International Journal of Engineering, Business and Management (IJEBM)
ISSN: 2456-7817
[Vol-9, Issue-1, Jan-Mar, 2025]
Issue DOI: https://dx.doi.org/10.22161/ijebm.9.1
Article Issue DOI: https://dx.doi.org/10.22161/ijebm.9.1.3

VAT Compliance and Implementation in Trading Sector of Bangladesh: A Case Study

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Received: 09 Jan 2025; Received in revised form: 11 Feb 2024; Accepted: 15 Feb 2025; Available online: 20 Feb 2025

***Abstract*— Value-Added Tax (VAT) is a key revenue source for Bangladesh, yet its implementation at the trading stage remains underutilized due to low compliance, administrative challenges, and inadequate enforcement. Despite over 2.5 million wholesale and retail trade establishments, VAT registration among traders is only 2.8%, contributing a mere 1.5% of total VAT revenue. This study examines the challenges, compliance gaps, and enforcement issues affecting trade VAT in Bangladesh. The findings highlight complex registration processes, lack of awareness, informal business structures, and limited digital integration as major barriers. While initiatives such as Electronic Fiscal Devices (EFDs) and online VAT filing systems have been introduced, their adoption remains slow. The study recommends simplified VAT models for small traders, expanded digital infrastructure, stronger enforcement mechanisms, and targeted awareness programs to enhance compliance. Strengthening VAT at the trading stage can significantly increase revenue collection, improve tax transparency, and support economic growth.*

***Keywords*— Value-Added Tax (VAT), Trade VAT Compliance, Tax Revenue, VAT Enforcement, Informal Sector, Digital Taxation, Bangladesh.**

I. INTRODUCTION

Value-Added Tax (VAT) serves as a crucial pillar of Bangladesh's tax system, contributing significantly to national revenue (Nurunnabi, 2019). While VAT is well-regulated at the import and manufacturing stages, its implementation at the trading stage remains less explored, despite the vast number of wholesale and retail establishments involved (Hossain & Abdullah, 2022a). The trading stage plays a critical role as the link between manufacturers, importers, and consumers, yet compliance challenges, administrative inefficiencies, and limited trader participation hinder its effectiveness (Hossain & Abdullah, 2022b). This study examines VAT compliance at the trading stage in Bangladesh, assessing its revenue impact and the obstacles faced by traders in adhering to VAT regulations. Despite the presence of over 2.5 million wholesale and retail establishments, VAT registration among traders remains alarmingly low. Complex documentation requirements, a lack of awareness, and enforcement challenges contribute to widespread non-compliance, limiting VAT's revenue potential in the trading sector.

By analyzing VAT collection trends, trader participation, and existing regulatory frameworks, this paper aims to highlight the gaps in trade VAT enforcement and propose solutions for enhancing compliance (Morrow et al., 2022). The study suggests streamlined registration processes, simplified documentation, and alternative VAT collection models tailored to the diverse nature of trade establishments. Strengthening VAT compliance at the trading stage can significantly boost revenue, ensuring a fair and efficient tax system for Bangladesh's growing economy (Bari et al., 2022).

II. LITERATURE REVIEW

2.1 Theoretical Framework of Value-Added Tax (VAT)

Value-Added Tax (VAT) is a widely adopted consumption-based tax system designed to generate government revenue while minimizing tax cascading effects (Ida Seran, 2023). VAT functions as an indirect tax, with the burden ultimately falling on consumers, while businesses act as intermediaries in its collection and remittance (Al-Rahamneh et al., 2023). Introduced in France in 1954, VAT has since been implemented in over 150 countries, including Bangladesh, where it was introduced in 1991 as a replacement for the sales tax system (Tilea et al., 2023).

2.2 VAT in the Context of Bangladesh

Bangladesh heavily relies on VAT as a primary source of government revenue, contributing approximately 39% of total tax revenue in the fiscal year 2020-21 (Bangladesh National Board of Revenue, 2022). The VAT system operates at three key stages: import, manufacturing, and trading. However, VAT compliance at the trading stage has received limited attention compared to the manufacturing and import stages (Dewi, 2023). Despite having over 2.5 million wholesale and retail establishments, VAT registration among traders remains disproportionately low, leading to substantial revenue losses (Bangladesh Bureau of Statistics, 2022).

2.3 VAT Compliance and Challenges at the Trading Stage

VAT compliance is influenced by factors such as administrative efficiency, taxpayer awareness, and enforcement mechanisms. Studies indicate that small and medium-sized enterprises (SMEs), which dominate the trading sector, face significant compliance burdens due to complex documentation and reporting requirements (Buettner & Tassi, 2023). Research by Islam et al. (2020) highlight that many traders are reluctant to register for VAT due to perceived bureaucratic inefficiencies and a lack of tangible benefits. Moreover, the informal nature of Bangladesh's trading sector further complicates VAT enforcement (Ebata et al., 2021). The compliance gap at the trading stage is exacerbated by limited use of digital tools and e-invoicing systems. Tamanna (2024) suggests that digitalization can improve VAT compliance by reducing errors and increasing transparency. However, Bangladesh has been slow in implementing digital VAT systems, leading to inefficiencies and tax evasion risks (Hoque & Tama, 2021).

