

CenRaPS Journal of Social Sciences

International Indexed & Refereed



ISSN: 2687-2226 (Online)
<https://cenraps.org/journal/>



Original Article

<https://doi.org/10.5281/zenodo.14960306>

Understanding the Challenges of Maintaining VAT Compliance in the Pharmaceutical Industry of Bangladesh: A Phenomenological Study

Nafisa Nomani

Institute of Business Administration, Jahangirnagar University, Dhaka, Bangladesh

Email: nafisanomani333@gmail.com

ORCID: 0009-0009-8980-4411

Abstract

This study explores the challenges VAT executives face in maintaining VAT compliance within Bangladesh's pharmaceutical industry. Using a phenomenological approach, in-depth interviews were conducted with key VAT executives to understand their experiences. The hurdles that are found are then categorized based on similarities and themes. The findings reveal that external challenges, such as the complexity and fragmentation of VAT laws, frequent regulatory changes, inefficiencies in the National Board of Revenue's (NBR) digital infrastructure, and a shortage of expert VAT consultants, propose the most significant compliance difficulties. Additionally, sector-specific challenges, intricate input tax credit management, excessive documentation requirements, and the financial burden of acting as de facto agents of NBR further complicate compliance. On the other hand, internal factors like workforce capability and lack of inter-departmental coordination contribute to inefficiencies. Overall, external regulatory and systemic issues create the most significant obstacles. The study highlights the need for more transparent regulatory frameworks, improved technological support, and enhanced training programs to streamline VAT compliance in Bangladesh's pharmaceutical industry. This research contributes to understanding the challenges created during the VAT compliance process from the context of pharmaceutical industries, specifically in Bangladesh. It is hoped that the findings will incite further interest in researchers about this topic, which will result in accurately identifying all the challenges.

Keywords: VAT Compliance, Bangladesh, Pharmaceutical Industry, NBR.

INTRODUCTION

Value Added Tax (VAT), introduced in the 1950s in France and now implemented in over 170 countries worldwide, represents a critical component of modern taxation systems as a consumption-based indirect tax collected at multiple stages of production and distribution. Unlike traditional sales taxes applied at the point of sale on the total price or corporate income taxes applied on net profit, VAT operates through a unique mechanism where tax is levied on the incremental value added at each stage of the supply chain. In this process, businesses act as

intermediary tax collectors who can offset their input tax against output tax. This mechanism distinguishes VAT from other tax systems by creating a self-policing framework that reduces tax evasion, as each transaction is documented and verified within the supply chain. Moreover, VAT differs from other tax systems in its ability to generate consistent government revenue, providing more stable and transparent taxation. Initially conceptualized as a uniform rate tax, VAT has evolved into a complex taxation system with multiple rates driven by political, social, economic, and sectoral considerations. Internationally, VAT is also known by various names, including Goods and Services Tax (GST) and General Consumption Tax (GCT).

In Bangladesh, VAT was introduced in 1991 as part of comprehensive tax reforms to modernize the country's taxation system (NBR, 2024). The VAT was introduced in Bangladesh with objectives like broadening the tax base, increasing government revenue, reducing tax evasion, creating a more transparent and efficient taxation mechanism and aligning the taxation system with international best practices (Ismail, 2017). In Bangladesh, VAT predominantly replaced Sales Tax on imports, Excise Duty on Domestic Production, Business Turnover Taxes, and narrowly-based Consumption Taxes (Ashiquzzaman, 2018; Faridy & Sarker, 2011; Ismail, 2017; Smith et al., 2011). Companies with more than BDT 30 million (approximately USD 280,000) in turnover are required to register for VAT and comply with the associated reporting and payment requirements (NBR, 2024b). According to NBR (2024), the standard VAT rate in Bangladesh is 15%, with reduced rates for specific sectors such as 0% for exports, 5%, 7.5% and 10% for some specific goods, services and sectors, exemptions for agriculture, healthcare, and educational services. According to IMF (2021), for 2021, VAT revenues account for approximately 20-30% of total tax revenues worldwide. Value Added Tax (VAT) is primarily the largest source of revenue for developing and lower-income countries. According to Lalarukh & Chowdhury (2013), VAT contributes more than a third of Bangladesh's government's total revenue. In Nigeria, a 1% increase in VAT leads to a 0.88% increase in GDP, showing a strong positive correlation between VAT and economic growth (Folajimi Festus et al., 2016). The revenue generated from VAT is often used to fund public services and infrastructure projects, which in turn contribute to economic growth.

