

## **2 Myanmar**

Win Oo

### **I. Introduction**

Myanmar is situated in Southeast Asia and is bordered on the north and north-east by China, on the east and south-east by Laos and Thailand, on the south by the Andaman Sea and the Bay of Bengal and on the west by Bangladesh and India. It is located between latitudes 09 32'N and 28 31'N and longitudes 92 10'E and 101 11'E.

#### **I.1 Geography**

The country covers an area of 676,577 square kilometers (261,228 square miles) ranging 936 kilometers (581 miles) from the east to west and 2051 kilometers (1275 miles) from north to south. It is a land of hills and valleys and is rimmed in the north, east and west by mountain ranges forming a giant horseshoe. Enclosed within the mountain barriers are the flat lands of Ayeyarwady, Chindwin and Sittaung River valleys where most of the country's agricultural land and population are concentrated.

The Myanmar Standard Time, taken as on East Longitude 97 30', is 6 hours 30 minutes ahead of Greenwich meantime. The length of contiguous frontier is 6159 kilometers (3828 miles) and the coastline from the mouth of Naaf River to Kawthaung is 2228 kilometers (1385 miles). The total length of the Myanmar-Bangladesh boundary is 271 kilometers (168.7 miles). It consists of two parts, namely the Naaf River boundary 64 kilometers (39.5 miles) and the land boundary 208 kilometers (129.2 miles). The total length of Myanmar-China boundary is 2204 kilometers (1370 miles); Myanmar-Thailand 2107 kilometers (1309.8 miles); Myanmar-India 1338 kilometers (831.8 miles); and Myanmar-Laos 238 kilometers (147.9 miles).

#### **I.2 Climate**

The climate of Myanmar is roughly divided into three seasons: Summer, Rainy Season, and Winter Season. From the end of February to the beginning of May are Summer months, with highest temperatures during March and April in Central Myanmar up to above 110F (43.3C) while in Northern Myanmar it is about 97F (36.1C) and on the Shan Plateau between 85F (29.4C) and 95F (35C). Rainy Season, from mid May to the end of October, with annual rain fall vary from 500 cm in the coastal regions to 74 cm and less in the central dry zone. Winter season which starts from November and lasts to the end of February with temperature in hilly areas of over 3000 feet drops below 32F (0C).

As a whole, the location and topography of the country generate a diversity of climatic conditions. Seasonal changes in the monsoon wind directions create summer, rainy and winter seasons. Extremes of temperature are rare. The direction of winds and depression bring rain, and although it is always heavy in the coastal areas during Monsoon season, it seldom creates hardships. The Government is giving priority to forest conservation and greening of nine arid districts in central Myanmar.

#### **I.3 Resources**

Myanmar is the largest country in the South East Asia region and still has a vast potential of land resources for cultivation and for further expansion of the cultivable land. Of the total land area of 67.6 million hectare only about 18 per cent is under cultivation. Myanmar is indeed very rich in forest resources, as the forest covers about 50 percent of the total land area. According to its climatic zones from temperate to arid and tropical, several variant forests types exist. They are the temperate forests in the north, the deciduous forests and dry forests in the central part and semitropical rain forests in the south.

Myanmar is rich in mineral resources and minerals of potential importance are copper, gold, lead, zinc, silver, tin and tungsten, antimony, chromium and nickel.

#### **I.4 Flora and Fauna**

Myanmar is endowed with a rich diversity of habitat types arising largely from its unusual ecological diversity. It is home to nearly 300 known mammal species, 300 reptiles about 100 bird species, and a haven for about 7000 species of plant life. The potential worth of plant species in Myanmar is considerable. Since Myanmar considers such a rich pool of biodiversity as an important national asset, the Government of the Union of Myanmar has drawn up strict regulations to protect its reservoir of biodiversity and biological resources.

#### **I.5 Historical Background**

Archaeological findings reveal that parts of Myanmar were inhabited some five thousand years ago. The ancestors of present-day Myanmar, the Pyus and the Mons established several kingdoms throughout the country from the 1st century A.D. to the 10th century A.D. From that early beginning, there are today a fascinating 135 nationalities who call Myanmar home.

Myanmar history dates back to the early 11th Century when King Anawrahta unified the country and founded the First Myanmar Empire in Bagan more than 20 years before the Norman Conquest of England in 1066(i.e. 1044 A.D.). The Bagan Empire encompassed the areas of the present day Myanmar and the entire Menam Valley in Thailand and lasted two centuries.

The Second Myanmar Empire was founded in mid 16th Century by King Bayinnaung(1551-1581). King Alaungpaya founded the last Myanmar Dynasty in 1752 and it was during the zenith of this Empire that the British moved into Myanmar. Like India, Myanmar became a British colony but only after three Anglo-Myanmar Wars in 1825, 1852, and 1885.

During the Second World War, Myanmar was occupied by the Japanese from 1942 till the return of the Allied Forces in 1945. Myanmar has become a sovereign independent state since 4th January 1948 after more than 100 years under the colonial administration.

#### **I.6 Population and religion**

The Union of Myanmar is made up of 135 national races, of which the main national races are Kachin, Kayah, Kayin, Chin, Bamar, Mon, Rakhine and Shan. Population of the country is estimated at 58.38 million (2008-09) and the population growth rate is 1.52 percent. The male population was 29.03 million or 49.7 per cent and the female population was 29.35 million or 50.3 per cent.

Myanmar is a multicultural, multiracial and multi-religious society. Officially, there are 135 national (racial) groups constituting eight broad ethnic categories. In Myanmar, Bamar constituted some 69 per cent of the country's inhabitants and the Shan was the largest ethnic minority group with 8.5 per cent of the population. The proportions for others are: Kayin, 6.2 per cent; Rakhine, 4.5 per cent; Mon, 2.4 per cent; Chin, 2.2 per cent; Kachin, 1.4 per cent; and Kayah 0.4 per cent.

