

## Travel trade slammed with tax hikes leaving stakeholders in woe

- A Monitor Desk Report

Date: 16 January, 2025



Dhaka : Consumers will now have to pay more for air travel and restaurant meals, among others, as the government recently in-creased taxes on these products and services following International Monetary Fund's recommendations.

The move has negatively impacted the aviation and restaurant industries of the country, leaving concerned stakeholders in severe woes.

The cost of air tickets for domestic, SAARC countries, and international destinations has increased as the National Board of Revenue (NBR) hiked the excise duty on airfare on January 9.

The duty for local flights has been increased from BDT 500 to BDT 700.

For SAARC countries, the duty has been hiked from BDT 500 to BDT 1,000.

For international flights, it has shot up from BDT 3,000 to BDT 4,000.

Reports mentioned, NBR plans to collect an extra BDT 300 crore from these increases.

Following IMF's new revenue target for the government, NBR is fast-tracking efforts to increase VAT and SD across many products and services in order to generate an additional BDT 12,000 crore.

However, representatives of the country's airlines claimed, the move will severely impact the growth of domestic air travel and has left the local airlines in worries over their survival, as hikes in fees or duties ultimately have a huge impact on the affordability of air tickets.

Whenever taxes are increased, the airlines have to incorporate them into their costs, said a representative of NOVOAIR, a private Bangladeshi airline.

According to their estimate, demand decreases by 25 per cent whenever airfares increase by BDT 500 to BDT 1,000.

As per stakeholders of the airline industry, additional revenue collected through higher taxes or duties are worse than indirect loss of the government.

For instance, currently 75,000 fewer passengers are traveling a month, compared to 300,000 passengers who used to travel in a single month earlier.

This is due to the duty hike that resulted in a 25 per cent drop, claimed the representative of NOVOAIR.

On the contrary, stakeholders believe the government could have collected additional revenue at the former duty rates, as then the number of passengers would not have plummeted due to the duty hike.

According to them, the move will severely backfire and the government's revenue will decrease instead of increasing.

It may be mentioned here, passengers were already paying several taxes and fees, including BDT 500 in excise duty, BDT 200 in travel tax, BDT 100 in airport development fees, and BDT 70 in passenger security fees-a total of BDT 925 on domestic routes.

Now, the latest excise duty hike has increased the amount to BDT 1,125.

Furthermore, airline representatives informed, the government already used to take 30 per cent of airfares as direct tax and another 18 per cent as indirect tax.

Meaning, the government used to claim a total of 48 per cent of airfare-already a heavy toll on consumers' pockets.

On the other hand, usually the country's people prepare for tax or duty hikes during the national budget.

However, this time the industry was slammed with tax hikes out of the blue, said a spokesperson for US-Bangla Airlines, another leading private carrier of the country.

He attributed the risky move to poor planning from the government's end.



Members of the Bangladesh Restaurant Owners Association addressing a press conference at Pan Pacific Sonargaon Hotel in the capital on January 9

He urged the government to provide the country's airlines with subsidies or reduce other surcharges to increase passenger numbers.

This would eventually increase the industry's contribution to the national GDP, currently at three per cent, according to him.

However, now, due to the duty hike, the industry's contribution to the country's GDP will reduce, he claimed.

Another private airline Air Astra also criticized the way the government perceives these hikes as marginal changes.

According to a spokesperson for the airline, a 40 per cent increase is definitely not marginal.

Stakeholders pointed out, Bangladeshi carriers were already struggling to sustain due to high operational cost and severe competition from international airlines.

Foreign airlines have a huge cost advantage. In that context, such a sudden duty hike will rub salt into the wounds of Bangladeshi airlines on international routes.

### Restaurants threaten strike

Another subsector of the travel trade-the restaurant industry-has also become the victim of the sudden tax hike by the government.

The National Board of Revenue (NBR) has increased value-added tax (VAT) on restaurants from 5 per cent to 15 per cent, while the rate on non-AC hotels has been doubled from 7.5 per cent to 15 per cent.

The Bangladesh Restaurant Owners Association (BROA) on January 9 threatened to go for an indefinite strike if the interim government does not retract its decision to hike the value-added tax (VAT) on food bills in restaurants.

"We will first form a human chain. If the government remains unresponsive, restaurants across the country will be closed for a day as a token protest," said Imran Hasan, General Secretary, BROA, during a press conference.

"If it still does not work, restaurants will be shut down indefinitely as a final measure," he remarked.

The restaurant owners issued the warning during a press conference held at the Pan Pacific Sonargaon Dhaka hotel in the capital.

Hasan emphasized that the government's move to raise VAT from 5 per cent to 15 per cent, coupled with an existing 10 per cent supplementary duty, would result in a cumulative 25 per cent tax burden on consumers.

"Such a steep increase is unrealistic and burdensome, especially for the general public," he stressed.

The restaurant sector, already grappling with a 30 to 40 per cent decline in business due to prolonged high inflation, fears the increased tax burden will further reduce consumer spending.

Hasan criticized the government's approach, arguing it disproportionately favors large businesses while ignoring the challenges faced by small entrepreneurs.

According to him, a prior reduction in VAT from 15 per cent to 5 per cent had resulted in a 19 per cent increase in VAT collection, as reported by the National Board of Revenue (NBR) Chairman.

"Reversing this policy could harm both businesses and revenue collection," he said.

The association expressed willingness to collaborate with the NBR to ensure comprehensive VAT registration across the sector.

"Still, nearly 70 per cent of restaurants remain outside VAT coverage," said Hasan.

Currently, of the 525,000 VAT-registered entities, only 300,000 regularly contribute, according to BROA.

Amid a time when the industry requires government's support to sustain, the increased tax would further push the sector to the brink of extinction, believe stakeholders.