Due to the enormous contribution of VAT towards GDP and economic growth, VAT compliance is undoubtedly one of the most concerning topics for the National Board of Revenue (NBR) and other policymakers. Though VAT has existed in Bangladesh for about 30 years, VAT practitioners, business holders, and employees on the VAT team of different companies face many challenges while complying with VAT regulations. Much research has been conducted worldwide to identify and mitigate these challenges. Many of these researches have introduced compliance costs for posing significant challenges in VAT compliance (Faridy et al., 2014), while many others introduced the complexity of VAT law and the administrative complexity to be the most challenging issues for those responsible for VAT compliance. Historically, complex VAT regulations such as multiple rates, zero rating, exemptions, and a plethora of confusing rules in terms of input tax deductibility have increased the compliance burden on companies (Evans & Krever, 2020). Moreover, Frequent Changes in regulations and many Special Provisions make

compliance more difficult. According to Nutman et al. (2022), the reasons behind the abolishment of GST in Malaysia were plenty of rules and exceptions to the rules (such as the 35 tax codes, gifts rules, and 21-day rules), frequent changes to the GST guidelines, complicated GST computations for mixed supply, and the burdensome and drawn-out GST refund process. Another study by Naicker and Rajaram (2019) explored that 51.8% of the respondents found VAT to be the most confusing and complex tax. The discretionary power of the revenue body, its refunding system of extra payments, the incapability of revenue body personnel, its website, and the inquiry resolve system can also cause compliance challenges (Baer, 2013; Evans & Krever, 2020). All of these papers have brought to light challenges in VAT compliance from different perspectives. However, most of these researches are conducted on Small & Medium Enterprises (SME) (Bhalla et al., 2023; Buttigieg & Ellul, 2021; Chen & Bin Md Taib, 2017; Faridy et al., 2014; Gale et al., 2016; Naicker & Rajaram, 2019; Ndlovu & Schutte, 2024; Nutman et al., 2022; Schoeman et al., 2021; Zu, 2018). The challenges VAT Large Companies must face differ from those of SMEs because of their size, employee count, and enhanced compliance requirements. Additionally, research on this topic from a Bangladeshi perspective is rare and is almost non-existent from the pharmaceutical industry perspective. Thus, to meet this research gap, this article explores the challenges VAT executives experience while maintaining a VAT-compliant company in Bangladesh's pharmaceutical industry.

1. METHODOLOGY

1.1. Study Design

This study used qualitative methods as it works with executives' experiences and perceptions, and the population is not big enough to use a quantitative research style to find reliable data. The information for this article is sourced mainly from primary resources; however, secondary resources have also been used. A phenomenological study has been chosen as the appropriate research design, allowing in-depth, multi-faceted explorations of complex issues like VAT in real-life settings.

1.2. Data Collection

1.2.1. In-Depth Interviews

Semi-structured interviews were conducted with five key informants (VAT executives) from the top companies in Bangladesh's pharmaceutical industry.

- ❖ Deputy General Manager - 1
- ❖ Senior Additional Manager - 1
- ❖ Senior Assistant Manager - 3

All the interviews were conducted in Bangla as per the interviewees' preference. They have been recorded using recording devices and transcribed and translated into English by the author.

1.2.2. Secondary Sources

- ❖ Published articles and renowned VAT-related books.
- ❖ Website of NBR.
- ❖ Relevant academic and industry studies/reviews

1.3.Data Analysis

In this study, thematic analysis has been used as the primary method for data examination. The transcribed data has undergone a coding process where individual codes have been assigned to relevant segments. Subsequently, themes have been generated by aggregating similar codes. To enhance the visualization and categorization of the data, we have utilized Atlas.ti software. The data has also been manually reviewed to ensure accuracy and rectify potential errors. We have incorporated direct quotations from the respondents to support the identified themes.

2. DISCUSSION & FINDINGS

VAT Compliance can be defined as accurately assessing the VAT owed by the companies to the Revenue body, reporting the required information and paying the correct amount of VAT in a timely and voluntary manner (Plumley, 1996).

VAT compliance encompasses a range of activities, with the most crucial being the monthly return submission.

The VAT compliance procedure starts with a company registering for VAT with the National Board of Revenue (NBR). Then, it is followed by segregating purchase invoices into rebatable and non-rebatable categories, maintaining detailed records of all sales and purchases, calculating output tax based on different tax rates, managing input tax credits for eligible purchases, processing necessary adjustments for price changes and returned products, filling monthly VAT returns within the 15th of each month for the previous month, making timely VAT payments, issuing VAT withholding certificates to suppliers, and preserving comprehensive documentation for audit purposes.

All these activities bring about many difficulties from within and outside the company, which must be dealt with to ensure proper VAT compliance.

2.1.External Challenges

The research uncovered several significant external challenges VAT executives face in maintaining compliance within the pharmaceutical industry. These challenges emerge from factors beyond the organization's direct control. Through in-depth interviews with VAT executives, seven distinct categories of external challenges were identified, each presenting unique obstacles to effective VAT compliance.

