



Is Super Rich Tax a boon or bane for revenue growth?

Achievement of revenue target through vertical growth i.e. collecting more tax from existing taxpayers is easier than achievement of the same through horizontal growth i.e through enhancement of tax base. The government should opt for horizontal growth; otherwise, the honest taxpayers will disappear from the society, writes **Abdul Khalek**

THE government has proposed a new slab of income at the highest rate of tax by the Finance Act 2014. Under this new slab, the total income of an assessee

Tk 6,00,000 during the income year 2013-14. The impact of the said Super Rich Tax on his total income has been enumerated in the following Tables:

Computation of income tax of Mr. X for the Assessment Year 2013-14 (Income Year 2012-13)

Income Slab	Rate of Tax	Amount of Tax Tk	Total Income Tk	Total Tax Tk
First Tk2,20,000	0	0	2,20,000	0
Next Tk3,00,000	10%	30,000	5,20,000	30,000
Next Tk4,00,000	15%	60,000	9,20,000	90,000
Next Tk3,00,000	20%	60,000	12,20,000	1,50,000
Next Tk32,00,000	25%	8,00,000	44,20,000	9,50,000

Computation of income tax of Mr. X for the Assessment Year 2014-15 (Income Year 2013-14)

Income Slab	Rate of Tax	Amount of Tax Tk	Total Income Tk	Total Tax Tk
First Tk2,20,000	0	0	2,20,000	0
Next Tk3,00,000	10%	30,000	5,20,000	30,000
Next Tk4,00,000	15%	60,000	9,20,000	90,000
Next Tk5,00,000	20%	1,00,000	14,20,000	1,90,000
Next Tk30,00,000	25%	7,50,000	44,20,000	9,40,000
Next Tk3,80,000	30%	1,14,000	48,00,000	10,54,000
Add: 10% surcharge on Tax				1,05,400
Total Tax				11,59,400
Increase in the income of 2013-14 over 2012-13				3,80,000
Increase in the tax 2013-14 over 2012-13				2,09,400
Effective rate of tax on the increased income of 2013-14				55.10%

exceeding Tk 4.42 million will attract tax at the rate of 30 per cent. An assessee, being an individual having a net asset exceeding Tk 20 million, is also required to pay 10 per cent surcharge on tax leviable on his income of relevant assessment year. This new slab, coupled with surcharge known as Super Rich Tax, will affect largely the private sector employees and practising professionals who pay tax honestly. To assess the impact of the new rate along with surcharge a notional example has been presented below:

Mr. X has been serving with ABC Ltd. for the last 30 years and currently holding the position of general manager (GM). His monthly total income in June 2013 was Tk 368,333 (annually Tk 44,20,000) and on consideration of his last year's performance, the company has allowed him 8.6 per cent annual increment and accordingly his monthly total income reached Tk 400,000 (annually Tk 48,00,000). Being a private sector employee, he will not get any pension or plot or flat on his retirement. He accumulated small savings bit by bit throughout his long career and on June 30, 2013, his net assets stand at Tk 19.5 million. In line with long practice, he made a further savings of

Mr. X with a monthly income of Tk 4,00,000 and net wealth of Tk 20.1 million is in the category of Super Rich for tax purpose. It is a well-known fact that the number of people in Bangladesh with such income and net wealth will be several hundred thousands but as per tax record, only a few thousand. Mr. X, being an honest taxpayer and an employee of a transparent company, has to contribute 55.10 per cent of his incremental income of 2013-14 while many of his neighbours with more income and net assets are even beyond the tax net. They are definitely smiling at him comparing the said benchmark of 'Super Rich' with their own status and searching the technique to save themselves from entering the Super Rich Tax net.

Being an inflationary economy, a sizeable portion of the incremental income of an individual in our country is eaten up by price hike. Mr. X earned an increment of 8.6 per cent and on consideration of 7.0 per cent inflation and additional tax, his real income of 2013-14 will mark a negative growth.

Both the black money holders and the tax-paid money holders are entering the same market to buy their essentials. Persons

with tax-paid money like Mr. X are also affected by the price hike caused by influx of black money.

It is true that the system of progressive tax rate is an important instrument to establish social equity. Accordingly, those who earn more should pay more tax. In advanced world, many countries have turned into welfare states adopting the principle of progressive tax rate. However, the citizens of those countries are very sincere in paying tax whereas the scenario in our country is quite different. In our country, the number of taxpayers as a percentage of total population is one of the lowest in the world. Consequently, financially, the honest taxpayers are the worst sufferers. For different reasons, here people are reluctant to pay tax and try to keep themselves away from tax net. The accountability of the government and attitude of the bureaucrats are still big questions of the taxpayers who are contributing their hard-earned money to run state wheels. Unlike advanced countries, here there is no safety net for senior citizens and therefore, the taxpayers feel highly insecure about their retired life.

In the prevailing tax environment, the government should encourage the potential taxpayers, offering different awards and incentives to existing taxpayers. In fact, existing tax payers are the bridge to connect potential taxpayers with the tax net. The Super Rich Tax comprising new tax slab and surcharge has frustrated the honest taxpayers and therefore frightened the potential taxpayers. Being a wrong signal to potential tax payers, the Super Rich Tax may act as a barrier in enhancing present tax base which is essential for sustainable revenue growth.

However, instead of imposing the Super Rich Tax, an incentive to the assessee in the form of tax rebate on the income in excess of immediately preceding year will be more effective to boost government revenue. Achievement of revenue target through vertical growth i.e. collecting more tax from existing taxpayers is easier than achievement of the same through horizontal growth i.e. through enhancement of tax base. The government should opt for horizontal growth; otherwise, the honest taxpayers will disappear from society.

Surcharge has been introduced as a substitute to wealth tax which is an additional tax on wealthy people literally to mitigate disparity in wealth. For those who are evading tax but holding huge property, this surcharge as a substitute of wealth tax is not at all effective. Further, an amount of Tk 20 million as a base for the imposition surcharge/wealth tax is too low in the context of the property price of Bangladesh.

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