The main religions of the country are Buddhism (89.2%), Christianity (5.0%), Islam (3.8%), Hinduism (0.5%), Spiritualism (1.2%) and others (0.2%). Religious intolerance or discrimination on grounds of religion is nonexistent in the Union of Myanmar throughout its long history. Though there is freedom of religion in Myanmar

#### **I.7 Administrative**

Administratively, Myanmar is divided into 14 regions, comprising seven states (named After the major national group that inhabits the region) and seven divisions (generally areas with Bamar majority). Apart from the national capital Naypyitaw, each state and division has a designated regional capital. In a descending order of administrative hierarchy, there were 64 districts, 324 townships, and 2471 wards as well as 13747 village tracts (grouping of villages).

## **II. Overview of macroeconomic Activity**

Myanmar economy and its present status will reveal that the nation has committed strengthening its economy to move towards a new, modern, and developed nation. The developmental activities in all sectors and for all of Myanmar people are also within the nation's development terrain. For more than a decade now, Myanmar has been taking several steps and adopting a number of strategic frameworks as comprehensive initiatives towards economic development. After going through a socialist period from 1962 to 1988, various reforms and measures were introduced during the early 1990s. These reforms broadly covered the areas of foreign trade, foreign investment, tourism, fiscal and financial sectors, legal system, the establishment of special development zones, and the development of frontier area administration. Since then, development has been extended to other areas. At this transition stage, Myanmar has declared that its development strategies are regionally feasible. Adopting the market-oriented policy since 1988 was a significant change in terms of overall policy framework in Myanmar. The utmost goal of becoming a peaceful, modern, and developed country calls for the shared commitment by its citizens under the concept of "unity in diversity." the country has laid down twelve objectives (four political objectives, four economic objectives, and four social objectives). The thrusts for national development and the economic objectives laid down for the mission statements are as follows:

- Development of agriculture as the base as well as the all-around development of other sectors of the economy;
- Proper evolution into a market-oriented economic system;
- Development of the economy to invite participation in terms of technical know-how and investments from sources inside and outside the country; and,
- The initiative to shape the national economy must be kept in the hands of the state in the people.

The economy suffers from serious macroeconomic imbalances that include high inflation, large budget deficits, an overvalued currency - the kyat, unreliable economic data, government control of the economy that allows no room for private initiative, an opaque regulatory system, inadequate infrastructure and a tightly controlled financial sector that limits credit to the private sector. In response to the country's poor human rights record, Western countries, including the US, have imposed economic and financial sanctions that prohibit most financial transactions with Burmese entities. Agriculture, forestry, livestock and fishing accounted for 50.4% of GDP in 2008, wholesale and retail trade was 22.6%, manufacturing was 10.5% and transportation, storage and communication had a 9.4% share. About 70% of the workforce is employed in agriculture.

### **II.1 Macroeconomic Activity**

#### **II.1.1 International Environment**

##### **A. International Trade**

Myanmar foreign trade policy is a very independent one. Myanmar can trade with any country in the world except with some countries that are trade embargoed by the UN's resolutions or a few countries and territories which we have cut off diplomatic relations. Myanmar was a founder member of the old organization GATT, and a member of WTO. Hence, its foreign trade policies are generally governed by the rule-based multilateral trading system.

Myanmar's foreign trade is mainly with Asian countries. More than 70% of total export goes to the Asian region and round about 90% of total import comes from this region. Like most developing countries, it is still an exporter of agricultural and other primary products. The country's imports consist largely of manufactured goods, particularly the capital goods and raw materials which

constitute about 65% of total imports. Myanmar foreign trade is mainly with Asian Countries: China, Singapore, Japan, Thailand, Malaysia and India.

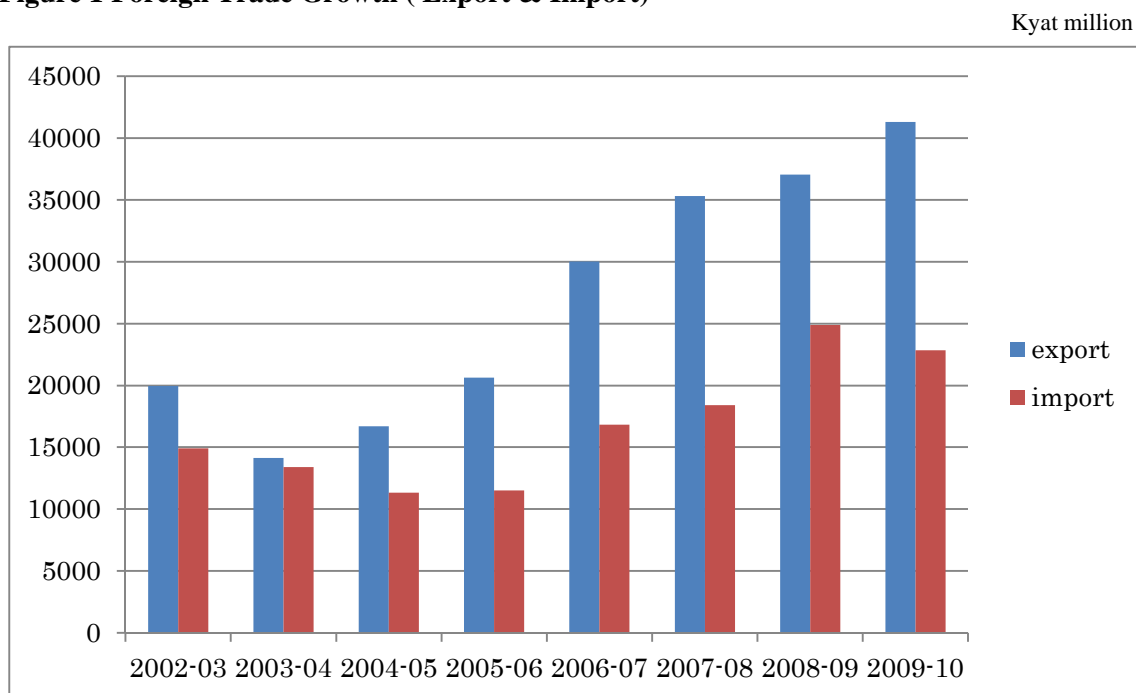
Myanmar opened its doors to the rest of the world in the midst of a period of globalization and regionalization, and consequently, the open-door policy drastically changed Myanmar's external sector. Myanmar's foreign trade rapidly increased during the fiscal year 2005-6 and up to 2009-10

