

DRAFT LEGISLATION/ACT ON TAX SCHEMES ON LEAD CONTAINING PRODUCTS



BACKGROUND

Bangladesh's current VAT/tax regulation imposes a standard 15% rate on all products, including those containing lead, which can reach an effective rate of up to 25% for the paint industry due to additional duties. Despite these rates, the regulations lack specific provisions to address the environmental and health impacts of lead, revealing a significant gap in the system. This oversight means that the detrimental effects of lead pollution are not adequately addressed within the tax structure, indicating a regulatory oversight.

Challenges identified include ineffective monitoring and control, which complicates the regulation of

lead-containing product distribution and production. Imported paints, making up 20% of the market and often containing lead, are not sufficiently regulated, exacerbating lead pollution risks. Additionally, the high cost of lead-free pigments compared to leaded options poses a financial barrier to manufacturers, especially smaller businesses, hindering the adoption of safer alternatives.

There are some existing regulations regarding VAT/tax on lead-containing products but a significant gap remains in the current frameworks. There is scope for improvement that can be proposed, which includes:

Existing Regulations	Proposed Recommendations
Standard VAT Rate 15%, generally custom duty is 25% on import	Increase the VAT rate to 25%-30%
There is no specific provision of VAT on Lead-Free Products	30% reduction in VAT rates for environmentally sustainable alternatives.
The current VAT scheme does not have specific provisions targeting lead-containing products.	Increase VAT for Lead-Containing Products to 25%
There is no mention of a Green Tax for lead-containing products.	10% additional tax on lead-containing products, allocated to a Lead Poisoning Prevention Fund.
There is no mention of a Tax Holiday for lead-containing products.	Five-year tax holidays for newly established manufacturers producing lead-free products.
No provision exists for the monitoring and enforcement regarding the import of specially lead-containing products	Up to 25% rebate on transition costs for manufacturers shifting to lead-free production.
Limited grants for research and development and particular instruction is followed	Allocate specific grants and annual awards for advancements

Recommendations for Developing a New Act

- Introduce specific VAT regulations targeting lead-containing products to leverage fiscal policies for environmental and public health.
- Implement a tax structure that favors lead-free products while imposing higher taxes on lead-containing products.
- Impose a green tax of 20% on top of existing VAT rates for lead-containing products.
- Clear instruction on formalizing informal sectors involved in lead recycling to ensure regulated and safer practices.
- Engage tax experts, the National Board of Revenue (NBR), and the Ministry of Environment to align tax policies with environmental health objectives.
- Strengthen monitoring and enforcement mechanisms to ensure compliance with new regulations.
- Provide grants for research into developing lead-free alternatives and offer annual awards for significant advancements.

- Review the effectiveness of the Act every five years and propose necessary amendments to improve its impact.

A draft act is hereby proposed based on our comprehensive study and gathered recommendations from relevant stakeholders.

PREAMBLE

An Act to reduce the usage of lead-containing products by providing Value Added Tax (VAT) incentives and other related measures to promote public health and environmental sustainability.

Section 1:

- 1. Short Title:** This Act may be cited as the "Lead-Containing Products Regulation Act, 2024".
- 2. Commencement:** This Act shall come into force on such date as the Government may, by notification in the Official Gazette, appoint.
- 3. Extent:** It extends to the whole of Bangladesh.

Section 2: Definitions

For this Act:

1. **“Lead-containing products”** refers to any product that has a measurable quantity of lead, including but not limited to lead-based paints, lead-acid batteries, and any other items containing lead compounds.
2. **“VAT”** refers to Value Added Tax as defined by the National Board of Revenue (NBR) of Bangladesh.
3. **“Green tax”** refers to any tax imposed on products or activities that are harmful to the environment to reduce environmental damage.
4. **“Environmentally sustainable alternatives”** refers to products or processes that do not contain lead or significantly reduce the environmental impact compared to traditional lead-containing products.

Section 3:

Introduction: This legislation aims to regulate the use of lead in products by implementing VAT or tax incentives for manufacturers who produce lead-free alternatives. The objective is to encourage the reduction of lead usage in products, thereby promoting public health and environmental safety in Bangladesh.

