate with the BBS in this regard and take steps to bring the newly emerging sectors under tax net to broaden the tax base. Indeed, this is one reason why in Bangladesh the denominator (Gross National Income) is expanding, and the numerator (tax collection) is not catching up, resulting in lowering of the tax-GDP ratio.

Address the Disparity between the Reported Export Proceeds of the EPB and Actual Proceeds

There is a significant disparity between the EPB's data on IT service exports and those provided by business associations such as BASIS. According to industry experts, many businesses and freelancers receive their export earnings through informal channels and also often do not bring the full value of their exports to the country. Steps should be taken to capture reliable export data to address this issue. It is suggested that Bangladesh Bank and the EPB put in place appropriate tools to encourage and incentivise sending of related earnings through formal channel. In view of the current pressure on forex reserves, this has become even more urgent. The GoB already provides a 4.0 per cent incentive for transfer of money though formal channels. Other avenues need also be explored to promote the transfer of money through formal channels.

Take Preparation for the Possible Lifting of Moratorium on Customs Duty on e-Transmission

The possible withdrawal of the moratorium on customs duty on e-transmission, in place since 1998, will require adequate preparation on the part of the NBR. If this happens, it will allow Bangladesh to impose customs duty on imports via e-transmission. Therefore, it is recommended that the NBR takes adequate preparation, with appropriate technological infrastructures in place, to capture imports through e-transmission and impose custom duties on these. However, coverage and duties should be decided by taking into consideration consumer welfare implications, interests of the domestic services sector and revenue implications.

Take Initiatives to be Member of OECD/G20 Inclusive Framework in View of Implementation of OECD's Two Pillar Solution

In order to take advantage of OECD's two-pillar solution and benefit from taxing non-resident tech giants, it is proposed that the GoB should take steps to become a member of the OECD/G20 Inclusive Framework. Regional countries such as India, Pakistan, Thailand, and Sri Lanka have already become members of this framework. It is to be noted that the NBR and GoB may apply to be observers of the framework to learn from the system prior to deciding on whether to join the framework. To effectively implement the OECD's Two-Pillar proposal, the NBR will need to develop the required capacity to track revenue generated by non-resident tech giants operating in Bangladesh. A well-co-ordinated strategy and readiness in technological and infrastructure areas will be required to successfully implement the proposal as and when the GoB becomes a signatory to the framework.

Address the Concerns as Regards the VAT Payment by Tech Giants

In the preceding section, a number of VAT related issues concerning non-resident companies were highlighted. These include double taxation problem, payments made to tech giants such as Facebook, YouTube, Google, etc., through informal channels and through parent companies' bank accounts in tax havens, instead of making payments through bank accounts in Bangladesh.

The NBR will need to develop the needed technological infrastructure to monitor unofficial transaction channels and bring those into the VAT net. Additionally, a policy must be formulated to ensure that MNCs pay advertising fees to non-resident companies such as Facebook, YouTube, Google, etc., from their bank accounts held in Bangladesh instead of through those of their respective parent companies. This will enable the NBR to collect the due amount of VAT from such transactions.

To address the issue of double taxation, the NBR and Bangladesh Bank should develop a co-ordinated policy so that individuals without BIN are not doubly taxed. The VAT wing of the NBR, in collaboration with Bangladesh Bank, should establish a dedicated E-commerce monitoring team to track transactions of non-resident businesses and identify cases of double taxation. Both human resources and technological capacity of NBR officials will need to be strengthened to deal with such matters.

Raise NBR's Capacity to Tax the Digital Economy Digitally

The NBR will need to develop the capacity to monitor and assess the transactions of internet-based businesses and use the metadata to assess incomes and returns. In Bangladesh, majority of online businesses claim to operate at a loss. Consequently, it is recommended that the NBR needs to bring the entire digital economy into tax network, digitally, and be able to track and trace the relevant transactions. The NBR has taken the initiative to gradually set up EFDs at the retail level. However, the pace has been rather slow. Revenue authorities in many countries are taking advantage of leveraging metadata which then can be analysed to undertake proper assessment for purposes of taxation. The NBR has recently taken a programme to install 300 thousand EFDs over the next 5 years. This should be seen as part of implementing the broader strategy of digitalisation of the entire taxation system.