2.4 VAT Models and Alternative Approaches for Traders

Several studies have explored alternative VAT collection models to enhance trader compliance. The commission-based VAT model, widely used in developed economies, has been proposed as a solution for traders who operate with low profit margins (Rahman, 2023). This model allows businesses to pay VAT based on their commission earnings rather than total sales value, making compliance more feasible for small-scale traders. Additionally, the use of simplified VAT schemes and threshold-based exemptions has been effective in improving compliance in other countries (Milon & Zafarullah, 2024). Bangladesh's VAT enforcement at the trading stage could benefit from international best practices. Studies by Lapinskas et al. (2023) and Morrow et al. (2022) indicate that reducing VAT complexity through automation and simplified registration processes significantly enhances compliance. Given the prevalence of sole proprietorships in Bangladesh's trading sector, tailored VAT policies focusing on ease of compliance could substantially increase trader participation in the tax system.

2.5 Research Gaps and Need for Further Study

While numerous studies have analyzed VAT in Bangladesh, research on VAT compliance at the trading stage remains limited. Existing literature primarily focuses on VAT at the import and manufacturing levels, leaving a gap in understanding trade VAT dynamics. Furthermore, studies have not adequately examined the role of regional disparities, informal sector integration, and the impact of VAT on small traders. Future research should explore how digital VAT platforms, incentive-based compliance mechanisms, and sector-specific VAT policies can improve trade VAT collection. The literature suggests that VAT compliance at the trading stage in Bangladesh is hindered by administrative complexities, low trader participation, and insufficient digital infrastructure. Addressing these challenges requires policy reforms, including simplified compliance procedures, technological integration, and alternative VAT models suited to small and medium traders. A well-structured trade VAT system can enhance revenue generation while ensuring a fair and efficient tax system for businesses and consumers alike.

III. PROBLEM OF THE STUDY

The primary problem of this study lies in the low compliance and ineffective implementation of Value-Added Tax (VAT) at the trading stage in Bangladesh, despite its significant role in the country's taxation framework (Mainul Ahsan, 2024a). While VAT at the import and manufacturing stages is well-regulated, the trading sector, which consists of over 2.5 million wholesale and retail establishments, remains largely unregistered, contributing minimally to national revenue (M. F. Islam, 3248). Complex documentation requirements, a lack of awareness among traders, enforcement inefficiencies, and the absence of digital integration hinder effective VAT compliance (Ahmed et al., 2024). Additionally, many small and medium-sized traders operate informally, making it difficult to track and regulate tax obligations. The failure to address these challenges results in substantial revenue losses and an uneven tax burden, necessitating an in-depth analysis to identify key barriers and propose solutions for improving VAT compliance at the trading stage (Mainul Ahsan, 2024b).

IV. RESEARCH OBJECTIVES

The primary objective of this study is to analyze the compliance and implementation of Value-Added Tax (VAT) at the trading stage in Bangladesh, identify key challenges hindering trader participation, and propose effective solutions to enhance VAT compliance and revenue collection in the sector. The specific objectives of the study are as follows:

1. To assess the level of VAT compliance among traders and examine the factors influencing their participation in the VAT system.
2. To identify administrative, procedural, and regulatory challenges that hinder effective VAT implementation at the trading stage.
3. To evaluate the contribution of trade VAT to national revenue compared to VAT collected at the import and manufacturing stages.
4. To examine the role of digitalization and alternative VAT models (e.g., commission-based VAT, simplified VAT schemes) in improving compliance among traders.
5. To analyze the impact of VAT policies on small and medium-sized traders and explore ways to integrate informal sector businesses into the VAT framework.
6. To propose policy recommendations for simplifying VAT registration, streamlining documentation requirements, and enhancing enforcement mechanisms to increase trader compliance.

V. METHODS AND METHODOLOGY

This study employed a descriptive research design to analyze VAT compliance and implementation at the trading stage in Bangladesh. Secondary data sources were utilized, including government publications such as annual reports from the National Board of Revenue (NBR), survey reports from the Bangladesh Bureau of Statistics (BBS), VAT laws, and scholarly articles on taxation and compliance. Data were systematically analyzed to assess VAT compliance levels, identify key challenges, and evaluate revenue contributions from trade VAT. The study also examined global best practices and alternative VAT models to propose feasible solutions. Ethical considerations were maintained by ensuring accuracy and proper attribution of all secondary sources. The study's limitations primarily stemmed from the availability and quality of secondary data, suggesting that further research incorporating primary field surveys with traders could provide additional insights.

