

A Special Report From Our Asian Correspondent: From Bhutan with Love

By John McAlister



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With this article, ThinkTWENTY20 is launching a new series of international reports on what's happening around the globe that may have an impact of the accounting profession. These will be shorter, newsy pieces to keep you up to date on what is happening elsewhere in the world. We begin with a report from Asia.

As we look around the world, there are so many examples where the purpose of government seems to have been forgotten or pushed aside in favour of self-interest, partisanship, opposition for the sake of it and, often, corruption. Democracies are losing credibility. The "people" are losing "trust."

Professor John Keane (University of Sydney) said in May that the rise of new political regimes is threatening established, power-sharing democracies around the world. Professor Keane noted that it appears that democracy is "dying by stealth." Smaller and newer democracies are falling victim to despotism under the influence of rising global powers, while long-established democracies, such as the United States and the United Kingdom, are losing credibility.

"For hundreds of years, modern societies have depended on something that is so ubiquitous, so ordinary, that we scarcely ever stop to notice it: trust," says English writer William Davies. "A modern liberal society is a complex web of trust relations."

All too often the focus of attention is on those who breach this trust, who seem to have cast aside the codes of conduct established to ensure that officials and experts are not seeking personal gain or glory and are bound by strict norms of honesty.

The Exception

Yet, nestled in the beautiful Eastern Himalayas, landlocked by the giants China and India, is a country that is defying this trend! It is a country that opened its doors to the world, carefully, in 1974. There were no more than 20 cars back then. It was not recognized by the United Nations as a country. It did not get satellite television until 1999. And it had remained free from western influence.

But, it was an absolute monarchy. As such, can it really be said to be defying the trend mentioned above?



Less than 50 years ago, Bhutan didn't actively participate in the world. In fact, I have been told that Bhutan didn't even know World War II was happening! But what does that have to do with the growing lack of trust in government and the decline of democracy?

Contrast!

In the past 50 years, the wisdom and vision of the Fourth Druk Gyalpo (the Fourth King), his unwavering love of and trust in the Bhutanese people and his strength and determination allowed him to be vulnerable; he ceded power to his people and his throne to his son.



It is under these most benevolent monarchs that the Bhutanese take immense pride in their culture and Buddhist lifestyle, which is uniquely Bhutan. And, in this context, it is the responsibility of government, institutions and agencies to respond in the long-term interest of Bhutan.

With international support, the Royal Government of Bhutan is working to balance socio-economic development to strengthen financial management, improve private sector and employment opportunities and to close the gap between rich and poor.

The aim is to achieve an economic transformation toward a self-reliant and sustainable economy, built on the foundations of a just and harmonious society, as envisioned by His Majesty the King.

The Bhutan government's ability to achieve this depends on efficient revenue mobilization centred on a modernized, robust and fair taxation system. Replacing the current indirect tax system, including sales tax – which has evolved into a complex and inefficient system that is neither fair nor equitable across the taxpaying community – is a priority.

And, as Bhutan is land-locked between giant countries, changes by its neighbours can have very big impacts. When GST was introduced in India, it also meant that the Indian

government no longer collected duties on products on behalf of Bhutan. This resulted in a reduction in revenues available to the Bhutanese government. And, what appeared to be a small amount on the balance sheet of India, was material to Bhutan.

Yet the real story here – the lesson parliamentary democracies around the world and for those looking to reinstate trust need to learn – is one of leadership. This means leadership by His Majesty, leadership by the Prime Minister, leadership by the government, leadership by parliament – all keeping in mind the good of the Bhutanese people before all else. It is through leadership in a very constructive way that discussion and debate is conducted.

Of course, not everyone agrees with everything. But, very refreshingly, the Opposition isn't just opposing because it can; it is being very constructive in acknowledging the need for change and looking to make reforms the best they can be for Bhutan.

The government is focused on narrowing the gap between rich and poor not by pulling the better-off down, but by ensuring that it addresses reform based on consumption: those who can afford to consume more pay more. At the same time, it is trying to curb consumption of harmful products that are damaging to health, the economy, the environment and spirituality. They are investing in prevention rather than waiting to cure. They are focused on wellness, not just illness.

To illustrate just how amazing this is, please, take a few moments to read the press release of Dr. Lotay Tshering, Prime Minister of Bhutan:

Press release:

Redefining nation building

The major tax reform is about narrowing the gap, making the best of what we can spare and exploring new economic opportunities.

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Dr. Lotay Tshering, Prime Minister of Bhutan

The story is not new.

As we write this, a village has received its first road in one corner of the country, unfolding world of possibilities for the folks. In another quarter, a mother prepares to send her son to a school nearby, promising a future she could never seek.

Back in town, a father sighs with relief as his gazes at his daughter recovering from a surgery in the hospital.

You may not realize but, in all these anecdotes, you have played a part through your services, your actions and your contributions – taxes. Families are living a comfortable life; facilities have come about; and our nation has grown. Under our benevolent monarchs, we take immense pride in calling ourselves Bhutanese. And, it is in these humble gestures, like paying taxes, that we all seek to build our small nation together.