Additional Steps

A key factor which is important to drive the growth of E-commerce in Bangladesh is related to the availability, access, and speed of the internet which is the backbone of the digital economy. Adequate investment must be made to improve the internet speed to stimulate the growth of digital platform-based activities and businesses. Additionally, the GoB should consider introducing PayPal as a transaction medium in Bangladesh to capture actual export proceeds from freelancing activities. To make it easier for businesses to operate in the digital ecosystem, the GoB may consider developing a special website that contains all the relevant rules, regulations, provisions, and SROs associated with digital economy taxation. This will enhance transparency and accountability and bring clarity as regards taxing the digital economy. It is also important to develop a National Startup Policy aimed at fostering the growth of the startup ecosystem and attracting foreign investment. Additionally, the GoB needs to take measures to formalise the F-commerce sectors by bringing it within the ambit of the legal framework. However, such regulations should not impede the organic growth of this nascent sector.

Furthermore, the NBR may consider publishing guidelines for digital economy taxation similar to the Income Tax Nirdershika. These guidelines should include an explanation of relevant tax provisions related to the digital economy, along with practical examples. To ensure effective implementation of initiatives aimed at supporting the digital economy, the NBR may decide on developing a Medium-Term Action Plan. A dedicated committee may be set up to draw up the plan and oversee its implementation. The committee should comprise of NBR officials, representatives of business associations, entrepreneurs, experts, and academics. By working together, this committee can help identify key areas that require attention and develop effective strategies to support the growth of the digital economy and also suggest areas for taxation.

As the digital economy expands, issues of cyber security will increasingly become important. To ensure interests of consumers and secure their personal data, authorities concerned may consider introducing personal data protection law. This will ensure that the interests of consumers are safeguarded, and their personal information is protected from unauthorised access and misuse. The NBR can work in collaboration with relevant authorities to establish guidelines for businesses to comply with the proposed law and ensure that businesses are accountable for any breach of personal data protection. On the other hand, the advantage and opportunities of using metadata for purposes of taking on-the-ground evidence-based developmental decisions also needs to be kept in the purview.

CONCLUDING REMARKS

As was noted in the preceding sections, the digital economy in Bangladesh has been expanding at a fast pace in recent years, with the pandemic adding further momentum to this. In this backdrop, taxation of the digital economy has emerged as a crucial policy concern and interest particularly in the backdrop of the country's low tax-GDP ratio and the urgent need to expand the country's tax base. The paper has argued that while Bangladesh's GDP is growing at high rates (to no less extent thanks to inclusion of many digitally enabled services), only an insignificant part of this increasing segment of the economy is coming under the tax net. Consequently, Bangladesh's tax-GDP ratio has been on the decline, being one of the lowest in the world. The preceding sections have focused on definitional ambiguities concerning the digital economy, the emergent digital economy landscape in Bangladesh, cross-country experiences on taxing the digital economy and the conflicting views as regards taxation and the attendant trade-offs.

The paper has proposed a set of recommendations including newly emerging opportunities of digital economy taxation, tapping income from BPOs and freelancing services through formal channels, and introduction of sunset clauses for tax-exempted sectors. The paper puts forward strategies as to how to deal with non-resident digital service providers (tech giants) and bring these within the ambit of the country's the tax net. The paper has proposed a modality to bring these global players operating in Bangladesh (without any physical establishment) under the income tax network and suggested that Bangladesh should become an observer of OECD/G20 Inclusive Framework (and, subsequently, apply for membership of the initiative). The paper has strongly advocated for deployment of digital technology to tax the digital economy. The paper has argued in favour of remaining engaged in the WTO discussions on lifting of the 1998 Moratorium on customs duty on e-transmission. The paper is cognisant of the trade-offs involved and has proposed a calibrated approach as regards taxing the digital economy in this connection. The paper has called for a revisiting of the income tax exemptions enjoyed by the various IT-enabled services and has proposed a gradual phase-out of these through staggered sunset clauses. The paper highlights the importance of export potentials of Bangladesh's digital economy sector and underpins the need for policy support for the growth of export-oriented components of the digital economy. The paper points out instances of double taxation in view of overseas payments and proposes introduction of PayPal as a transaction medium for transfer of IT-related earnings (e.g., from freelancing, BPOs, etc.) through formal channels.

It is encouraging to note that a number of recommendations put forward at the CPD-EU dialogue to discuss an earlier version of the present report[71] were subsequently accepted by the policymakers and got reflected in the FY2023–24 budget. However, there is still a long way to go to mainstream the digital economy for purposes of both development and resource mobilisation.