Objectives:

1. **Incentivize Manufacturers:** Encourage the production of lead-free products through tax incentives.
2. **Enhance Public Health:** Reduce lead exposure among the population.
3. **Align with Global Standards:** Bring Bangladesh’s regulations in line with international best practices.
4. **Promote Innovation:** Encourage the development and adoption of safer alternatives.

Background: Lead is a toxic substance that poses significant health risks, particularly to children and pregnant women. Despite existing regulations limiting lead content in paints and other products, enforcement and compliance remain challenges. This

legislation proposes the implementation of VAT or tax incentives to address these issues.

Section 4: VAT and tax Incentives

1. **Reduction of VAT on Lead-Free Products:**
A reduced VAT rate of 30% shall be applied to environmentally sustainable alternatives to lead-containing products. The reduced VAT rate shall apply to both domestically produced and imported lead-free products.
2. **Increase of VAT on Lead-Containing Products:**
An increased VAT rate of 25% shall be applied to all lead-containing products. This increased rate shall apply to all stages of the supply chain, including manufacturing, import, and retail.
3. **Tax Holidays:** Newly established manufacturers producing lead-free products shall be entitled to a tax holiday for five years from the commencement of production.
4. **Rebates:** Manufacturers transitioning from lead-containing to lead-free production shall be eligible for a financial rebate of up to 25% of the transition costs.

Section 5: Green Tax

A green tax equivalent to 10% of the product’s value shall be imposed on lead-containing products. Revenue generated from the green tax shall be allocated to a dedicated Lead Poisoning Prevention Fund.

Section 6: Lead Poisoning Prevention Fund

Establishment of the Fund:

1. The Lead Poisoning Prevention Fund shall be established under the Ministry of Environment, Forest and Climate Change (MoEFCC).
2. The Fund shall be used for i. Public awareness campaigns on the dangers of lead exposure. ii. Funding research and development of lead-free alternatives. iii. Supporting businesses in transitioning to lead-free production processes. iv. Environmental cleanup projects related to lead contamination.

Section 7: Monitoring and Enforcement

1. The National Board of Revenue (NBR) shall be responsible for implementing and monitoring compliance with this Act's VAT and green tax provisions.
2. Regular inspections and audits shall be conducted to ensure compliance.
3. Non-compliance shall result in penalties, including fines and potential suspension of business licenses.

Section 8: Public Awareness and Education

1. The Ministry of Health and Family Welfare, in collaboration with MoEFCC, shall conduct nationwide public awareness campaigns about the health risks of lead exposure and the benefits of lead-free products.
2. Educational materials shall be developed and distributed to schools, healthcare facilities, and community centers.
3. The Government shall establish training programs for manufacturers on the production of lead-free products and the benefits thereof.

Section 9: Research and Development Support

1. The Government shall provide grants for research into developing lead-free alternatives.
2. Annual awards shall be given to companies demonstrating significant advancements in the development and production of lead-free products.

Section 10: Review and Amendment

1. This Act shall be reviewed every five years to assess its effectiveness in reducing the use of lead-containing products and its impact on public health and the environment.
2. Amendments may be proposed based on the review findings to improve the Act's effectiveness.

Section 11: Miscellaneous

1. Power to Make Rules: The Government may, by notification in the Official Gazette, make rules for carrying out the purposes of this Act.
2. Repeal and Savings: Any law, rule, or regulation in force before the commencement of this Act, which is inconsistent with the provisions of this Act, shall to the extent of such inconsistency, be deemed to have been repealed.

Section 12: Commencement

This Act shall come into force on the date specified by the government, but no later than six months from the date of its enactment.

Section 13: Interpretation

In case of any conflict in the interpretation of this Act, the interpretation that best promotes the reduction of lead use and the protection of public health and the environment shall prevail.

Signatories:

[Relevant Government Officials and Authorities]

Explanatory Notes:

This draft aims to provide a legal framework to reduce the usage of lead-containing products by offering VAT incentives for lead-free alternatives, imposing a green tax on lead products, and using the revenue generated for public health and environmental protection initiatives.

For further information:

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