VAT on Traders

VAT is a multiple stage tax. VAT is collected at import stage, production stage and trading stage. Trading stage can be divided into two sections, viz: whole sale stage and retail stage. In our country, VAT collection is most organized at import stage. At import stage, goods remain under the purview of the authorities. So, it is easier to collect VAT on the imported goods. Production stage is less organized than import stage. Becaue at the production stage, enough control of the authorities are not there on the goods as compared to import stage. Of all these stages, trading stage is least organized in our country. The backbone of VAT i.e. input tax credit mechanism does not function on the overwhelming portion of trading. A couple of mechanisms have been developed to collect VAT at trading stage. SRO No 242-Law/2012/659-VAT, Dated: 28 June, 2012 is the principal instrument of trading stage VAT in our country.

In the mind of the concerned people, there are numerous queries regarding the basic features of the system of trade VAT in Bangladesh currently in force. So, trade VAT mechanisms of Bangladesh are presented below in a brief and systematic manner to give the readers a birds eye view of the procedure.

Who is a trader?

To know the procedures regarding payment of VAT by traders, at first we need to know who is a trader. It is already mentioned above that on goods, VAT is collected at three stages, viz: (1) import stage; (2) production stage; and (3) trading stage. While importing goods from abroad through land-port, sea-port or air-port, VAT is collected at import stage at Chittagong Custom House, Dhaka Custom House, Benapole Custom House, Mongla Custom House and in some other small land customs stations. This is import-stage VAT. Inside the country, the producers or manufacturers of goods pay VAT while they sell their goods. For instance, Unilever Bangladesh Limited pays VAT from its plant in Chittagong while selling goods. This is called production-stage VAT. It is worth mentioning here that a producer may import raw-materials from abroad. On the import of raw-materials VAT is paid at import stage. Then the raw-materials are processed in the plant, more value is added to the raw-materials and a final product is produced. Production-stage VAT is paid while selling this final product. Mentionably, VAT paid on the import of raw-materials at import stage is taken credit in the Account Current Register of the producer. This is called input tax credit. Input tax credit is the backbone of the VAT system.

The term 'trader' has been defined in the Value Added Tax Act, 1991. The Clause (qqqq) of Section 2 of the Value Added Tax Act, 1991 stipulates, **æTrader"** means a person who sells or otherwise transfers to any other person in exchange of consideration any goods imported, purchased or otherwise acquired by him without changing its shape, nature, characteristics or quality." So, traders obtain goods from two sources, viz: (1) import; and (2) local production. After obtaining the goods, the traders sell those without changing its shape, nature, characteristics or quality. That means, the traders sell the goods as he has purchased it. If he does any work on the goods, he will not remain a trader. He will become a producer or manufacturer as per the definition under section 2 of the VAT Act. Then, all rules and regulations of a producer or manufacturer will be applicable to him. Clause (q) of Section 2 of the Value Added Tax Act, 1991 defines the term æProducer or Manufacturer" as follows:

æProducer" or æManufacturer" shall include any person engaged in any of the following activities, namely:-

(i) transforming or reshaping of any substance by processing individually or in combination with any other substance, material or components of production to changing, transforming or reshaping it into a different specific substance or goods so that it becomes useable differently or specifically;
(ii) any incidental or related processes required to complete the production of goods;
(iii) printing, publication, lithography or engraving processes;
(iv) assembling, mixing, cutting, liquidating, bottling, packaging or repackaging;
(v) the work of a trustee or liquidator, executor or superintendent in case of any bankrupt manufacturer or producer and work of any such person who disposes off the assets of such manufacturer or producer in his capacity as an entrusted person;
(vi) manufacturing or producing of any goods in exchange of money in his own plant, machinery or equipment using raw material or inputs owned by others;

As per this definition, any work to complete the production of the goods, such as: fixing a label or adding a small accessory with it shall be considered as production or manufacturing. Printing any matter on the goods or on its package, mixing few items or powders together, cutting any long sheet into pieces, transforming any hard substance into liquid substance, bottling any liquid substance, packing anything or repacking anything will fall under the definition of production or manufacturing. Any person performing these activities or activities of similar nature shall be considered as a producer or manufacturer. All rules and regulations of VAT with regard to producer or manufacturer will be applicable to him.