VI. RESULTS AND DISCUSSION

6.1 Recognizing a Trader

To delineate the accurate procedures governing the Value Added Tax conformity by traders, a critical first step entails the identification of entities meeting the requisite qualifications to be classified as traders. Value-added tax (VAT) constitutes a levy upon consumer consumption, applied to goods and services and consequently it becomes payable on transactions involving the sale or transfer of goods and services (Rouf, 2023). To elucidate the intricate interplay among various stages delineated within the VAT framework, it becomes imperative to differentiate between goods and services. Goods encompass all kinds of tangible movable property except share, stock, security and money, whereas services incorporate any services but excludes any good, immovable property and money (section 2.90 and 2.99 of Value Added Tax and Supplementary Duty Act, 2012). The product may originate from domestic manufacturing processes or be imported from overseas sources via land-port, seaport or airport, and subsequently, it undergoes transactions involving various intermediaries such as dealers, distributors, commission agents, super shops, megamalls, general stores, departmental stores, wholesalers, and retailers, culminating in its ultimate consumption by the end-user. The process, involving the origin and transfer of goods, is correlated with three interrelated stages namely (a) the import stage, (b) the manufacturing stage, and (c) the trading stage (Rouf, 2023). Unlike goods, services lack physical mobility, precluding their containment or transportation in conventional vessels and so rendering of service doesn't relate to the trading stage (Morshed, 2023).

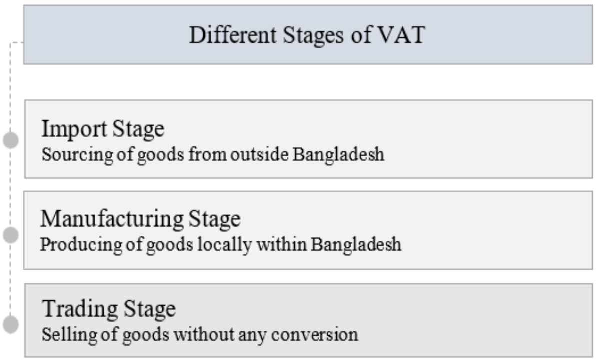

Fig.1. Imposition of VAT at different stages (Rouf, 2023)

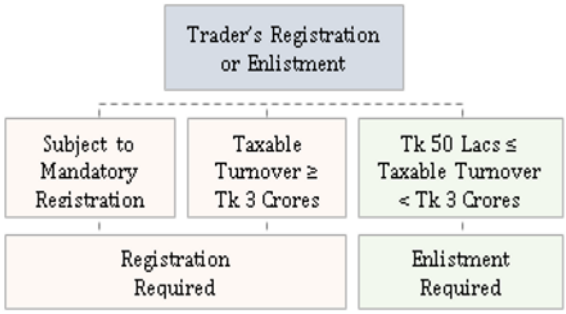

Fig.2. Registration or Enlistment Criteria (VAT and Supplementary Duty Act, 2012)

Therefore, trader denotes an entity engaged in the act of selling or transferring goods to another party in exchange for consideration without altering their form, nature, characteristics, or quality. It can source products either through importation or from locally, such as from manufacturers or from other traders (paragraph 3 of schedule 3, Value Added Tax and Supplementary Duty Act, 2012).

6.2 Registration or Enlistment of Traders

A trader, whose taxable turnover exceeds BDT 3 crores within a last 12 months period or projected taxable turnover is expected to exceed BDT 3 crores within the succeeding 12 months, is obliged to be registered under *Value Added Tax and Supplementary Duty Act, 2012* (section 2.57 and 4 of Value Added Tax and Supplementary Duty Act, 2012), whereas if taxable turnover does not exceed BDT 3 crores rather exceeds 50 lacs at the end of any quarter of a 12 months period, enlistment as a turnover taxpayer is required (section 2.48 and 10 of Value Added Tax and Supplementary Duty Act, 2012). Moreover, irrespective of the registration or enlistment threshold, as per *Section 4 of Value Added Tax and Supplementary Duty Act, 2012*, a trader involved in the following activities shall be required to be registered mandatorily.

- Supply of goods subject to supplementary duty.
- Participation and supply against work order under tender(s).
- Engaged in export or import business.
- Supply of specific goods or supply in specific geographical area as defined by National Borad of Revenue (NBR), Bangladesh.

A trader subject to VAT registration, either required to be registered under *central registration*, provided it deals with homogeneous goods and maintains a centralized accounting system through automated software or required to be registered under *unit registration* if it deals with heterogenous goods or supplies tobacco products (section 5, of Value Added Tax and Supplementary Duty Act, 2012).