**Table 1 Value of Foreign Trade**

Sr	Fiscal year	Kyat million			
		export	import	Balance of trade	Trade Volume
1	2005-06	20646.6	11514.2	(+) 9132.4	32160.8
2	2006-07	30026.1	16835.0	(+) 13191.1	46861.1
3	2007-08	35296.8	18418.9	(+) 16877.9	53715.7
4	2008-09	37027.8	24873.8	(+) 12154.0	61901.6
5	2009-10	41289.1	22837.4	(+) 18451.7	64126.5

Source; Central Statistical Organization.

**Figure 1 Foreign Trade Growth ( Export & Import)**



Source; Central Statistical Organization.

**Table 2 Export of Principle Commodities**

Sr	item	kyat million	
		2007-08	2008-09
1	Agriculture Products	4680	5752
2	Animal Products	21	25
3	Marine Products	1653	1508
4	Timber	2964	2213
5	Base metal and Ores	475	177
6	Precious stones and Pearls	3559	3598
7	Gas	13938	12996
8	Garment	1555	1594
9	Others	6452	9171
	Total	35279	37028

Source: Central Statistical Organization.

Myanmar main export items include agricultural products, forest products, fishery products, metals & minerals, precious stones and industrial products.

The private businessmen are encouraged to import capital goods, industrial machineries including raw materials and other essential items while the consumer choices can be fulfilled equally at the same time.

**Table 3 Import of Commodities**

		kyat million	
Sr	Item	2007-08	2008-09
1.	<b>Capital Goods</b>	5448.9	8936.3
	Building materials	977.4	1461.2
	Machinery	3066.4	2571.5
	Transport Equipment	1231.3	4722.3
	Others	173.8	180.9
2.	<b>Intermediate Goods</b>	5291.5	6950.4
	Raw materials	4635.6	6100.2
	Fuels	2.6	34.8
	Tools and Spares	653.2	815.4
3.	<b>Consumer Goods</b>	7678.5	8987.1
	Durables	531.5	554.6
	Foods	1629.6	2123.8
	Textiles	1400.2	1369.5
	Medicines	635.5	678.5
	Others	3482.7	4260.7
Total		18418.9	24873.8

Source: Central Statistical Organization.

The world economy has been sharply contracting since 2008 and both economic and financial sectors of major advanced economies and emerging and developing countries have been severely affected. The world trade will also endure the steepest decline in 2009. Although global economic crisis has no direct impact on Myanmar's economy, there have some indirect impacts of crisis relating to the source of investments by foreign countries in Myanmar and the economic decline in Myanmar's major trading partners.

### **B. Current Account Balance**

With respect to external trade position, Current account balance was also negative for more than 2 decades. Necessary measures have been undertaken thereby achieving surplus in current account since 2002/2003. The improvement in balance of trade and current account is one of the important factors to bring about sound economy. In 2008-09 fiscal year, balance of payment account 3534.5 million kyat less than 4996.4(million kyat) in against last year (2007-08)

**Table 4 Balance of Payment**

Particular	Kyat million			
	Fiscal year 2007-08		Fiscal year 2008-09	
1. Main account	received	payment	received	Payment
2.Grants	38662.9	29455.1	40953.5	31283.8
3.Loans & repayment	232.8		145.7	
Loans	892.3		2733.4	
Payments		879.5		965.6
4.Foreign investment	3934.2		2317.0	
5.Financial Account		2783.7		136.3
6.others		8102.5		10229.4
Total	43722.2	38725.8	46149.6	42615.1
		(+)4996.4		(+)3534.5

Source; central bank of Myanmar& Central Statistical Organization.

### C. Exchange rate

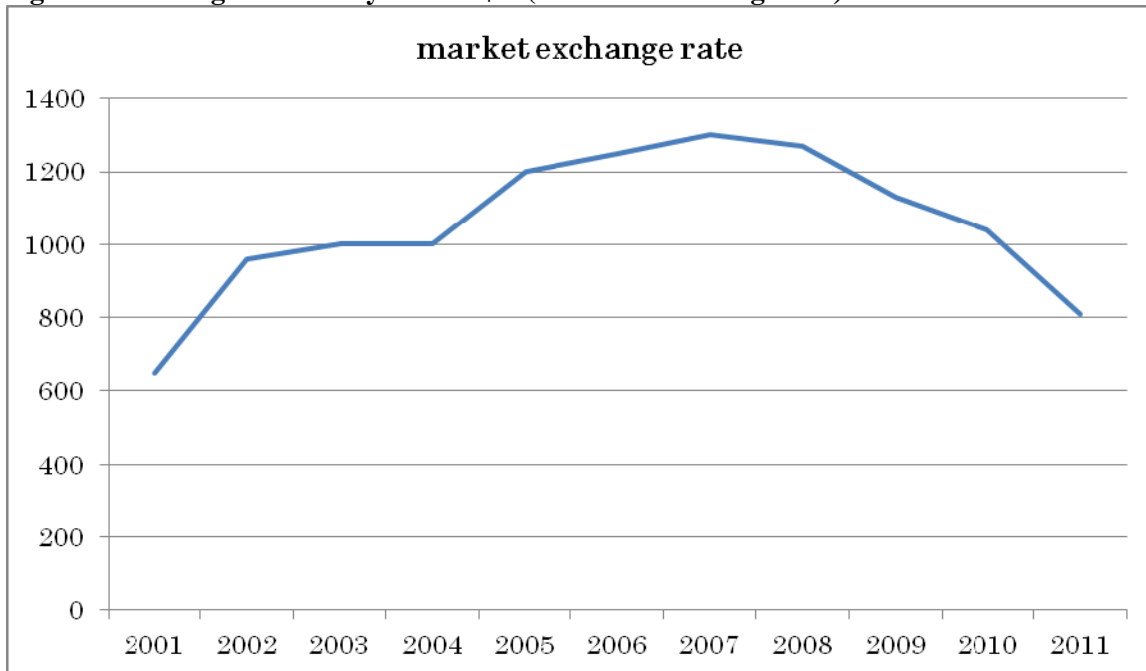
The exchange rate is one of the most important tools in economic development. The Currency of Myanmar is Kyat which is officially pegged to the SDR at Ks. (8.50847) per SDR 1 or at round about Kyat 6 per US dollar. Myanmar applies margins of 2 % to spot exchange transactions, based on the fixed Kyat-SDR rate.