Any goods after its import or after its production reaches in the hands of the final consumer through the hands of distributor, dealer, commission agent, whole-saler, retailer etc. All these sellers of goods are known as 'Traders' in our VAT system. We have about 3.0 million shops, small, medium and large around the country, who fall under the category of traders. So, I hope, now we understand VAT at import stage, VAT at production stage and VAT at trading stage. We also understand who is a trader and how is a trader separated from a producer or from an importer.

Analyzing the existing rules and regulations regarding the procedures of the payment of VAT by the traders, we can divide the traders and procedures of VAT payment by them into 3 (three) categories, viz: (1) standard trade VAT system; (2) 4 (four) percent trade VAT system; and (3) package VAT system. These rules and regulations remain stipulated in the SRO No.-242-Law/2012/659-VAT, Dated: 28 June, 2012 issued by NBR.

Standard Trade VAT System:

The traders willing to pay trade VAT adopting the standard trade VAT system will have to abide by all general rules and regulations of VAT. Principally, they shall take input tax credit and pay 15.0 per cent output VAT. The procedures these traders require to follow are as follows:

(1) These traders shall take input tax credit after import or local purchase of the goods.

(2) They require to declare price of their imported or locally purchased goods in form æMushak-1kha" showing actual value addition. Mentionably, price declaration of the goods is to be submitted to the Divisional Officer of the VAT Division under which the trader belongs.

(3) They require to pay 15.0 percent VAT and issue invoice in form æMushak-11" or æMushak-11ka" while selling the goods.

(4) These traders shall maintain Current Account Register, submit returns on quarterly (three months) basis and shall maintain all other required documents.

(5) A basic requirement in the VAT system is to maintain the accounts of purchase in form æMushak-16" and the accounts of sale in form æMushak-17". These traders shall have to maintain these. But in Fiscal Year 2012-13, a new form has been introduced which is known as æForm-ka". These traders instead of keeping the accounts of purchase and sale in forms æMushak-16" and æMushak-17" may keep combined accounts of purchase and sale in form æMushak-ka".

At import stage, 4 (four) percent Advance Trade VAT (ATV) is collected on the commercially imported goods. Such traders shall be entitled to get input tax credit of the ATV paid at import stage. Input tax credit on ATV has to be taken in the tax period when ATV has been collected at import stage or within the immediate next tax period. At import stage, 15.0 (fifteen) percent VAT paid can be taken credit in its normal course i.e. following entrance of the goods in the registered premises and entry of the goods in the purchase register within two tax periods input tax credit is to be taken. It is worth mentioning here that, as per the present procedure, commercial importers must remain in the standard trade VAT system i.e. they can not adopt the method of 4 (four) percent trade VAT system. Traders who sell goods after purchasing from local sources can remain either in the standard trade VAT system or in the 4 (four) percent trade VAT system as per their choice.

Four percent trade VAT system:

The traders who sell the goods purchasing from local sources can pay 4.0 (four) percent trade VAT. They also can remain in standard trade VAT system if they so desire. It is worth mentioning here that in the Fiscal Year preceeding last year, VAT rate on such type of traders was 2.0 (two) percent. In the last Fiscal Year, the rate has been increased to 4.0 (four) percent. The procedures these traders require to follow are as follows:

(1) These traders shall add 26.67 percent value on their purchase and shall submit price declaration in form æMushak-1kha". In the Fiscal Year preceeding last year, such traders required to declare price once in a year. In the last Fiscal Year, provisions have been made to declare price by them as usual. But for medicine and petroleum products 13.33 percent value addition as was previously had been kept valid.
(2) They shall sell their goods paying 15.0 percent VAT on the 26.67 percent value added i.e. 4.0 (four) percent on the total sale price and shall issue invoice in form æMushak-11" or æMushak-11ka".
(3) Such traders shall not be entitled to take input tax credit.
(4) These traders instead of keeping the accounts of purchase and sale in forms æMushak-16" and æMushak-17" may keep combined accounts of purchase and sale in form æMushak-ka".
(5) These traders do not require keeping Current Account Register in form æMushak-18". They shall deposit the VAT assessed in each tax period within 15th day of the next tax period to the government accounts through Treasury Challan and shall submit the original copy of the Treasury Challan with the VAT return.