Digital economy is the next most promising frontier of the Bangladesh economy and , as such, deserves priority attention on the part of Bangladesh's policymakers, both to ensure high growth of the Bangladesh economy as also as a potential source for domestic resource mobilisation through taxation.

[71]The dialogue was attended by a number of members of relevant Parliamentary Standing Committees, high-level government officials and representatives of concerned stakeholder groups.

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Annexures

Annex 1

Bangladesh's Digital Economy Architecture

Digital economy in Bangladesh is conceptualised into three areas based on the BEA definition of digital economy: (i) E-business instruction, which is divided into two components—Digital enabled service and Digital enabled components/structure; (ii) E-commerce, which is divided into three components, each of which is further subdivided; (iii) digital media, which is divided into three components.

(i) E-business infrastructure: It is divided into 2 components—

(a) Digital-enabling service
(b) Digital-enabling components/structures

(ii) E-commerce: It is divided into 3 components based on the platform, the inventory, the process.

(a) Based on Platform: (i) Marketplace (a type of digital commerce site where sellers can advertise their products in exchange for a fee or commission to the platform providers, and where buyers pay the seller for the product price and a commission to the platform such as Daraz, Ajker deal); (ii) Online shop (website through which products of different brands or own manufacture products are sold such as Sindabad.com, Chaldal.com, etc; (iii) Social media (business conducted through Facebook page or group).

(b) Based on Inventory: (i)Retail or inventory model (where E-commerce platforms buy products wholesale and caters to retail customers such as Shohoz,Sindabad.com); (ii) Market or zero inventory lead model (where E-commerce businesses act as trustees between vendors and consumers in exchange of a fee or commission or provides delivery services on a commission basis and don't maintain any inventory such as Ajkerdeal, Foodpanda, Bikroy.com, BDjobs.com etc).

(c) Based on Process: (i) B2B-Business to business E-commerce (E-commerce that utilises the internet or other electronic means to conduct transactions of goods and services by businesses to other businesses); (ii) B2C-Business to Consumer E-commerce (E-commerce that utilises the Internet or other electronic means to conduct the sale of goods and services by businesses to consumers); (iii) C2C-

Consumer to consumer E-commerce(Also known as platform-enabled E-commerce or sharing economy which involves the exchange of goods and services between consumers facilitated through a digital application. These include ridesharing, delivery and courier services. Such as– Uber, Pathao, Airbnb, Bdjobs.com, Bikroy.com, etc.)

(iii) Digital Media: It is divided into 3 components: (i) Direct sale digital media (Businesses may sell digital products directly to consumers in exchange for a fee, either on an item-by-item basis or through a subscription service. OTT platforms of Bangladesh such as Chorki, Hoichoi, etc., provide television or film content over internet in exchange for a fee); (ii) Free digital media (Consumers are using Facebook, YouTube, Google at no cost. Typically, such businesses generate revenue by allowing users to utilise their platforms for advertising purposes); (iii) Big data (Some companies generate large data sets as part of their normal operations, these companies may earn revenue by selling this information, sometimes referred to as 'big data', or leveraging it in other ways).

Annex 2

Annex Table 1 Card-Based E-commerce Transaction Statistics of Bangladesh

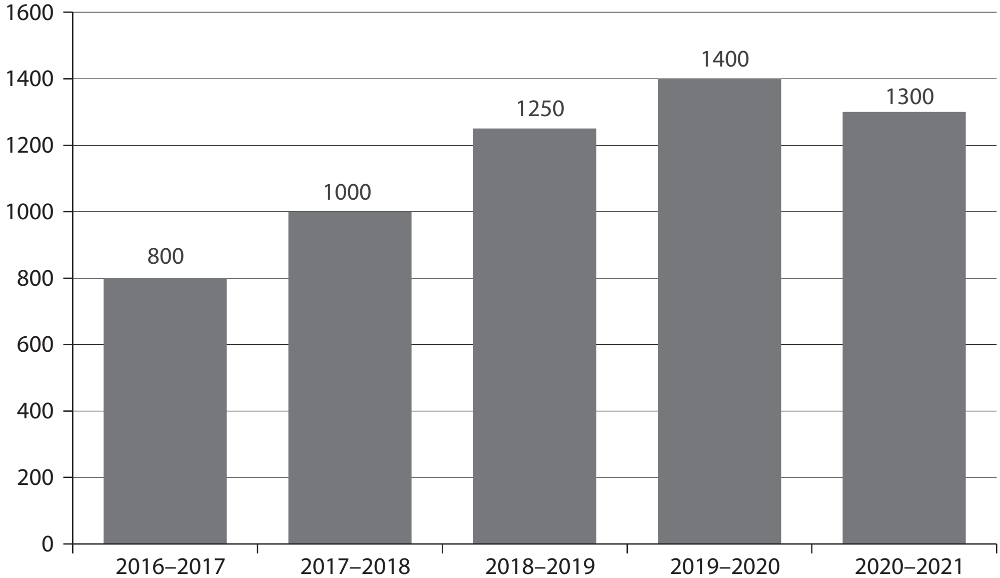
(in BDT crore)