2.1.1. Complexity and Fragmentation of VAT Laws

All five VAT executives identified the complexity and fragmentation of VAT laws as one of the most significant challenges in VAT Compliance. Unlike other tax laws, which are consolidated into a few comprehensive documents, VAT laws are spread across numerous Special Regulatory

Orders (SROs), General Orders, statutory orders, and various Nothis (documents). This dispersed nature of VAT law makes it incredibly difficult for practitioners to gather and comprehend the necessary information. Two of the five VAT executives rated VAT complexity at 4 out of 5 (Complex). While the other rated VAT as very complex (5 out of 5)

i. Scattered Regulations

VAT laws are not compiled in a single, easily accessible document. Instead, they are dispersed across VAT & SD Act 2012, multiple SROs, and the Government. Orders and other regulatory documents, which practitioners must navigate. A respondent stated:

“All the tax laws of Bangladesh can be found in one or two books, as well as the Finance Act. However, VAT law is not like that. It includes many SROs, General orders, statutory orders, Nothis (documents), and explanations. It is difficult for the practitioners to compile information from many places.”

ii. Frequent Changes

VAT regulations are subject to frequent amendments and updates, often through new SROs. These changes can occur without adequate notice, requiring continuous monitoring of the National Board of Revenue (NBR) website. One of the executives narrated,

“The Value Added Tax and Supplementary Duty Act, 2012 was introduced to solve the existing problems in the Value Added Tax Act, 1991, which had become too detailed and disordered because of too many SROs and special provisions. However, this new edition is also being complicated because of continuous changes and additional regulations.”

iii. Lack of Official English Translation

Many VAT regulations are available only in Bangla. Though unauthorized English translations exist, they are not entirely reliable. Official translations by the NBR would greatly assist foreign practitioners and locals who are more comfortable with English.

iv. Contradictory & Impractical Regulations

Practitioners often encounter impractical regulations which are almost impossible to apply in the practical field. The lack of clear guidelines or hierarchies to resolve conflicts between regulations makes VAT compliance even more challenging. A respondent said:

“We face contradictory laws in every sector. However, in tax-related regulations, we know that if any law contradicts the Finance Act, we must prioritize the Finance Act. If two VAT-related rules contradict, we do not have this clear hierarchy or guidelines about what to follow.”

Another respondent quoted:

“Some regulations complicate VAT law, such as the “Partial Input Tax Credit” regulation, which is not practical to implement in real life.”

2.1.2. Challenges in Digitalization and Technology

The National Board of Revenue (NBR) focuses on digitalizing the VAT compliance procedure. However, the infrastructure is not yet ready to fully support this transition, leading to several challenges for VAT executives.

i. NBR Online Return Filing System

The NBR's online return filing system is prone to inefficiencies, including data input errors, system slowdowns, and occasional downtime. These issues are particularly problematic during peak filing periods (10th-15th of the month), creating stress and potential penalties for late submissions.

A respondent stated:

“We input data into the web form, and after a few minutes, the data is missing. Moreover, as it does not show a serial of the entered data, you cannot also find out which row is missing without searching the entire file, which generally consists of about 1000 rows. Apart from that, sometimes two or more people cannot simultaneously work on separate parts/notes of the form, which becomes very inefficient.”

ii. VAT Software Inefficiency

NBR has enlisted about fifty VAT software providers (NBR, 2024) and the companies are obliged to take service from only these providers. Sometimes, these software providers lack expertise in VAT, leading to persistent implementation issues. Although approved by NBR, software vendors frequently struggle to understand the complex requirements of large enterprises. Respondents stated,

“They lack expertise in working with large companies. There is a huge knowledge gap. When specific instructions are given, they do not know the result of following such instruction.”

“Recently, the government changed the format of invoices (Mushak 6.3), adding a specific word “If Applicable”, but it will be only used on the invoices issued after the date in which the law was stated, but in one case, the software providers changed all the previous invoices which may lead to a compliance issue.”

iii. Inefficient Data Entry System

Despite the push towards digitalization, many VAT compliance tasks still require extensive manual data entry. The NBR website lacks features like bulk data upload. Additionally, the website lacks integration with existing accounting software, making the process time-consuming and prone to errors. One of the executives said,

“When I have to fill up the monthly VAT return on the NBR website, I have to input each cell of each one by one. It cannot even extract data from Excel.”