6.3 VAT Rate Applicable to Traders

The VAT rate applicable to the supply of all goods at the local trading stage shall be 5%, a truncated VAT rate (paragraph 3 of schedule 3, Value Added Tax and Supplementary Duty Act, 2012), provided that a registered trader may pay VAT at the rate of 15%, the standard VAT rate, in lieu of such truncated rate (section 15 of Value Added Tax and Supplementary Duty Act, 2012). However, the VAT rate shall be 2.4% on medicines. This 2.4% VAT at trading stage shall be levied along with 15% VAT at manufacturing stage and therefore VAT payment at the trading stage is obviated rate (paragraph 3 of schedule 3, Value Added Tax and Supplementary Duty Act, 2012). In case of petroleum products, a 2% VAT shall be applicable at the trading stages (paragraph 3 of schedule 3, Value Added Tax and Supplementary Duty Act, 2012). In Bangladesh, petroleum products such as octane, diesel, and petrol are distributed by the government through its proprietary sales infrastructure, with their retail prices at the consumer level being regulated by governmental decree. The prices fixed by the government incorporates such 2% VAT at the trading stages, thereby eliminating the necessity for VAT collection or deduction at such stage (Rouf, 2023). The VAT rate of 1.5% shall be applied to certain certified wholesalers engaged in wholesale transactions of cloth and paper products, provided that the retail sales volume of such certified wholesaler does not surpass 20 percent of the total merchandise sold (paragraph 4 of schedule 3, Value Added Tax and Supplementary Duty Act, 2012 and General Order No-03/VAT/2022). Although there are different VAT rates prevailing at trading stage, any supply specified either in the first schedule of the Value Added Tax and Supplementary Duty Act, 2012 or in the Table 05 -Exemption at Trading Stage of the SRO No. 163/Act/2022/176-VAT, shall be exempted from VAT.

Table 1: Different VAT rates at trading stage

Particulars	VAT Rate
Goods mentioned in first schedule, VAT and SD Act, 2012	Exempted from VAT
Goods mentioned in Table 05, SRO No. 136/Act/2023/213-VAT	Exempted from VAT
Medicine	2.4%
Petroleum products	2%
Cloth and paper wholesalers	1.5%
Other goods	5%, 15% discretionary
Export of goods	Zero

(Section 15,21,23 and paragraph 3,4 of schedule 3, Value Added Tax and Supplementary Duty Act, 2012)

Any enlisted entity shall pay turnover tax at the rate of 4% on the turnover of its economic activities, if VAT does not apply for such entities (section 63 of Value Added Tax and Supplementary Duty Act, 2012).

6.4 Vat Accounting System for Traders

Declaration of Input-Output Coefficient: To commence the supply of goods, any registered or enlisted trader is required to submit an "Input-Output Coefficient" in Form "Mushak - 4.3" to the Divisional Officer prior to such supply. A copy of this submission shall be forwarded to the relevant commissioner within 15 (fifteen) working days, accompanied by the recommendation of the departmental officer. However, no such declaration is necessary for wholly export-oriented traders (rule 21 of Value Added Tax and Supplementary Duty Rules, 2016 and section 32 of Value Added Tax and Supplementary Duty Act, 2012).

Record Keeping and Issuance of Challan: The trader shall maintain consolidated records of purchases and sales in Mushak 6.2.1 particularly, as no conversion of goods occurs. Nevertheless, the option remains to uphold two distinct records, namely (a) Mushak 6.1 - Purchase Record Book and (b) Mushak 6.2 – Sales Record Book (rule 40 of Value Added Tax and Supplementary Duty Rules, 2016). Registered traders shall issue tax invoices using Mushak 6.3, subsequent adjustments are facilitated through (a) Credit Note - Mushak 6.7 (Decreasing Adjustment) and (b) Debit Note - Mushak 6.8 (Increasing Adjustment). Conversely, enlisted traders are mandated to issue Mushak 6.9 as their tax invoice, devoid of provisions for credit notes and debit notes. If any purchase or sales transaction surpasses BDT 2 Lacs, both registered and enlisted traders are required to furnish Mushak 6.10 alongside their monthly VAT return (rule 40,41,42, Value Added Tax and Supplementary Duty Rules, 2016) (Saimah & Rahman, 2023).

Transfer of Goods: Registered traders may find it necessary to transfer goods to the warehouse of another registered entity under contract manufacturing arrangements. As these transfers do not constitute actual sales transactions, Mushak 6.4 challan shall be used for such transfers (rule 40 of Value Added Tax and Supplementary Duty Rules, 2016). Moreover, frequent transfers are required between warehouses and/or branches under central VAT registration, to be executed through Mushak 6.5 challan (rule 40 of Value Added Tax and Supplementary Duty Rules, 2016) (Das, 2023).