FY	Credit card		Total	Debit card		Total	Internationally issued card transaction	Total card-based
	Local transaction	Abroad transaction		Local transaction	Abroad transaction			
2014–15	33.1	148.5	181.6	77.2	17.5	94.7	49.6	325.9
2015–16	71.8	209.04	280.8	79.2	22	101.2	71.9	453.98
2016–17	188.7	353.8	542.5	159.8	22.6	182.4	116.2	841.18
2017–18	337.9	598.6	936.5	307.5	36	343.5	157.2	1436.8
2018–19	672.6	771.6	1444.2	527.1	48.7	575.8	148.9	2168.9
2019–20	1346.6	437.3	1783.9	1112.2	49.7	1161.9	104.9	3050.8
2020–21	3820.9	419.7	4240.6	4069.9	67.9	4137.8	123.2	8501.6
2021–22	4548.9	629.0	5177.9	4000.3	184.4	4184.7	282.5	9645.1
2022–23 (February)	477.3	70.8	548.1	426.3	29.8	456.1	19.0	1023.2

Source: Bangladesh Bank Time Series data (Bangladesh Bank n.d.b); Bangladesh Bank Monthly Economic Trend April 2023.

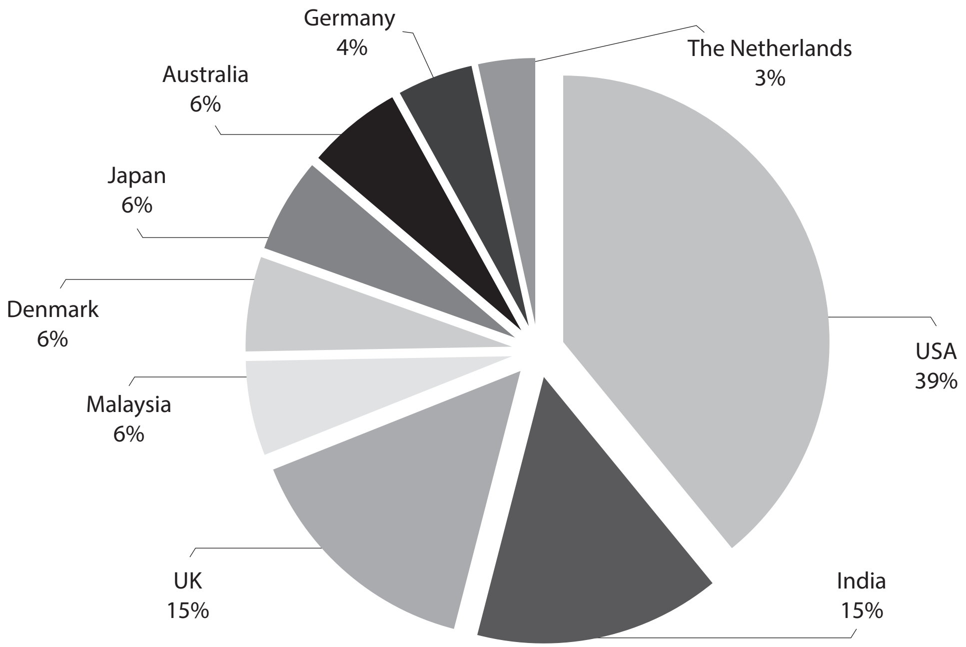
Annex 3

Annex Figure 1 Export Proceeds of Bangladesh's ITESs *(USD million)*



Source: BASIS's Software and IT Service Catalogue 2021.

Annex Figure 2 Top Export Destination of Bangladesh's ITESs



Source: BASIS's Software and IT Service Catalogue 2021.