2.1.3. Complexity of Input Tax Credit Management

The process of identifying and claiming eligible input tax credits involves meticulous record-keeping, experience and maintenance of strict regulations, which can be both complex and time-consuming.

i. Categorization of Purchases

VAT executives must accurately categorize purchases into rebatable and non-rebatable items (eligible for input tax credit or not). This categorization requires a deep understanding of the manufacturing process and the end-use of each product, making it difficult for newcomers and necessitating significant expertise and experience. The similarity of product names and the number of raw materials finished goods, and machinery make it more difficult to segregate them. One of the employees mentioned,

“Segregating purchases into rebatable and non-rebatable categories is one of the hardest activities in VAT compliance. Some purchases are made by paying VAT, but they are not eligible for input tax credit either because they are used to make exempted products (non-taxable supply) or not used directly in the manufacturing process.”

ii. Time-Bar Constraints

The process of claiming input tax credits is subject to stringent time bars. According to Rule 46 (c), purchases must be recorded and claimed within a limited period (typically four tax periods), and any delay can result in the loss of eligible credit. An Executive informed,

“If we do not claim input tax credit within four tax periods after the purchase, it cannot be further claimed.”

iii. Strict Documentation Requirements

VAT compliance requires strict adherence to documentation protocols, including the maintenance of invoices, purchase books, sales books, and price declarations. Accurate record-keeping is essential for claiming input tax credits and ensuring compliance with regulations. These documents must be meticulously organized and preserved for audit purposes, adding to the complexity and workload.

2.1.4. Expertise Deficiency in the VAT Ecosystem

A significant finding from the interviews was the pervasive lack of expert advice from the external stakeholders.

i. Lack of expertise in NBR Personnel

Despite being in regulatory positions, NBR officials often lack the necessary expertise in VAT matters. As one executive noted,

“NBR personnel are recruited through Civil Service Exam (BCS Cadre) and are not always from Finance background.”

This background mismatch creates challenges as officials struggle to understand complex financial reporting standards and industry-specific issues.

ii. VAT Consultants

The study identified a severe shortage of expert VAT consultants in the ecosystem. Unlike the income tax sector, where numerous expert practitioners exist under the ITP (Income Tax Practitioners), the VAT sector suffers from limited professional support. This scarcity is exacerbated by NBR's restrictive consultant recruitment policies and high license renewal fees, as highlighted by one respondent:

"The VAT authority recruits VAT consultants in long intervals, and the renewal fees are so high that many consultants cannot afford it."

Due to this lack of expert advice, many disputed issues remain unresolved, often leading to solutions based on ad-hoc discussions within the team or with fellow executives from other companies in the same industry rather than informed decisions.

2.1.5. Sectoral and Operational Complexities

The pharmaceutical industry's operational nature creates distinct VAT compliance challenges, particularly in two key areas:

i. Manufacturing Industry Complexity

The interviews highlighted that the nature of the manufacturing process itself introduces significant compliance complications. As one executive explained,

"Pharmaceutical manufacturing involves too many types of material purchases, raw materials, packaging materials and many more."

The diversity extends to imports, which include *"active ingredients, supporting ingredients, packaging material, testing kit (samples), research & development materials."* Each category requires different VAT treatments and documentation, adding layers of complexity to compliance procedures.

ii. Mismatch between Sales According to VAT Payment and Actual Sales

A critical challenge identified during interviews is the consideration of Sales in a company under central registration. The notion of central registration is one company, one account, and one BIN (Financial Express, 2021). When a company operates from multiple manufacturing and distribution centres, maintains one account, and sells similar products, the company generally falls under central registration. Most large pharmaceutical companies have multiple manufacturing and distribution centres and are under central registration. According to VAT law, when products leave the manufacturing sites to distribution centres in companies with central registration, it is considered sales, and the company has to pay Output VAT for it in that tax period (Financial Express, 2021). However, this sales value does not account for actual sales as goods are sent to

distribution centres based on estimation of demand, not actual sales amount. One executive emphasized,

"It is not actual sales, but we have to pay VAT on the whole amount."

Some of these supplies may expire and be sent back to the manufacturing site for destruction. After the destruction, the VAT amount previously paid can be adjusted by decreasing adjustment. However, this causes:

- Working capital reduction due to advance VAT payment and incurring cost for missed investment opportunity
- Loss of time value of money as VAT is paid before actual sales revenue is received

A respondent said,

"The VAT we paid in advance loses potential because of the time value of money, and as this happens on a large scale, investing and profiting opportunities for that amount of money are missed."

This misalignment between VAT payment timing and actual sales significantly impacts the company's financial efficiency and creates an additional compliance burden.

2.1.6. Rigorous Record Keeping & Paperwork

Maintaining accurate and comprehensive records is a fundamental aspect of VAT compliance, but it presents significant challenges for VAT executives. The need for meticulous documentation and the massive volume of paperwork required can be overwhelming.

i. Volume of Paperwork:

The sheer volume of paperwork involved in VAT compliance can be burdensome. It necessitates the maintenance of various documents, including purchase books, sales books, invoices, and price declarations (NBR, 2024). Each month, employees have to deal with a lot of different types of purchase invoices (regular, utility bills, VDS, insurance, Bill of Entry for materials and machinery), invoices of contract manufacturing (Mushak 6.4), Withheld VAT certificates (Mushak 6.6), Credit note and Debit Note. Storing these documents requires significant effort and resources, creating physical and logistical challenges. A respondent noted that,

"Too much manual paper-based work results in employees' physical and mental stress, monotony, and reduced efficiency."

ii. Manual Entry & Cross-checking

Many aspects of VAT record-keeping involve manual data entry, which is time-consuming and prone to errors. The lack of digital integration and automated processes further complicates the task.