Submission of Return: VAT registered traders shall furnish their monthly returns in Mushak 9.1, while turnover tax enlisted traders are required to submit their returns via Mushak 9.2 (rule 47 of Value Added Tax and Supplementary Duty Rules, 2016). Delayed or amended/revised submission of return (Delayed return - Mushak 9.3; amended/revised return – Mushak 9.4) is permitted upon application to respective authority, albeit subject to the imposition of interest (rule 48 and 49 of Value Added Tax and Supplementary Duty Rules, 2016) (Tamanna, 2024).

Adjustment Procedures: The primary input materials for a trader consist of the goods obtained through importation or purchase, and so a registered trader is entitled to avail input tax credit. Registered traders, practicing output VAT at the rate of 5%, 2.4%, 2%, 15%, and engaging in selling of exempted goods, are ineligible for input tax credit. Conversely, traders adhering to the standard VAT rate of 15% are entitled to avail input tax credit subject to fulfillment of the criteria set out in section 2.18.A and 46 *of the Value Added Tax and Supplementary Duty Act, 2012* (Siddiquee & Saleheen, 2021). The advance tax paid at the import stage is adjustable through decreasing adjustments in return by both registered and enlisted traders. Additionally, even traders not mandated for registration or enlistment could seek refunds through Mushak 4.1 (rule 19 and 46 of Value Added Tax and Supplementary Duty Rules, 2016). Supplementary Duty paid at the import stage is also eligible for drawback through Mushak 7.1, by a registered trader contingent upon exportation (rule 45 of Value Added Tax and Supplementary Duty Rules, 2016) (Md. R. Islam et al., 2020).

Table 2: Timeline for Rebate/Adjustment/Drawback

Particulars	Timeline
Input Tax Credit	Current period or within succeeding 4 tax period
Advance Tax	Current period or within succeeding 4 tax period
Supplementary Duty	Within 180 Days

(Section 31, 62, 46, Value Added Tax and Supplementary Duty Act, 2012 and rule 19, 45, 46, Value Added Tax and Supplementary Duty Rules, 2016.)

6.5 Vat Deduction at Source

If a trader, who is a withholding entity as per section 2.21 of the Value Added Tax and Supplementary Duty Act, 2012, receives any supply of goods or services, shall withhold VAT at source, at a time delineated in section 33 of the Value Added Tax and Supplementary Duty Act, 2012, as per manner described in section 49 of the Value Added Tax and Supplementary Duty Act, 2012, at a rate specified in SRO No. 240-ACT-2021/163/VAT, excluding the following instances of receipt:

- Receipt of goods from the manufacturer at any applicable VAT rate.
- Receipt of goods from entities other than the manufacturer at 15% VAT rate, furnished with VAT Honor Card or certificate, obtained either from the IVAS system or the concerned divisional officer.
- Receipt of goods or services as specified in the First Schedule or subject to zero-rated supplies under Section 21 of the Value Added Tax and Supplementary Duties Act, 2012.
- Receipt of fuel oil, gas, water (from WASA), electricity, telephone, and mobile phone services.
- Receipt of services other than the Forty-Three (43) services mentioned in SRO No. 240-ACT-2021/163/VAT, provided that Mushak-6.3 is furnished.
- Receipt of services from television/online advertising agencies or furniture manufacturers (subject to VAT @15%), provided that their Mushak-6.3 is certified by the revenue officer.
- Mushak challan receipts which is issued from the Electronic Fiscal Device (EFD) or Sales Data Controller (SDC).

The registered or listed withholding traders, shall deposit the withhold amount to the government treasury account and subsequently issue a Tax Deduction Certificate at source in favor of the supplier in Mushak 6.6 within 3 (three) working days of payment, but those are neither registered nor enlisted, shall perform the same within 15 days (rule 40 of Value Added Tax and Supplementary Duty Rules, 2016) (Ojo & Shittu, 2023).

The traders, withhold and deposited VDS, shall furnish the transaction in the VAT return (Mushak 9.1) within *"Note 24: Due to VAT Deducted at Source by the supply"* under *"Part 05: Increasing Adjustments (VAT)"* (section 49 of Value Added Tax and Supplementary Duty Act, 2012). Conversely, traders from whom VAT is deducted at source, upon obtaining the VDS Certificate – Mushak 6.6, shall adjust the amount within current or succeeding 3 tax period within "*Note 29: Due to VAT Deducted at Source from the supplies delivered"* under *"Part 06: Decreasing Adjustments (VAT)"* of VAT Return (Sec 50 of Value Added Tax and Supplementary Duty Act, 2012) (Alavuotunki et al., 2019).

