UNB Report

The government is making a list of multinational companies (MNCs), aiming to check tax evasion through manipulation of transfer pricing (TP) that allows unauthorized outflow of money.

“We’re preparing a list of them (MNCs) in a prescribed form to check tax evasion through transfer pricing,” a source of the National Board of Revenue (NBR) told.

On July 2, the NBR issued rules over the much-talked-about transfer pricing (TP) under a provision incorporated in the Finance Act 2012. The Board took two years' time for framing the rules.

“We’ve to stop this tax avoidance system, the government is very much serious about such fund flight as it concentrate more on tax collection from local sources,” the NBR source said.

Tax officials said although MNCs are regularly paying higher amounts of taxes, still there remains enough scope for collecting more taxes.

A total of $34.12 billion flew out of Bangladesh between the years 1990 and 2008, according to Global Financial Integrity (GFI), a Washington-based firm. That means the country lost $1.8 billion in capital a year during the period, causing the tax authority to lose a huge amount of revenue.

Tax Justice Network, a UK-based advocacy group, found that Bangladesh had lost around Tk 197,600 crore between 1976 and 2010 due to illicit capital flight.

Transfer pricing is the price at which divisions of a company transact with each other for goods or services. It usually takes place when two related companies, like parent company and subsidiary, or two subsidiaries controlled by a common parent, engage in international trade with each other for goods and services.

According to international laws, transfer pricing is not illegal, but 'transfer mispricing' is. Sometimes, related entities of a multinational firm show artificially high prices for an imported product or service in an attempt to evade taxes. This practice is known as 'transfer mispricing'.

Meanwhile, the NBR issued rules along with a prescribed form for the multinationals to submit details of their international transactions with the tax returns.

According to the rules, the prescribed form should be signed and verified by the person authorized to sign the return on income. Their accounts and records will be maintained separately as prescribed.

The TP cell would handle tax files of the taxpayers involved in international transactions.

TP cell officials will determine the price and send a report to the circle office to complete assessment on the basis of decision by the TP official concerned.

According to the TP rules, the MNCs' international transactions will be "monitored and assessed carefully" by an expert group of taxmen.

The Deputy Commissioner of Taxes (DCT) may impose a penalty equivalent to a maximum 1 percent of the value of each international transaction in case of failure to keep, maintain or provide information, documents or records to him or comply with the notice.

The DCT can impose a penalty up to Tk 300,000 for failure in giving report by chartered accountants.