

Why Bangladesh's VAT policy needs urgent reform

VAT hikes hit the poor the hardest, while the rich remain rich



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In today's economic reality, Bangladesh's low-income population is facing an unprecedented food crisis. The rising cost of living, along with increased VAT and duties on essential goods, has made the situation even worse. The shrinking size of cakes and biscuits in the market is not just symbolic -- it reflects a deeper problem where food habits, nutrition, and financial security are all under threat.

As the government tries to tackle a revenue shortfall, it has chosen to raise VAT and duties as a policy measure. To meet revenue targets under the International Monetary Fund (IMF) loan program, the government increased VAT and supplementary duties on many products, including cakes and biscuits. The VAT on these bakery items was raised from 5% to 15%, though public criticism later led to a revised reduction of 7.5%. Still, the negative impact on the market is clear.

Many lower and middle-income households rely on affordable foods like cakes and biscuits for daily meals. Raising VAT on such basic items makes food even less accessible. This has led to an increase in malnutrition, health risks, and mental stress.

VAT slapped on the basics, while sparing the delicacies

The poor pay more for basic biscuits, while the rich enjoy had-made baked goods.

Currently, the 5% additional VAT on super shops has been withdrawn, a move that mainly benefits middle and upper-income consumers. On the other hand, low-income, working-class people who buy everyday foods -- such as bread, biscuits, and cakes -- from tea stalls and small local shops still face VAT on these items.

Notably, in January, the VAT on machine-made biscuits was increased to 15%, later reduced to 7.5%. Meanwhile, hand-made biscuits priced below Tk200 per kilogram are exempt from VAT -- often purchased by well-off consumers who thereby enjoy the tax benefit.

In contrast, the everyday bread, cakes, and biscuits sold at small tea stalls and local grocery stores across the country continue to bear VAT. This discriminatory tax structure imposes an additional financial burden on the poor, undermining the principle of social justice.

Cutting down on meals causes a ripple effect

A recent survey by the youth research group Youth Policy Network found that 99% of low-income individuals had to cut back on food at some point. Six out of 10 people regularly skip breakfast; some even miss lunch or dinner. Most households now depend on cheap, low-nutrition foods like biscuits, bananas, eggs, and parathas.

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bananas, eggs, and paranas.

This situation reveals a darker side of the economy. Cutting back on food doesn't just mean going hungry -- it affects growth, educational outcomes, women's health, and overall productivity.

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VAT is an indirect tax that falls on consumers regardless of their income. However, its burden is highly unequal



No quality or quantity ensured

The gravity of the situation is further underscored by the World Bank's recent "poverty red alert" for Bangladesh. According to the warning, persistent inflation and declining real incomes are pushing millions of low, and middle-income families deeper into poverty. Food insecurity is rising sharply, with many families forced to reduce both the quantity and quality of their meals. Without urgent policy actions -- such as expanding social safety nets and creating a fairer tax structure -- the current poverty crisis could become entrenched, undermining decades of development gains. This stark warning highlights the urgent need for a budget that prioritizes food security, social justice, and inclusive growth.

VAT is an indirect tax that falls on consumers regardless of their income. However, its burden is highly unequal. For a high-income individual, VAT may account for just 5% of their income, whereas for someone living in poverty, it can take up 20-25%. Thus, a VAT-heavy budget increases inequality.



If the government is serious about promoting inclusive growth and fairness, it must make the tax system more equitable and humane. Instead of relying heavily on indirect taxes, the focus should shift towards direct taxes -- such as personal income tax, wealth tax, and taxes on luxury properties. This would not only ensure fair revenue collection but also help reduce social inequality.

Suggestions to redeem equality

As the national budget for 2025–2026 is being prepared, some key recommendations for policymakers are:

VAT on daily food items -- especially those consumed by low-income people -- should be kept at more manageable percentages. Cakes, biscuits, bread, dairy products, and eggs must be treated as essential for food security.

Programs such as rationing, cash assistance, and food aid should be expanded to cover a larger share of the rural and urban poor.

The government must establish an effective market monitoring system to prevent dishonest traders from manipulating prices. If VAT increases while market syndicates also raise prices, it will severely worsen the burden on consumers.



Tax holidays for the wealthy, opportunities for legalizing undeclared money, and excessive rebates for exporters must be re-evaluated. A fair and progressive tax system must be built.

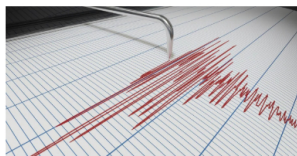
We are at a point where every economic decision directly affects whether people can afford to eat. No matter how important revenue collection is, it cannot come at the cost of food security, nutrition, and a dignified life.

A budget is not just a financial document -- it is a reflection of political commitment. If that commitment is truly to the people, then the upcoming budget must lower VAT on essential foods, strengthen social protection, and reform the tax system to ensure fairness for all.

Kaushik Ahmed is a journalist.



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