Foreign exchange certificates (FECs) are issued since 1993 by the Central Bank of Myanmar (CBM) in denominations of 1, 5, 10, and 20 units and are exchangeable with hard currencies or with acceptable traveler's cheques. FEC 1 unit is equivalent to 1 US dollar. FECs are widely used and served the needs of visitors and investors in Myanmar. FECs are available for Kyats at the exchange centers operating in Yangon and in other major cities. Holders of FECs may deposit them into their foreign exchange accounts.

Myanmar maintains a multiple exchange rate regime consisting of an official exchange rate and informal market exchange rates. FEC are only used by residents as a substitute for U.S. dollar in domestic transactions the U.S. dollar is widely circulated in informal markets, In addition, the Hundi system of exchange is widely used for settling payments for unrecorded trade, The market-determined U.S. dollar exchange rate, together with the Hundi exchange rate, constitutes the main exchange rate for international transactions in the private sector.

Myanmar's unofficial exchange rate has fluctuated over the past decade. In 2001 the rate averaged 650 kyat to the dollar and then rose to 960 kyat to the dollar in 2002. It peaked at close to 1300 in 2007 and has recently traded around 800 kyat.

**Figure 2 Exchange Rate of Kyat to US\$ 1 (unofficial exchange rate)**



Source; Weekly Eleven journal of Myanmar.

#### **D. Foreign Direct investment**

Myanmar has carried out overall reform measure to cope with the market- oriented economic system. The reform measures cover decentralizing State control, encouraging private sector development, liberalization of price control, allowing foreign direct investment, initiating institutional changes, introducing financial management, and streamlining taxes, duties and external trade practices.

After the initial reforms measures were undertaken, the government enacted and published the necessary Orders, Rules and Regulations and Procedures regarding with the investment, export, import, customs regulations and taxation. The Foreign Investment Laws of the Myanmar make it easy for foreigners to do business in the country though promulgating the Union of Myanmar Foreign Investment law of 1988, Foreign Investment law Notification of 1989, the Private Industrial Enterprise Law of 1990 and the Myanmar Citizens Investment Law of 1994.

The above laws attracted not only local investors but also foreign investors to join in the new economic system by forming limited companies. The government allows the public, foreign investors and itself to establish limited companies and joined ventures according to the market-oriented economic system. There are many people interested in doing business and ready to invest.

#### **Foreign Direct Investment Policy and objectives in Myanmar**

Myanmar fully recognizes the advantages of FDI for its economic development. The government has been actively encouraging FDI in Myanmar. Its main foreign investment policy and objectives are as follows:

The main components of the policies are;

- Adoption of a market-oriented system for allocation of resources
- Encouragement of private investment and entrepreneurial activity
- Opening of the economy for foreign trade and investment.

The objectives of Myanmar Foreign Investment Law are as follows:

- a. Promotion and expansion of exports
- b. Exploitation of natural resources which require heavy investments
- c. Acquisition of high technology

- d. Supporting and assisting production and services involving large capital
- e. Opening up of more employment opportunities
- f. Development of works which would save energy consumption and
- g. Regional development

FDI is very important for Myanmar since it needs investment to generate employment for its citizens, technology know-how and foreign exchange to implement development projects. Given the continuous decline in Overseas Development Assistance and bank borrowing from international financial agencies, FDI will continue to be a significant source of finance for development, fulfilling investment and narrowing development gaps. It also helps ensure the sustainability of the recovery process and industrial development in Myanmar. FDI brings along with it not only capital flows that are related to the balance of payments but also a package of other economic benefits such as employment opportunities, export market, technology and entrepreneurial skill enhancement.

There are numerous foreign investment opportunities in Myanmar in various areas such as trade in agricultural commodities, livestock and fishing, forestry, mining, energy, manufacturing and tourism.

**Table 5 Foreign Investment in Myanmar by Sector**

		US \$ million (March, 31 <sup>st</sup> 2011)
No	Sectors	Foreign capital
1	Agriculture	173.101
2	Fishery	324.358
3	Mining	2794.463
4	Oil and Gas	13815.378
5	Manufacturing	1700.217
6	Power	14529.724
7	Transport	313.272
8	Hotel and Tourism	1064.811
9	Real Estate	1056.453
10	Industrial Estate	220.343
11	Construction	37.767
12	Other	23.686
<b>Total</b>		<b>36055.591</b>

Sources: Myanmar statistical years book (2009) and monthly report May,2011.

Since Myanmar liberalized its investment code in late 1988, it has attracted large investments in oil and gas, hydroelectric power and mining, mainly from neighboring countries such as China and Thailand.

Sector wise investment as of the date is shown as 14.5 billion dollars in electric power, 13.8 billion dollars in oil and gas, 2.8 billion dollars in mining, 1.7 billion dollars in manufacturing and 1 billion dollars in hotels and tourism.

The total foreign investment coming from 31 countries and regions, China stands in the first place, followed by Thailand, China's Hong Kong, South Korea, Britain and Singapore.

Myanmar has promulgated the Myanmar Foreign Investment Law, Myanmar Citizens Investment Law, Special Economic Zone Law and Dawei Special Economic Zone Law. Of them, a total of 454 works from 31 countries with US\$ 36.073 billion have been allowed from November 1988 to August 2011.