"The employee who inputs the invoice data into Excel has to regularly check whether the suppliers have calculated the VAT amount correctly."

iii. Risk of Document Loss or Damage

Physical documents are susceptible to loss, damage, or deterioration over time. Ensuring the safekeeping of these records is essential for compliance but adds to the complexity and cost.

iv. Audit Preparedness & Storage Cost

To facilitate audits, VAT executives must ensure that all records are readily available and accurately maintained. Any discrepancies or missing documents can result in penalties and compliance issues. According to NBR (2024), all the documents related to VAT need to be maintained for five years to support the tax assessment. Respondents said,

"Maintaining paperwork itself is difficult; on top of that, preserving it for five years for audit purposes increases the difficulty and causes significant cost and complexity."

"If any lawsuit is ongoing, the documents related to it have to be kept for as long as it is ongoing."

2.1.7. Challenges of Acting as Agents of NBR

Large companies often find themselves acting as de facto agents for the National Board of Revenue (NBR), shouldering a significant portion of the compliance burden to ensure VAT collection across the supply chain. This situation places additional strain on these companies.

i. Ensuring Compliance in Suppliers

Companies have to push their suppliers to maintain compliance with VAT law to claim input tax credit and ensure transparent cross-checking by NBR. According to Rule 46 (F) of the VAT & SD Act 2012, The suppliers must prepare the invoices complying with NBR regulations, including accurate information on the name, BIN, and address of both the supplier and buyer, for the purchaser to be able to claim for input tax credit against the invoice.

An officer said,

"Through the compliance procedure, we have to push these suppliers to prepare their VAT challans correctly. We have to train them, and the cost of training falls upon us. The NBR uses the big firms to push the small firms to comply."

ii. Enforcing Registration

When a purchase is made from an unregistered company (up to 3 million bdt) or a company registered under turnover tax (from 3 million to 8 million bdt), the purchaser company cannot claim the VAT amount paid on that purchase as input tax credit. So, companies, for their benefit, compel small suppliers to register by making it a precondition for doing business with them and responding to the tenders.

iii. Reduce Revenue Loss of NBR

In the pharmaceutical industry, the retail level (pharmacies) do not have to pay any VAT; instead, the tax on the value added at the retail level is paid by manufacturing companies. The

NBR has formulated this regulation to reduce the potential revenue loss, which would otherwise have happened because of the small size and dispersion of the pharmacies nationwide. Additionally, most of the large companies in the pharmaceutical industry are withholding entities. So, they withhold VAT for the specific purchases for which NBR provided instructions to deduct VAT at source. Respondents expressed,

“Firms are working as an agent for Govt. Self-assessment of VAT instead of VAT calculation by NBR, encouraging their suppliers to register under voluntary registration to be eligible to claim input tax credit, withholding VAT where needed (based on govt. instructions), paying retail VAT as well significantly benefits the NBR.”

Acting as agents of the NBR has financial implications. They must invest in training and support for their suppliers, which adds to their operational costs. One of the Executive stated:

“Large companies need to increase manpower to enforce compliance through the supply chain, which ultimately increases operational costs.”

2.2.Internal Challenges

Maintaining VAT compliance requires coordination across multiple departments. Internal hurdles ranging from workforce limitations to structural inefficiencies create significant challenges for VAT executives.

2.2.1. Challenges Related to Workforce Capability

Ensuring VAT compliance requires accuracy, timeliness, and awareness across multiple departments. However, employees' lack of VAT-related knowledge and attention to detail often leads to errors and delays.

i. Time Management

After purchasing inputs, input Tax Credit claims must be made within 4 Tax Periods. However, invoice receivers frequently fail to submit invoices within the stipulated timeframe. This results in the organization paying more VAT than necessary. This issue primarily stems from a lack of awareness among ground-level employees. Additionally, the volume of physical invoices they must process contributes to missed deadlines. One of the employees stated,

“Because of the unawareness of the employees who received the invoices, Invoices are sent to the VAT team late. So, the time limit to claim rebate is crossed.”

ii. Errors in Purchase Order and Goods Receiving Note Generation

Each department generates purchase orders (PO) for their acquisitions, which suppliers use as the basis for invoice preparation. However, employees frequently make errors while preparing Purchase Orders, leading to inaccuracies in supplier invoices. Furthermore, when staff members responsible for receiving goods create Goods Receiving Notes (GRN), they often input data incorrectly, creating complications for the VAT team's compliance efforts. A Respondent said:

“Sometimes the error in supplier’s invoices is caused by the error in purchase order. PO makers should be concerned about all the information that needs to be communicated.”