Table 3: Key Mushak Forms for Traders

Activity	Mushak Forms	
	Registered	**Enlisted**
Declaration of Input-Output coefficient	Mushak 4.3	Mushak 4.3
Purchase & Sales Record Book	Mushak 6.2.1	Mushak 6.2.1
Purchase Record Book	Mushak 6.1	Mushak 6.1
Sales Record Book	Mushak 6.2	Mushak 6.2
Tax Invoice/challan	Mushak 6.3	Mushak 6.9
Purchas or Sales > Tk 200,000	Mushak 6.10	Mushak 6.10
Transfer under contract manufacturing	Mushak 6.4	Not Applicable
Transfer within central registration	Mushak 6.5	Not Applicable
Vat Deduction at Source certificate	Mushak 6.6	Mushak 6.6
Credit Note	Mushak 6.7	Not Applicable
Debit Note	Mushak 6.8	Not Applicable
Submission of Return	Mushak 9.1	Mushak 9.2
Delayed return submission	Mushak 9.3	Mushak 9.3
Amended/revised return submission	Mushak 9.4	Mushak 9.4

(Rule 21, 40, 41, 42, 47, 48, 49, Value Added Tax and Supplementary Duty Rules, 2016.)

6.6 Traders versus Procurement Providers

Though fundamentally a trader functions as a supplier of goods, while a procurement provider delivers services, a notable challenge has arisen in field level concerning the distinction between traders and procurement providers (Pavlotska, 2023). Since the nature of the business model of both is quite similar, we face dilemma to distinguish which business belongs to the traders and which business belongs to the procurement provider. The distinction holds significant importance as it dictates varying VAT rates. While traders are subject to a 7.5% VAT rate for the supply of general goods, procurement providers are subject to a VAT rate of 10%. Furthermore, procurement provider is defined as a service under service code S037.00 as per SRO No. 186-ACT-2019/43/VAT. Misinterpretation could lead to traders paying an additional 2.5% VAT, or procurement providers paying 2.5% less, depriving the government of its revenue. Therefore, multiple distinguishing aspects must be carefully considered when receiving goods supplies.

Table 4: Traders Vs. Procurement Providers

→ The traders have fixed premises. → The procurement providers do not have an establishment. They obtain a trade license, TIN and BIN using a single address, typically without having any physical presence at that location.
→ The traders purchase goods and store them at his place of business. Hence, traders sell after buying. → The procurement providers do not store goods at the warehouse. They purchase and deliver goods subsequent to receiving the work order. Hence, procurement providers buy after selling.
→ The traders sell in any quantity and also partake in tender. → The procurement providers only participate in the tender.
→ The traders do not participate in all tenders; rather, they participate solely in tenders for goods that are in their inventory or the goods which they deal in. → The procurement providers only participate in the tender.
→ The traders do not participate in all tenders; rather, they participate solely in tenders for goods that are in their inventory or the goods which they deal in. → The procurement providers participate in all types of tenders.

(Noor, 2020)

Paradoxically, a trader is regarded as a procurement provider when it becomes subject to VAT Deduction at source. While making payment of consideration, to either traders or procurement providers, the supply receiver withholds 10% VAT (SRO No. 240-ACT-2021/163/VAT) (Gkoni et al., 2024).

In case of VAT Deduction at Source, a procurement provider is defined as an entity that delivers goods, services, or both, through tender, work order, or any other alternative methods, to any Ministry, Division or Department, semi-government or autonomous body, any state owned institution, local authority, council or similar body, any non-government approved by institution approved by bureau of NGO Affairs or by Directorate of Social Services, any bank, insurance company or similar financial institution, a secondary or post-secondary educational institution and a limited company, as per SRO No. 240-ACT-2021/163/VAT.

Table 5: Applicable VAT and VDS Rate for Traders and Procurement Providers

Supplier Type	VAT Rate	VDS Rate
Traders (general goods)	7.5%	10%
Procurement Providers	10%	10%

(1st Schedule of Value Added Tax and Supplementary Duty Act, 2012 and SRO No. 240-ACT-2021/163/VAT.)

However, a trader may be obviated from VDS deduction by supplying goods at 15% standard VAT rate, if it must submit a VAT Honor Card or certificate along with Mushak 6.3 (SRO No. 240-ACT-2021/163/VAT).

VII. FINDINGS

The study yielded the following findings, organized according to the research objectives:

1. Despite contributing significantly to Bangladesh's total tax revenue, VAT compliance at the trading stage remains low, with only 2.8% of wholesale and retail trade establishments registered for VAT. This indicates a substantial gap in trader participation.
2. While VAT accounted for 39% of total tax revenue in FY 2020-21, trade VAT contributed only 1.5%, highlighting its limited impact despite the large number of trading establishments.
3. Many traders find the VAT registration and compliance process overly complex, leading to reluctance in registering. Documentation and record-keeping requirements create administrative

burdens, particularly for small and medium-sized traders.