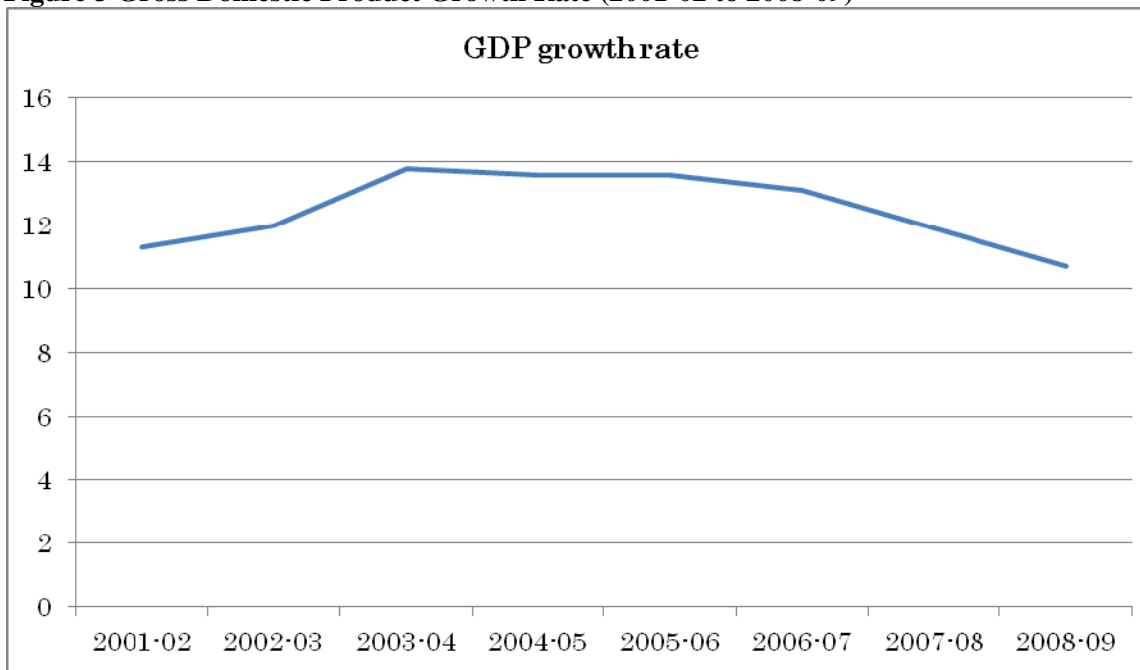
## II.1.2 Domestic Environment

### A. Economic Growth Rate

Myanmar has shifted its economic direction from a centrally planned economy to a market-oriented one since late-1998. Since then, the economy is steered by successive short-term plans.



**Figure 3 Gross Domestic Product Growth Rate (2001-02 to 2008-09)**



Source: Myanmar statistical years book ( 2009).

A short-term Four Year Plan (1992/93 to 1995/96) has been implemented with a very satisfying average annual growth rate of 7.5%, a rate far higher than the initial target of 5.1%. During the second Five Year Short-Term Plan (FYSP) (1996/97 to 2000/2001), real GDP growth in 1997/98 and 1998/99, slowed down to an average annual rate of 6.23%. This was partly as a result of the contagion effects of the regional financial crisis. In FY of 1999/2000, the growth rate increased to more than 10%, with the agricultural sector leading the expansion.

In addition, the manufacturing and processing, energy and mining sectors have also grown rapidly. In the third FYSP spanning from 2001/02 to 2005/06, significant growth has been achieved with the high average annual growth rate of 13.09%. The agricultural sector remains the main driving force of the country's economic growth. Moreover, the good performance in other sectors of the economy also contributed to the achievement of high growth rates. Myanmar is now implementing its fourth FYSP starting from 2006/07 to 2010/2011. In 2008/09, the third year of the fourth FYSP, the real GDP slowed down to 10.1% from 12.0% in 2007/08 due to Cyclone Nargis which hit the lower and middle region of Myanmar on 2 May 2008, causing widespread destruction to farmlands, homes, food supplies and infrastructure. The annual plan target of 2009/10, the fourth year of FYSP, has been set at 12.1%.

## **B. Inflation Rate**

The annual inflation accelerated to 49% in FY of 1998/1999. However, the inflation has declined since April 1999. By December 1999, the annual inflation rate has fallen to 18% partly due to a more stable external environment, as well as to a better harvest in the second half of 1999/2000. However, the CPI inflation increased again and reached the peak of 58.1% in 2002/03 and then it gradually declined to 24.9% in 2003/04 and further to 3.8% in 2004/05. The soaring global oil prices during that period did not have much effect on domestic prices as the government sold energy at a subsidised rate then. However, due to the increase in government salaries as well as to the abolishment of the subsidised energy prices, the inflation has risen once again in 2008 and stood at 32.9%. However, the inflation rate declined to 22% in 2009 due to the impact of declining world commodity prices.

Myanmar central bank carried out for the decline of the inflation rate. During the middle of the third short-term plan, it declined to the level below 10%, and it stood at around 7% in March 2010.

### C. Security market in Myanmar

There is also a need to develop a basic institutional structure, such as a capital market, and get connected with the international financial markets. Myanmar intends to establish a securities market, and as a first step towards that direction, the first security firm, Myanmar Securities Exchange Co. Ltd. was established in June 1996 as a joint venture between the Myanmar Economic Bank and the Daiwa Institute of Research Co. Ltd., of Japan. The draft of the Security and Exchange Law is in the final stage of reading and is awaiting approval by the authorities. The CBM is expected to familiarise people with the basic knowledge about the financial products and securities market. The integration of Myanmar's financial sector with the world financial markets is a major challenge and prospect for our Central Bank. In anticipation and with regard to this challenge, the proficiency of the Banking Supervision and Bank

Regulation functions will be crucial for they will have an important role to play.