Annex 4

Number of Online Workers

On September 21, 2022, total number of online workers (freelancers) from around the world was estimated to be 2,57,887.

Annex Table 2 Bangladesh's Online Workers

(in per cent)

Type of work	Workers	Share
Creative and multimedia	22,665	62
Software development and technology	5,784	16
Sales and marketing support	2,814	8
Writing and translation	2,699	7
Clerical and data entry	1,623	4
Professional services	1,217	3
Total workers	**36,802**	–

Source: Gig Economy Data Hub, n.d.

Note: Based on data for September 21, 2022.

Annex Table 3 India's Online Workers

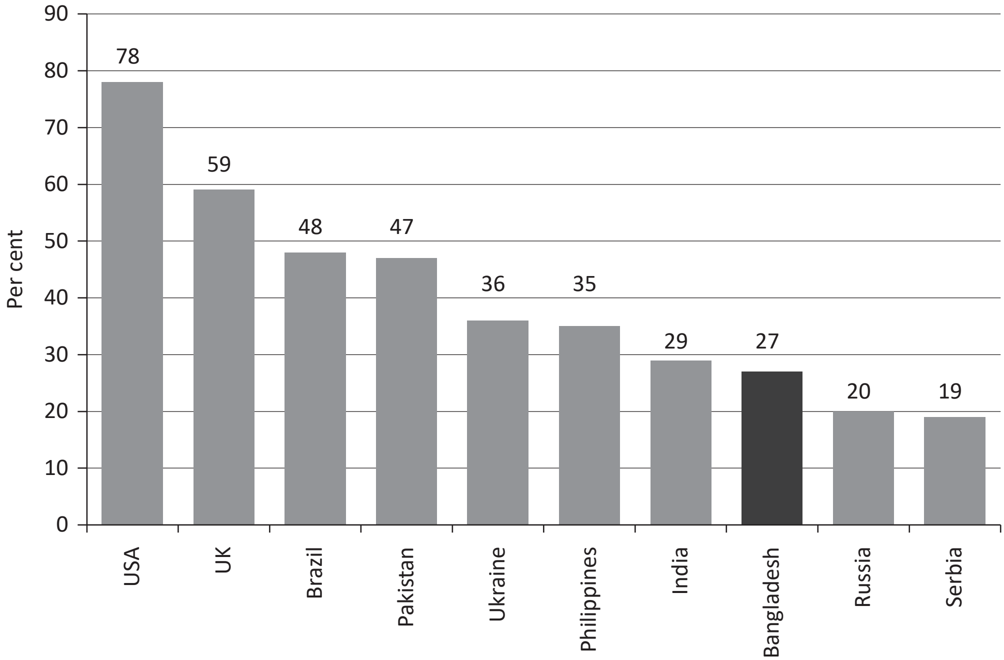
Type of work	Workers	% *(in per cent)*
Software development and technology	19,690	54
Creative and multimedia	13,952	38
Sales and marketing support	4,864	13
Writing and translation	3,606	10
Clerical and data entry	2,764	8
Professional services	2,697	7
Total workers	**47,573**	

Source: Gig Economy Data Hub, n.d.

Note: Based on data for September 21, 2022.

Annex 5

Annex Figure 3 Revenue Growth from Freelancing *(in per cent)*



Source: Payoneer (2019).

Annex 6

Annex Table 4 Estimated Revenue Loss Arising From the 1998 Moratorium

Country	Total tariff revenue loss from moratorium using bound duties (USD mn)	Total tariff revenue loss from moratorium using effectively applied duties (USD mn)	Total tariff revenue loss from moratorium using MFN duties (USD mn)	Loss relative to custom revenue - applied duties (in per cent)	Loss relative to custom revenue - MFN duties (in per cent)	Loss relative to tax revenue -applied duties (in per cent)	Loss relative to tax revenue -MFN duties (in per cent)
India	497.189	467.476	497.189	1.87	1.68	0.16	0.17
Indonesia	54.143	40.607	54.143	0.46	0.68	0.04	0.05
Pakistan	367.24	48.88	51.043	1.00	0.94	0.17	0.17
Singapore	30.584	0.00	0.00	0.00	0.00	0.00	0.00
Sri Lanka	10.017	9.26	10.017	1.01	1.00	0.08	0.09
China	492.999	453.205	492.999	0.71	0.61	0.04	0.04
South Africa	36.829	24.961	36.829	0.83	0.84	0.03	0.04

Source: OECD Trade Policy 233.