4. Although the National Board of Revenue (NBR) introduced electronic fiscal devices (EFDs) and online VAT return submissions, implementation remains slow, with only 9,000 out of a targeted 60,000 devices installed. This limits the effectiveness of digital compliance measures.
5. A significant portion of traders operate informally, making VAT enforcement challenging. Many businesses avoid VAT registration due to a lack of awareness, fear of tax liability, or an unwillingness to formalize their operations.
6. VAT exemptions, particularly those listed under the First Schedule of the VAT and SD Act, 2012, resulted in an estimated 3.26% of GDP loss in 2022, reducing the potential revenue that could have been collected from the trading sector.
7. Weak enforcement mechanisms and limited field inspections allow VAT evasion to persist. Traders often underreport sales or avoid issuing proper invoices, further decreasing VAT collection efficiency.
8. The current VAT model may not be suitable for all types of traders. Alternative approaches such as a commission-based VAT system or simplified VAT schemes for small traders could improve compliance rates and revenue collection.

The findings indicate that while VAT remains a vital revenue source, its implementation at the trading stage faces systemic challenges that hinder compliance and revenue generation. Addressing these issues through simplified registration, improved enforcement, digital expansion, and alternative tax models could significantly enhance VAT compliance and contribution from the trading sector.

VIII. RECOMMENDATIONS

1. The National Board of Revenue (NBR) should introduce a more streamlined and trader-friendly VAT registration process, reducing paperwork and procedural complexity to encourage more traders to participate in the system.
2. The adoption of Electronic Fiscal Devices (EFDs) and online VAT filing systems should be accelerated, ensuring that a greater number of traders can easily comply with VAT requirements. Awareness campaigns and incentives for EFD adoption can further enhance participation.
3. Many small and medium-sized traders struggle with the complexities of standard VAT compliance. A turnover-based or commission-based VAT model could be introduced, allowing them to comply without excessive administrative burdens.
4. The NBR should conduct regular training programs and awareness campaigns to educate traders about VAT benefits, compliance processes, and digital VAT tools. Simplified VAT guides and helplines should be introduced to assist traders.
5. More frequent inspections and audits should be conducted, focusing on wholesale and retail businesses. Enhanced digital monitoring through real-time invoicing and transaction tracking could help reduce VAT evasion and underreporting.
6. The government should re-evaluate existing VAT exemptions to minimize revenue losses. A phased approach can be implemented to gradually reduce exemptions while ensuring essential goods remain affordable.
7. Special incentives, such as lower tax rates for newly registered traders, could encourage informal businesses to enter the VAT system. Simplified compliance measures tailored to informal traders would facilitate their transition to the formal economy.
8. Linking VAT compliance with mobile financial services (MFS) and banking transactions could improve tax transparency and collection. Incentives for digital transactions can help reduce cash-based underreporting.
9. Collaboration between the government, business associations, and tax professionals is crucial in shaping effective VAT policies. Regular stakeholder meetings can help refine policies and address trader concerns.
10. Introducing a reward or incentive system for compliant traders, such as tax rebates, priority services, or financial incentives, could improve voluntary compliance and encourage long-term adherence to VAT regulations.

Implementing these recommendations can significantly improve VAT compliance at the trading stage, increasing revenue collection while making the system more accessible, efficient, and trader friendly. A balanced approach combining simplification, enforcement, digitalization, and incentives is essential for strengthening Bangladesh's VAT framework.

IX. LIMITATIONS

Despite the insights gained, this study has several limitations that should be addressed in future research:

Reliance on Secondary Data: This study primarily used government reports, academic literature, and existing tax data, which may not fully capture the most recent changes in VAT policies and compliance trends. A primary data survey involving traders could provide more direct insights.

Limited Scope on Informal Traders: While the study highlights the role of the informal sector in VAT non-compliance, it lacks detailed field-level data on how unregistered traders operate and their specific reasons for avoiding VAT registration (Vasishth et al., 2024).

Challenges in Measuring VAT Evasion: Due to underreporting and lack of enforcement, accurately measuring VAT evasion rates in the trading sector remains difficult. Many traders engage in cash transactions without issuing VAT invoices, making revenue estimations uncertain (Hossain & Abdullah, 2022a).

Absence of Regional Comparisons: The study focuses on Bangladesh's VAT system without direct comparisons to other developing countries that have successfully improved VAT compliance through policy reforms. A comparative analysis could offer additional insights into best practices (Nguyen, 2019).

Limited Analysis of Policy Implementation Effectiveness: While the study recommends digital VAT adoption and simplified compliance models, it does not include a detailed assessment of how past VAT policy changes have performed in Bangladesh. A longitudinal study tracking the impact of VAT reforms over time could provide a clearer picture (Nurunnabi, 2019).

Potential Data Gaps in Government Reports: Official reports on VAT revenue and trader registration may not fully reflect real-time compliance trends, as some traders may register but not file VAT returns regularly, leading to discrepancies in data interpretation.

Despite these limitations, the study provides valuable insights into VAT compliance challenges at the trading stage in Bangladesh. Future research should incorporate primary data collection, field surveys, and comparative international studies to strengthen the understanding of VAT enforcement and policy effectiveness.