Employees outside the VAT team often lack awareness of their role-specific VAT compliance requirements, which hampers the organization's ability to maintain comprehensive compliance. Three of the five interviewed employees attributed this lack of awareness to insufficient training opportunities.

2.2.2. Challenges Regarding Inter-Departmental Coordination

Interdepartmental document management disparities often impede data cross-verification and collaborative efforts. For instance, while the Accounts Payable (AP) team processes all supplier payments, the VAT team must reconcile the list of input tax credit claims with VAT payments. The AP team's practice of consolidating multiple local invoices from a single supplier into one payment, coupled with the omission of invoice number documentation, significantly complicates the VAT executives' ability to verify whether a claim has been made for the VAT payments for which input tax credit could be claimed. Implementing a standardized documentation format across departments would streamline the reconciliation process.

In the case of one of the companies, an executive described,

“The AP team makes one payment for a bunch of local challans of one supplier and states the total amount in the document. Moreover, it also does not record against which invoice numbers this payment has been made. So, it is very hard to track whether all the invoices for which payment has been made, input tax credits have been claimed or not. Input tax credit claims are limited by a time bar; however, payment has no time bar. So, they may make a payment for invoices from different timeframes together. Consequently, it would be very hard to reconcile as the rebate list only consists of recent invoices.”

2.2.3. Internal & External Training

Apart from contributing to the regular activities, VAT team executives have to train colleagues from other departments and suppliers about the process of document (invoice) generation, software data entry, etc., so that comprehensive VAT compliance can be maintained.

i. Training & Communicating with the Suppliers

As strict guidelines must be maintained concerning purchase invoices, the VAT team has to communicate with suppliers about the regulations, identify and communicate any mistakes, and enable them to comply. These activities consume substantial time and effort, causing disruptions in the regular activities of VAT executives.

“I have to communicate when the invoice provided by the suppliers does not adhere to the requirements and instruct them to provide the right data in the right place.”

ii. Training Internal Employees

Employees who receive the invoices with the goods must be trained to check for any mistakes (VAT rate, calculation, information) and inform and rectify the process of making GRN. All departments must be informed about how to make the purchase order perfectly. Additionally, VAT executives have to regularly answer queries about VAT rates for certain purchases, laws, and regulations.

Training these stakeholders takes significant time and effort from VAT executives. It sometimes delays their regular day-to-day work. Moreover, the employee base and the suppliers are numerous, making it challenging to train and inform them all. As any department or employee can make purchase orders, and the invoices pass through many departments before reaching the VAT team, almost the entire company must be informed about the basics of VAT, which is challenging.

3. ANALYSIS

This study explored the fact that the respondents consider external factors to create more challenges in VAT compliance than internal ones. Most respondents were reluctant to discuss internal policies and challenges. According to one respondent, many of the challenges regarding the mistakes made by other employees and suppliers were due to the VAT team's inability to train them properly. However, it is important to consider the size of the employee and supplier base, as well as the regularly changing workforce, which makes it very difficult for the VAT team to train them while also completing their regular activities constantly.

The pressing issues regarding VAT compliance are the complexity, scatteredness, and regularly changing tendency of the VAT law, inefficient NBR website, rigorous record-keeping and hardcopy management, dysfunctional VAT software, and lack of expert VAT consultants and NBR personnel.

A fascinating insight from this research is that, though most of the findings align with previous literature, unlike previous research, the lack of VAT knowledge and awareness among the executives (Buttigieg & Ellul, 2021; Ndlovu & Schutte, 2024), as well as the difficulty of calculation (Nutman et al., 2022), were not considered severe challenges by the respondents of the current study. Moreover, many studies found that respondents considered multiple rates and exemptions to make VAT law complex, thus increasing compliance challenges. However, the respondents of this study seemed to understand that, as a developing country, multiple rates, exemptions, and special provisions are necessary for maintaining an effective VAT system. This understanding likely results from the government's widespread VAT training, resources and guidelines. Previously, some literature stated that imposing fines and penalties was one of the biggest VAT compliance challenges SMEs face (Buttigieg & Ellul, 2021). According to Faridy et al. (2014), Compliant and non-compliant taxpayers vary differently in terms of the usefulness of penalties and fines in compliance behaviour. While Compliant Taxpayers considered Penalties as a helpful tool to ensure compliance, non-compliant taxpayers considered fines to have minimal effect. However, respondents in this research stated that the fear of penalties made them stay more

compliant and away from manipulation. Many of the problems are related to NBR's policymaking, such as assigning limited numbers of and inexperienced VAT software providers, providing licenses to an inadequate number of VAT consultants, and regularly changing the VAT regulations. Some challenges are inherent to VAT systems, such as rigorous record-keeping and detailed VAT laws. Moreover, other challenges stem from the government's willingness to broaden the revenue base, reduce VAT fraud, and simplify the VAT collection process. Examples of these challenges include using large companies as agents to enforce compliance among smaller companies under the VAT regime, requiring retail-level VAT payments alongside manufacturing-level payments from the manufacturing firms, and withholding entities having to deduct VAT at source, which currently appears unsolvable given the existing infrastructure.