### D. Employment

The Ministry of Labor is implementing to establish measures to create jobs for local employment. Moreover, measures are being taken for Myanmar workers who want to go and work in foreign countries and they can go and work legally abroad through Overseas Employment Agencies which issue agency licenses in accordance with the Overseas Employment Act, 1990. There are 53215 Myanmar Workers already dispatched to 15 receiving countries from 1990 to June 2009. Apart from these legal migrant workers, there are also some who illegally cross the border for employment, and so it is estimated that there are over one million illegal Myanmar Migrant Workers, especially in Thailand.

## II.2 Fiscal Position

Following the market oriented economic system, various tax reform measures have been undertaken including broadening the tax base, adjusting tax rate, collecting and enforcing, and streamlining the tax collection procedures. Consequently, total tax revenue increased from kyat 297235.4 millions in 2004-05 to kyat 935665.61 millions (estimated) in 2009-10.

**Table 6 Composition of Tax Revenue from 2004-05 to 2009-10**

Fiscal years	Kyat millions					
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10*
Commercial tax	<b>112542.69</b>	<b>225120.72</b>	<b>317904.47</b>	<b>383326.20</b>	<b>422060.81</b>	<b>411333.25</b>
Income tax	95668.88	144783.10	259775.62	333204.95	408564.80	336326.00
Profit tax	43197.28	61893.12	74524.34	89899.30	97583.97	98340.75
Stamps duties	4022.51	4586.25	5328.14	10388.13	12767.77	13500.00
Lottery tax	7590.42	8771.38	12799.76	13923.40	17329.98	15500.00
Other taxes	34213.62	31853.46	46846.54	56499.42	105278.2	60665.61
<b>Total tax</b>	<b>297235.40</b>	<b>477008.03</b>	<b>717178.87</b>	<b>887241.50</b>	<b>1063585.52</b>	<b>935665.61</b>
GDP	9078929	12286800	16715700	22461300	29078600	3390100
Tax/GDP ratio	<b>3.3</b>	3.9	4.3	4.0	3.7	2.8

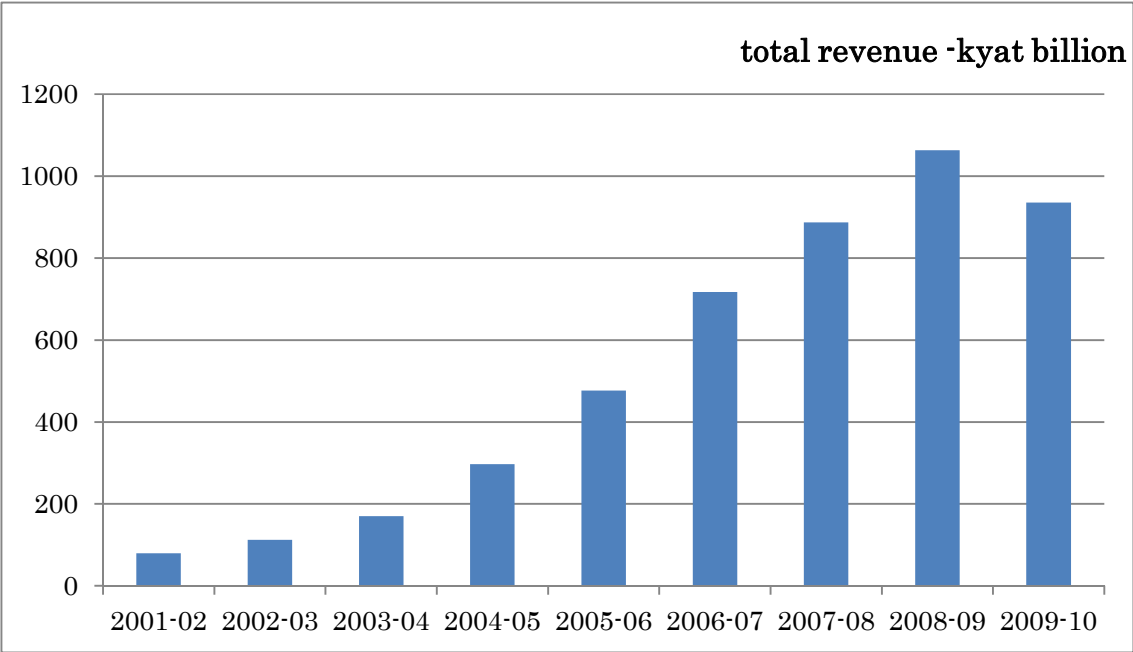
Sources: Statistical yearbooks 2009 and annual reports of IRD.

\*Estimated amounts

However, we have been facing that tax collection is increasing year by year simultaneously as the general price level is also increasing yearly. Therefore, it can be easily noted that annual total tax is increasing due to the impact of inflation or increasing general price level, and it is not the form of increasing real income but entirely nominal income or money income. Furthermore, tax collections still remain low if we consider the tax GDP ratio. As the economy has changed to market economy, newly emerged goods and services are not covered in the present tax system.

**Figure 4 Total Revenue of Union (2001-02 to 2009-10)**

kyat billion



Sources: Statistical yearbooks 2009 and annual reports of IRD.

### III. Tax Structure: Institution and The reality

#### Overview of Tax system in Myanmar

In the Union of Myanmar, the tax revenue is major source of income and it plays an important role in the matter of Public Finance. There are fifteen kinds of taxes and duties levied by the Government and these taxes and duties are collected by the departments concerned. Under the Ministry of Finance and Revenue there are two main departments, namely the Internal Revenue Department which is responsible to collect five kinds of taxes and the Custom Department which is in charge of levying custom duties . These two Departments each headed by a separate Director General are under the supervision of Ministry of Finance and Revenue. The Internal Revenue Department administers the greater portion of the State Revenue dealing with the direct and indirect taxes.