Generally, the traders who maintain proper books of accounts, for them it is convenient to pay 15.0 percent VAT as per standard trade VAT system. One requires to pay actually less VAT, if he takes input tax credit of VAT paid earlier and pays 15.0 percent VAT on sale. But one who does not take input tax credit but pays 4.0 (four) percent VAT, actually he is to pay more VAT compared to the person who pays 15.0 percent VAT as per standard trade VAT system. So, it is convenient to pay 15.0 percent VAT, take input tax credit maintaining all books of accounts. Such practice is also helpful to establish a modern and ideal VAT system. Departmental stores, general stores and large shops are generally paying trade VAT adopting 4.0 (four) percent trade VAT method. But there are distortions in its actual application. For instance, for such traders 26.67 percent value addition is a necessity as per present rules. But actually, for the departmental stores, general stores and large shops, selling all items with 26.67 percent value addition can not be possible. Value addition for any item may be more than 26.67 percent or less than that. But they are paying 4.0 (four) percent VAT on their sale price. Most of these types of stores and shops maintain Electronic Cash Register (ECR) or Point of Sales (POS). ECR or POS collect VAT at the rate of 4.0 (four) percent on all VATable sells. In our VAT system, till today enough mechanisms could not have been established to address practical distortions like this.

Package VAT System:

On the day of budget declaration in the Fiscal Year preceeding last year, i.e. on 7 June, 2012, package VAT system to pay VAT by small shop-keepers had been cancelled. Subsequently, in consultation with the traders' Association, package VAT system had been reintroduced increasing the amount of package VAT that had been effective from 1 July, 2012. The amount has been further increased this year. Package VAT is paid by small shop-keepers. We have about 3.0 (three) million small, medium and large shops countrywide. Of them some shops pay 15.0 (fifteen) percent VAT in standard trade VAT system, some shops pay 4.0 (four) percent VAT and the others pay trade VAT in package VAT system. The local VAT authorities and local shop owners association together prepare the list of shops those require to pay trade VAT through package system. They do practical survey to prepare the list.
There are 4 (four) slabs of package VAT. Those are shown below:

Serial No.	The areas where applicable	Amount of package VAT in the last Fiscal Year	Amount of package VAT in the current Fiscal Year
1.	Dhaka and Chittagong city corporation area	Taka 9,000/-	Taka 11,000/-
2.	Other city corporation areas	Taka 7,200/-	Taka 8,000/-
3.	Municipal area of district city	Taka 5,400/-	Taka 6,000/-
4.	Other areas of the country	Taka 2,700/-	Taka 3,000/-

These shop-keepers can pay the fixed amount of VAT either once in a year or 12 (twelve) times in a year on monthly basis. These small traders require to preserve purchase documents, cash memo and maintain sales register. The traders not listed in this list will require to pay either 15.0 (fifteen) percent VAT in standard trade VAT system or 4.0 (four) percent VAT. Again, it can be mentioned here that commercial importers only can avail to pay 15.0 (fifteen) percent VAT being in standard trade VAT system.

Seal System:
We have mentioned above three mechanisms of trade VAT. There is another mechanism of trade VAT that relates only to the commercial importers. We know that commercial importers pay 4.0 per cent Advance Trade VAT (ATV) at the import stage assuming 26.67 per cent value addition at the trading stage. So, after import of those commercially imported and 4.0 per cent ATV paid goods, if at the trading stage value addition is 26.67 per cent, then he does not need to pay trading stage VAT because on the same percentage of presumptive value addition ATV has already been paid at the import stage on those goods. Therefore, in the case of selling the goods following import with 26.67 per cent value addition, trade VAT does not require to be paid. On the æMushak-11" or æMushak-11ka" Challan, a seal is to be

fixed that states that trading stage VAT on the goods mentioned in this invoice has been paid in advance at import stage against Bill of Entry No ..... Dated: ...... of .... Custom House/Station. Many of the commercial importers use this mechanism since there is no obligation to pay VAT. But value addition has to be 26.67 per cent at the trading stage. If value addition is less or more than 26.67 per cent after import, then the first method has to be followed, i.e. standard trade VAT system.

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