Note: Banga (2019) estimates the loss for the period 2011-2017.

Annex 7

Annex Table 5 Evolution of Tax Exemptions for ITESs in Bangladesh

Finance Act	Proposed time period	Explanation change	ITES definition
2008	2008–2011	—	* Digital Content Development and Management. * Animation (both 2D and 3D); * Geographic Information Services (GIS); * IT Support and Software Maintenance Services; * Web Site Services; * Medical Transcription; * Business Process Outsourcing; * Data entry; * Data Processing; * Call Centre; * Computer Aided Engineering and Design; * Remote IT Maintenance;
2011	2008–2013	**Excluded:** * Medical transcription; * Computer-aided engineering and design; * Remote IT maintenance; **Included:** * Graphics design (digital service); * Search engine optimisation; * Web listing; * E-commerce and online shopping; * Document conversion; * Imaging and archiving;	* Digital Content Development and Management. * Animation (both 2D and 3D); * Geographic Information Services (GIS); * IT Support and Software Maintenance Services; * Web Site Services; * Business Process Outsourcing; * Data entry; * Data Processing; * Call Centre; * Graphics design (digital service); * Search engine optimisation; * Website listing; * E-commerce and online shopping; * Document conversion; * Imaging and archiving;
2012	2008–2015	no change	above item
2014	2008–2019	no change	above item
2015	2008–2024	no change	above item

(Annex Table 5 contd.)

(Annex Table 5 contd.)

Finance Act	Proposed time period	Explanation change	ITES definition
2016	2008–2024	**Excluded:** * E-commerce and online shopping; * Document conversion; * Imaging and archiving; **Included:** * Document conversion, imaging, and archiving including digital archiving of physical records;	* Digital Content Development and Management. * Animation (both 2D and 3D); * Geographic Information Services (GIS); * IT Support and Software Maintenance Services; * Web Site Services; * Business Process Outsourcing; * Document conversion, imaging and archiving including digital archiving of physical records; * Data Processing; * Call Centre; * Graphics design (digital service); * Search engine optimisation; * Web listing; * Data entry;
2017	2008–2024	New list	* Software development; * Software or application customisation; * Nationwide Telecommunication Transmission Network (NTTN); * Digital content development and management; * Digital animation development; * Website development; * Web site services; * Web listing; * IT process outsourcing; * Website hosting; * Digital graphics design; * Digital data entry and processing; * Digital data analytics; * Geographic Information Services (GIS); * IT support and software maintenance service; * Software test lab service; * Call centre service; * Overseas medical transcription; * Search engine optimisation services; * Document conversion, imaging and digital archiving;

(Annex Table 5 contd.)

(Annex Table 5 contd.)

Finance Act	Proposed time period	Explanation change	ITES definition
			* Robotics process outsourcing; * Cybersecurity services;
2021	2008–2024	**Included:** * Cloud service; * System integration; * e-learning platform; * e-book platform; * Mobile application development service; * IT freelancing;	**Above item along with** * Cloud service; * System integration; * e-learning platform; * e-book platform; * Mobile application development service; * IT freelancing;
2022	2008–2024	No change	Above item

Source: Authors' compilation based on Finance Act.

Bangladesh's business and commerce landscape is being increasingly populated by digital platform-based activities of various kinds. These cover a wide range of areas, including E-commerce, F-commerce, digital startups, home-based freelancing, business process outsourcing and a host of other entrepreneurial initiatives. There is also increasing interface with global tech giants such as Google, Facebook, Amazon, Netflix and others. In this backdrop, taxing the digital economy has emerged as an issue that needs urgent attention on the part of policymakers, particularly in view of the dismally low Revenue-GDP ratio of the country. The study dives deep into issues of current tax policies concerning taxing the digital economy, incentives in place, exemptions of IT-enabled services, scope, tools and modalities of taxing the digital economy and the trade-offs involved. The study draws insights from cross-country experiences, global initiatives to bring multinational digital tech giants under the tax net of concerned countries, and multilateral trading rules as regards taxing of E-commerce. The study comes up with a number of suggestions for policymakers to tap into this emergent opportunity of enhancing revenue collection by revisiting exemptions and policies as regards taxing the digital economy, systemic changes, broadening the net, automation, plugging the loopholes, standardisation of accounting practices and participation in various relevant global initiatives.

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