X. CONCLUSION

Value-Added Tax (VAT) plays a crucial role in Bangladesh's revenue system, yet its implementation at the trading stage remains inefficient and underutilized. Despite the presence of over 2.5 million wholesale and retail establishments, VAT registration and compliance rates among traders are alarmingly low, contributing only 1.5% of total VAT revenue. Complex registration processes, inadequate awareness, enforcement challenges, and a large informal trading sector hinder VAT effectiveness at this stage. While recent digital initiatives, such as Electronic Fiscal Devices (EFDs) and online VAT filing systems, have been introduced, their adoption remains slow and insufficient to drive large-scale compliance. The study highlights that a simplified VAT model, tailored for small and medium traders, coupled with strong enforcement, digital integration, and policy reforms, can significantly increase VAT revenue collection and trader participation. To address these challenges, streamlining VAT procedures, expanding digital tools, strengthening enforcement, and incentivizing compliance are critical. A more inclusive, technology-driven, and trader-friendly VAT system will not only increase government revenue but also promote transparency, reduce tax evasion, and support economic growth. Implementing these reforms will ensure that Bangladesh's VAT framework remains robust, efficient, and beneficial to both traders and the economy.

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ANNEXURES

Table A1: NBR Revenue collection from fiscal year 2001-02 to 2020-21

All amounts are in BDT Crore(s)

Fiscal Year	Total NBR Revenue	Total Direct Tax	Total Indirect Tax	Indirect Tax other than VAT	Value Added Tax	VAT at Import Stage	VAT at Local Supply
	A=B+C	B	D=C+E	D	E=F+G	F	G
2001-02	20,207	3,936	16,271	9,285	6,985	3,758	3,228
2002-03	23,651	4,465	19,186	11,405	7,781	4,120	3,660
2003-04	26,194	5,001	21,193	12,478	8,715	4,398	4,317
2004-05	29,904	5,827	24,077	13,619	10,458	5,347	5,111
2005-06	34,002	7,423	26,580	14,222	12,358	5,886	6,473
2006-07	37,219	9,050	28,169	14,387	13,782	6,311	7,471
2007-08	47,436	12,188	35,247	17,576	17,671	8,492	9,180
2008-09	52,527	14,274	38,253	18,106	20,147	9,181	10,965
2009-10	62,042	17,428	44,614	20,146	24,468	10,651	13,817
2010-11	79,403	23,420	55,984	25,793	30,191	12,358	17,833
2011-12	95,059	29,134	65,925	30,148	35,777	13,793	21,985
2012-13	109,152	37,710	71,441	30,259	41,182	14,815	26,367
2013-14	120,820	43,849	76,971	32,428	44,543	15,291	29,252
2014-15	135,701	48,354	87,347	37,366	49,981	17,690	32,290
2015-16	153,627	52,347	101,280	45,830	55,450	20,587	34,863
2016-17	171,656	53,812	117,844	53,995	63,849	25,561	38,288
2017-18	202,313	62,340	139,973	64,206	75,766	29,050	46,716
2018-19	220,772	70,201	150,570	63,198	87,372	31,401	55,971
2019-20	216,452	71,432	145,019	58,922	86,097	30,017	56,081
2020-21	261,689	87,032	174,658	72,599	102,059	38,272	63,787
AVG	104,991	32,961	72,030	32,298	39,732	15,349	24,383
Contribution	100%	31.4%	68.6%	30.8%	37.8%	14.6%	23.2%
	Within Indirect Tax		100%	44.8%	55.2%		
			Within VAT		100%	38.6%	61.4%

Note. *Adopted from* Annual Report 2020-21, National Board of Revenue.

*** Here, *Total Direct Tax* incorporates *Income Tax, Travel & other taxes*, whereas *Total Indirect Tax* consists of *Import and Export Duty, Value Added Tax, Supplementary Duty, Excise Duty, Turnover Tax* etc.

Table A2: The number of registered traders and existing trading establishment (Figures are in Numbers)

Particulars	NOs
No. of traders registered in FY 2020-21	71,752
No. of traders submitted VAT return in FY 2020-21	69,115
No. of Wholesale and Retail Trade establishments in 2021	2,540,897
(%) of registered traders out of total establishments	2.8%

Note. Adopted from *Annual Report 2020-21, National Board of Revenue* and *Report on Wholesale and Retail Trade Survey 2021, Bangladesh Bureau of Statistics.*

Table A3: Number of wholesale and retail trade establishments by ownership (Figures are in Numbers)

Type of ownership	Numbers	Ratio (%)
Single ownership	2,408,674	94.80%
Partnership	94,402	3.72%
Private	34,108	1.34%
Public	1,668	0.07%
Others	2,045	0.08%
Total	2,540,897	100.00%

(Report on Wholesale and Retail Trade Survey 2021, Bangladesh Bureau of Statistics.)