CONCLUSION

VAT compliance is undoubtedly a prime focus for companies in Pharmaceutical Industries. VAT non-compliance will result in operational disruptions, products getting stuck in customs, and huge penalties imposed by the NBR. Mitigating the challenges faced by the VAT executives will make the process more efficient and reduce miscellaneous spending. This article's findings will help to identify the challenges that have made the process inefficient.

The findings suggest that while both internal and external factors contribute to compliance difficulties, external challenges—particularly the complexity and fragmentation of VAT laws—pose a more significant threat to effective VAT management. The scattered nature of regulations, frequent amendments, and lack of explicit official guidance greatly complicate the compliance process for VAT practitioners.

Moreover, the digitalization of VAT compliance, though promising, is hindered by inadequate infrastructure and inefficiencies in the NBR's online systems. The lack of expertise within the NBR and among VAT consultants was also identified as a critical barrier that exacerbates compliance challenges. The article highlights issues such as inefficient software, rigorous record-keeping requirements, and the operational complexities inherent to the pharmaceutical sector.

There is a clear need for improved training, resources, and communication strategies to foster a more effective compliance environment. Strengthening the collaboration between the NBR and VAT practitioners, alongside enhancing workforce training, could yield significant benefits for VAT compliance.

Addressing these challenges is crucial for ensuring compliance and optimizing VAT management practices that contribute to the broader economic goals of revenue generation and fiscal stability in Bangladesh. Recommendations for mitigating these challenges include more transparent regulatory frameworks, focused training programs, and investment in better technological solutions to streamline VAT processes.

REFERENCES

- Ashiquzzaman, Md. (2018). Tax & Value Added Tax—In View of Bangladesh. *International Journal of Tax Economics and Management*, 1(1), 37–48. <https://doi.org/10.35935/tax/11.4837>
- Baer, K. O. (2013). What International Experience Can Tell Us About the Potential Challenges of Administering A U.S. Vat. *National Tax Journal*, 66(2), 447–478. <https://doi.org/10.17310/ntj.2013.2.07>
- Bhalla, N., Sharma, R. K., & Kaur, I. (2023). Effect of Goods and Service Tax System on Business Performance of Micro, Small and Medium Enterprises. *Sage Open*, 13(2), 21582440231177210. <https://doi.org/10.1177/21582440231177210>
- Buttigieg, R., & Ellul, L. (2021). VAT Compliance Challenges Among SMEs: Evidence from Saudi Arabia. *Journal of Accounting Finance and Auditing Studies (JAFAS)*, 7(3), 1–33. <https://doi.org/10.32602/jafas.2021.017>
- Chen, L. E., & Bin Md Taib, M. S. (2017). Goods and Services Tax (GST): Challenges Faced by Business Operators in Malaysia. *SHS Web of Conferences*, 36, 00027. <https://doi.org/10.1051/shsconf/20173600027>
- Evans, C., & Krever, R. (2020). *The VAT Compliance Burden in the UK: A Comparative Assessment*.
- Faridy, N., Copp, R., Freudenberg, B., & Sarker, T. (2014). Complexity, Compliance Costs and Non-Compliance with VAT by Small and Medium Enterprises in Bangladesh: Is There a Relationship? *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.2479146>
- Faridy, N., & Sarker, T. (2011). Incidence of Value Added Tax (VAT) in the developing countries: A Case in Bangladesh. *International Journal of Trade, Economics and Finance*, 437–442. <https://doi.org/10.7763/IJTEF.2011.V2.145>
- Financial Express. (2021). *Central VAT registration in Bangladesh: An appraisal*. The Financial Express. <https://thefinancialexpress.com.bd/views/central-vat-registration-in-bangladesh-an-appraisal-1619621112>
- Folajimi Festus, A., Olajumoke, J., & Danjuma, K. J. (2016). Assessment of Value Added Tax on the Growth and Development of Nigeria Economy: Imperative for Reform. *Accounting and Finance Research*, 5(4), p163. <https://doi.org/10.5430/afr.v5n4p163>
- Gale, W. G., Gelfond, H., & Krupkin, A. (2016). *Entrepreneurship and Small Business Under a Value-Added Tax*.
- IMF. (2021). *Consumption taxes*. OECD. <https://www.oecd.org/en/topics/consumption-taxes.html>
- Ismail, R. (2017). Value Added tax (VAT) – in View of Bangladesh. *IOSR Journal of Business and Management*, 19(01), 08–18. <https://doi.org/10.9790/487X-1901060818>
- Lalarukh, F., & Chowdhury, M. S. (2013). *Contribution of VAT to the GDP of Bangladesh: A Trend Study*.
- Naicker, Y., & Rajaram, R. (2019). *Factors that Influence Tax Compliance of SMEs in South Africa*. 10(2).
- NBR. (2024). *National Board of Revenue (NBR) enlisted softwares*. <https://nbr.gov.bd/>