The present Myanmar tax structure consists of 15 types of taxes and duties levied by the state. The following table shows the types of taxes and duties and their administering departments;

**Table 7 Types of Taxes and Duties and Their Administering Departments**

Sr.No.	Type of Taxes	Administering Department
1	<b>Taxes levied on domestic production and public consumption</b>	
	1.1. Excise duty	General Administration Department
	1.2. Commercial tax	Internal Revenue Department
	1.3. License fees on imported goods	Trade Directorate
	1.4. State lottery	Internal Revenue Department
	1.5 Tax on transport	Road Transport Administration Department
	1.6. Sales proceeds of stamps	Internal Revenue Department
2	<b>Taxes levied on income and ownership</b>	
	2.1. Income tax	Internal Revenue Department
	2.2. Profit Tax	Internal Revenue Department
3	<b>Customs duties</b>	
	3.1. Custom duties	Customs Department
4	<b>Taxes Levied on utilization of state owned properties</b>	
	4.1. Taxes on land	General Administration Department
	4.2. Water tax and embankment tax	General Administration Department
	4.3. Tax on extraction of forest product	Forest Department
	4.4. Tax on extraction of mineral	General Administration Department
	4.5. Tax on fisheries	Fishery department
	4.6. Tax levied on rubber	Forest Department

Source: Internal Revenue Department, Ministry of Finance and Revenue, Myanmar.

Among the tax administering department, the IRD accounts for more than 90 percent of the total tax revenue. It is obvious that the performance of the IRD is very crucial for the Myanmar tax structure by playing a great role in tax collection. Thus, we will need to emphasis on strengthening tax administration. Internal Revenue Department which collects major portion of the state's revenue administers only five types of taxes and duties.

#### MYANMAR TAX POLICY

Myanmar Tax Policy was originally based on the following main objectives:

- To raise resources to finance government expenditure,
- To attain a balanced budget,
- To check economic inflation,
- To coordinate domestic consumption, investments and savings,
- To reduce the wealth gaps between the rich and the poor,
- To discourage the consumption of some commodities such as cigarettes and liquors,
- To achieve other desirable goals, (eg.) increase international competitiveness and racial harmony.

After introducing the market-oriented economy, the above-mentioned tax policies were changed to ensure the development and prosperity of the country.

The government regulated the following measures and the policy changes;

- a. The function for marketing assessment, which was formerly conferred to the assessment committees, formed by people's representatives, were assigned to the Revenue Officers in October 1988 by the Adaptation and Expressions Laws of 1988.
- b. The Union of Myanmar Foreign Investment Law was enacted in 1989 and the tax exemptions and tax relief were mentioned in that law.
- c. By the State Budget Laws of 1989, 1995 and 2001, the rates of income tax were reduced.
- d. The tax amnesty program was introduced in 1990 and again in 1994, granting the relief under the Profit Tax Law on income voluntarily declared by the people during the limited period.
- e. To broaden the tax base, the Commercial Tax Law was promulgated in 1990, replacing the Commodities and Service Tax Law. It is applicable in three sectors: Public, Cooperative and Private sectors.
- f. Rate of stamp duties and court fees, which had remained unchanged since 1957 were revised and moderately increased to reflect the present prices.
- g. To attract more people to participate in State Lottery and the number of prizes were increased and the prize money were increased.

### **Relevant Tax Law**

The following major taxes and duties are administered by the Internal Revenue Department in accordance with the respective act or law-

<b>Types of Taxes &amp; Duties</b>	<b>Relevant Act of Laws</b>
(a) Income Tax	The Income Tax Law (1974)
(b) Profit Tax	The Profit Tax Law (1976)
(c) Commercial Tax	The Commercial Tax Law (1990)
(d) Stamp Duties	The Myanmar Stamp Act (1935) The Court Fees Act (1937)
(e) Lottery Tax	Directives pertaining to State Lottery

Since the market oriented economic system was being introduced in the Union of Myanmar, the Entrepreneurs from abroad not only investing and operating business in Myanmar but also cooperating with the State Economic Enterprises and private companies, and performing as advisors and technical assistants, were increasing day by day. The foreigners who are doing their business in Myanmar should know that they are liable to pay taxes under the existing tax laws and understand clearly the provisions of Tax Laws, Rules and Regulations of Myanmar.

### **Indirect Taxation and Direct Taxation in Myanmar**

There are the main two types of taxes which are direct tax and indirect tax. Generally, in the developed countries, direct taxes constitute a more important source of revenue, whereas indirect taxes play a more vital role in the developing countries. Myanmar is as a developing country, so, indirect tax is more important than direct taxes in Myanmar.

### **Income Tax**

With regards to the direct taxation, Income tax law applies to income from salary, companies, resident and non-resident foreigners, partnerships, joint ventures etc. The income tax includes mainly corporate tax, individual tax, capital gains tax and withholding tax.

A flat corporate tax rate of 30 percent is charged on the income of companies established in Myanmar in accordance with the Myanmar Companies Act or any other existing Myanmar laws, enterprises operating under the Union of Myanmar Foreign Investment Law, and foreign organizations engaged under special permission in a State-sponsored project, enterprise or any undertakings. A

branch of a foreign company in Myanmar is liable to pay income tax at the rate of 35 percent on the total income or at a progress rate of 5 percent to 40 percent whichever is greater.

The Income tax law applies to the following types of taxpayers and the classes of income:-

- (i) state economic enterprises,
- (ii) co-operative societies,
- (iii) foreigners and foreign organizations engaged under special permission in the state sponsored enterprises,
- (iv) income from salaries,
- (v) non-resident foreigner,
- (vi) income earned abroad by non-resident citizens,
- (vii) companies
- (viii) resident foreigners,
- (ix) partnerships or joint-ventures formed between or with (i), (ii), (iii),(v),(vii) and (viii) of above.

A foreign employee of any enterprise operating under the Foreign Investment Law, for income tax purpose, could be treated as a resident citizen. As a consequence, progressive individual tax rates starting from 3 percent to a maximum ceiling of 30 percent are applicable to foreigners who reside in Myanmar. Non-resident foreigners deriving income within Myanmar are liable to pay individual income tax at a flat rate of 35 percent on the total income.