However, at this juncture of our country, a new chapter unfolds. It is time we rewrite the story and redefine nation building. Our gear should shift toward creating a resilient economy while strengthening our social sphere.

Therefore, in keeping with changing times, to match up to the 21st century economy, and in pursuit of one of our main motivations during the elections, to narrow the gap, the government has introduced major tax reforms through amendments to all tax related bills.

Through this, we seek the wisdom of the Parliament, and subsequently the people of Bhutan, to process and mould our propositions that should ultimately transform our country for the better. In doing so, we would like to share with you the chapters we waded through to arrive at this historic move.

“Modernising” taxation

As a prelude, it is important we address the conventional perception that such reforms come with intentions to increase taxes. This need not necessarily be the case. But what is necessary is for us to ensure our culture and practices morph according to the changes in time and environment. From a barter base to a conventional sales tax system, our country has come a long way.

But it is now time to review our entire taxation system. We should channel our prized resources toward a reserve that flows back to benefit every single person born on this land. By reviewing the prevailing system while injecting new measures, by weaving present direct taxes with those of a new Goods and Services Tax, by digitalizing and boosting efficiency, our aspiration is to “modernize” the taxation system.

It is only correct that we do it now when the entire nation is gearing up toward digitization. Moreover, our responsibility as the government is to enable a system that provides an opportunity for every Bhutanese to come forward and be a part of the stories that add up to building this nation.

Narrowing the Gap

We have always indicated our concern with income disparity, the visible gap between the haves and have-nots. So, with this reform, we hope to close the gap as far as possible.

The effort is more visible in the direct tax category that looks at increasing the ceiling from Nu 200,000 to 300,000 in the personal income tax category, doing away with taxes on cash crops or removing any sort of payment by the pensioners.

The tax initiatives we are proposing are progressive in that contributions increase as income increases. But we are mindful that this reform should also recognize the hard work of Bhutanese who are doing well. The government is all for designing measures that acknowledge those who have contributed more.

As pledged, we also propose the removal of the five percent voucher tax on pre-paid mobile phone users, convinced that this translates to a substantial amount for people who cannot otherwise afford to have them.

Promoting health, protecting the environment

In keeping with the election agenda, the government is mindful of promoting health at every level. Even as we reform the tax system, we are looking at opportunities to levy taxes on unhealthy processed food products.

On the other hand, we are extremely enthusiastic about doing away with additional charges on goods related to sports. We have to foster a culture that is conscious of healthy living. It is the adjustments we make now that will create less stress on our exchequer later.

Doing away with taxes on cash crops for our farmers is just the beginning. We are looking at local food items that will be more reasonably priced compared with those that are imported.

Meanwhile, if not for the concerted efforts from our visionary leaders, Bhutan's pride in the country's carbon-negative impact on the environment would be short lived. They are calling for bold measures, such as removing the 50 percent tax on hybrid cars. We have to reduce our dependence on fossil fuels, the import of which costs us Nu 9 billion annually.

Reinforcing the tourism vision of "low volume, high value," we are proposing an imposition of 25 percent of the US\$ 65 sustainable development fee on regional tourists. Complementing this with the digital transformation vision, we are also proposing to free up any tax on digital and energy efficient devices.

Social and economic resilience

We have to prepare our economy for our graduation from the group of Least Developed Countries by the end of this economic period. But, to reinvigorate our economy, we need to generate more activities and trigger growth. This is also an opportunity for those who are not a part of the process to join in through tax contributions. If you look at it objectively, it is everyone's responsibility to pay taxes, but it is government's duty to ensure that there is an efficient system so that everyone pays equal and fair taxes.

There are often concerns that we are re-directing all our resources into the social sectors such as health and education. But we believe that government's focus on free healthcare and education is the most efficient and fair redistribution of taxes we collect. It is an investment in our children, in our human capital

Seeking views

Tax law is a thorny subject for any government to fiddle with. But if we are to simply worry about that and brush the matter aside, we are not working for our country. While the government and experts within the Ministry of Finance have been working very hard for months, matters related to tax rates and schedules discouraged us from

conducting public consultations. Now that our proposals have been formally submitted to the Parliament, we seek your views.

As stated, it is the need of the hour. It is us who need to run our economy, rather than being compelled to do so by outside forces. We have to come up with taxation measures that favour Bhutan and Bhutanese people.

Together, we can do so much and, to begin, we need to come together now more than ever. We have to reaffirm our sense of responsibility. We have to live up to His Majesty's expectations of deriving the best out of our smallness. Let us rewrite the story and redefine nation building.

Since this press release, the Prime Minister and Finance Minister, along with the experts, had consultation meetings on the proposed GST that included more than 800 participants. Participants included; business representative groups, businesses large and small, state-owned enterprises, financial institutions, government agencies and civil servants. Events were held in three major business locations: Thimphu, Gelephu and Phuentsholing. The GST Law of Bhutan, a central part of the reforms, received final parliamentary approval on Friday, February 28. There is one more important step before the bill becomes law: *Royal Assent*. The GST goes into effect July 1, 2021.

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