- NBR. (2024). *VAT FAQ*. <https://nbr.gov.bd/>
- Ndlovu, M. O., & Schutte, D. P. (2024). Understanding the challenges encountered by small business owners regarding value-added tax compliance. *South African Journal of Economic and Management Sciences*, 27(1). <https://doi.org/10.4102/sajems.v27i1.5589>
- Nutman, N., Isa, K., & Yussof, S. H. (2022). GST complexities in Malaysia: Views from tax experts. *International Journal of Law and Management*, 64(2), 150–167. <https://doi.org/10.1108/IJLMA-02-2021-0046>
- Plumley, A. H. (1996). *The determinants of individual income tax compliance: Estimating the impacts of tax policy, enforcement, and IRS responsiveness - ProQuest*.
- Schoeman, A., Evans, C., & Du Preez, H. (2021). The Effect of Changes in the Value-added Tax Rate on Tax Compliance Behaviour of Small Businesses in South Africa: A Field Experiment. In J. Hasseldine (Ed.), *Advances in Taxation* (pp. 65–88). Emerald Publishing Limited. <https://doi.org/10.1108/S1058-749720210000029004>
- Smith, A. M. C., Islam, A., & Moniruzzaman, M. (2011). Consumption Taxes in Developing Countries—The Case of the Bangladesh VAT. *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.2028663>
- Zu, Y. (2018). *VAT/GST Thresholds and Small Businesses: Where To Draw the Line?*

APPENDIX

Interview Questionnaire

Introduction

Thank you for participating in this interview. This interview aims to understand the challenges VAT executives face in ensuring compliance with VAT regulations. Your insights will help identify areas that require improvement or support. Please answer based on your experience. All responses will be kept confidential.

Compliance Tasks

1. What are the main tasks involved in VAT compliance in your role (e.g., filing returns, Calculating Net payable)?
2. Which part of your tasks are the most challenging or time-consuming?

Coordination with suppliers

3. What are the problems do you face while working with suppliers for VAT purposes (e.g., Invoice Generation)?
4. What challenges do you face while working with suppliers who are unregistered or registered under turnover tax?

Inter-departmental Coordination

5. What problems do you face while working with Root-level employees?
6. Do you face any challenges in collaborating with other departments for VAT-related information?

Revenue Body

7. What challenges do you face with the NBR's VAT online return filing service?
8. Is the NBR efficient enough in their refund management of excess VAT payments?
9. Have you ever faced any issues while working with NBR personnel? (Competence, Friendliness, Relationship)

VAT Regulations

10. How would you rate the complexity of VAT Regulations?
(Scale: Very Simple, Simple, Moderate, Complex, Very Complex)
11. What factors lead to VAT complexity (Multiple rates, Exemptions and zero Rate, Special Provisions, Ambiguity and interpretation)?
12. How often do VAT regulations change? How do these changes affect your VAT compliance process?
13. Are there any specific laws that complicate maintaining VAT compliance in the pharmaceutical industry?

VAT Calculation Complicacy

14. Is calculating the right amount of input tax credit (rebate) easy? [Yes/No/Unsure] ~ WHY?
15. Do you face cases where you cannot claim a rebate for a legitimate input tax?
16. Are adjustments for VAT paid for the unsold expired products and returned products after-sales complex?

Data Management

17. Is handling too much paperwork (record keeping, handling invoices) a burden? Do you think it would be better if we could calculate Net payable VAT based on accounts?

Technology and Tools

18. Does your organization use any software or tools for VAT compliance? If yes, please specify.
19. What limitations or challenges do you encounter with these tools?

Time and Resource Constraints

20. Are sufficient resources allocated to VAT compliance tasks (e.g., time, personnel)?

Knowledge and Training

21. How would you assess the level of VAT-related knowledge within your team?
22. Do you feel that more training or information sessions on VAT compliance would be beneficial?

Govt. Initiatives

23. Are there any government initiatives to assist companies with VAT compliance? [Y/N/U] ~ What are these?

Overview

24. Would you consider it easy for Pharmaceutical Companies to comply with the Bangladeshi VAT system? [Yes/No/Unsure] ~ WHY?

Conclusion

Thank you for your time and insights. If you want to add comments or concerns regarding challenges in VAT compliance, please do so here.