The capital gains tax rate is a flat 10 percent on the profit derived by residents from the sale of immovable property, fixed assets and motor vehicles if the sale price exceeds kyat 50000. But for non-resident foreigners, the tax rate is 40 percent on capital gains. Payment on income such as interests, royalties and on contracts are subject to withholding tax at various rates ranging from 2.5 percent to 20 percent. Income received from dividends is exempted from income tax, and such income is not treated as part of the total income of the recipients. There are also provisions for the exemption of income tax, particularly as incentives for newly established enterprises. Starting from April 1, 2000, the service personnel and retired service personnel do not need to pay income tax on their incomes under the head of salary. The Income Tax Rules, the Income Tax Regulations, the State Budget Law supplement the Income Tax Law and Notifications issued from time to time.

The Ministry of Finance and Revenue, with the approval of the Government, prescribes the income tax rates by notifications. There are different tax rates according to the type of business, class of income and the type of taxpayer. So it is necessary to know the type of taxpayer. Under the Income Tax Law, the two types of foreigners are classified as follows:-

**(a) Resident Foreigner**

- (i) in the case of an individual a foreigner who resides in Myanmar for not less than 183 days during the financial year (continuously or not);
- (ii) in the case of a company, a company formed under the Myanmar Companies Act or any other existing Myanmar Law, wholly or partly with foreign share holders;
- (iii) in the case of an association of persons other than a company, an association formed wholly or partly with foreigners and where control, management and decision making of its activities is situated and exercised wholly in Myanmar.

**(b) Non-resident foreigner-** a foreigner who is not a resident foreigner in Myanmar.

Therefore, an individual foreigner who comes to Myanmar to work (eg: consultant, advisor, other services), resides more than 183 days during the financial year is the resident foreigner and otherwise if he resides less than 183 days he is treated as non-resident foreigner.

If a company, which was formed under any existing Myanmar Law wholly or partly with foreign share holders is treated as resident foreigner. The period of resident is not concerned with that company. A company which is not incorporated either by Myanmar Companies Act or any existing law, is regarded as company owned by the non-resident foreigner.

In the case of partnership, joint venture, the association of individual, cooperative societies other than a company, if the control, management, decision making of their affairs are situated and exercised wholly in the Union of Myanmar, they are treated as resident foreigners. Unless the control and management are exercised within Myanmar, they are termed as non-resident foreigners.

The following facts should be studied in making income tax assessment relating to the type of business operated by the resident foreigners and non-resident foreigners

- (a) The income from salary means and includes salary, wages, annuity, pension, gratuity and any fees, commission or perquisites received in lieu of or in addition to any salary and wages;
- (b) Profession means rendering of service for fees with one's skill and includes services rendered for fees by a doctor, a nurse, a lawyer, an engineer, an architect, a film artiste, a writer, a painter, a sculptor, an accountant, an auditor, an astrologer, a teacher, etc. If the professional service is not tendered personally but by employing some other person, it shall be treated as a business and assessed accordingly.
- (c) The Capital Gain means any profit realized from the sale, exchange, or transfer of capital asset and the words capital asset means any land, building, vehicle and any capital asset connected with the business, share and bonds including instruments of similar kinds.

The following are the type of business, receipt / income and tax rates chargeable to above mentioned resident foreigners and non-resident foreigners under the income tax law: (receipt is meant by gross income before deduction of permissible direct and overhead costs and income means net income after deduction of permissible expenditures)

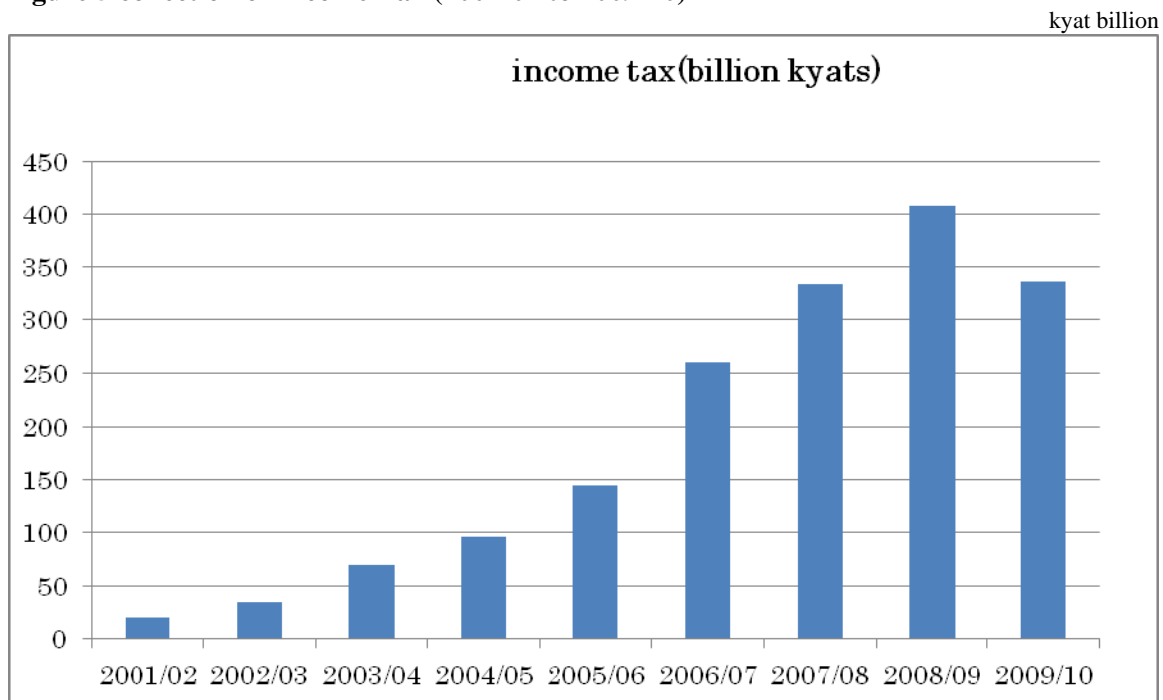
(a) Resident Foreigner	
(i) salary income	15%
(ii) gross income (Receipt) received by out buildings, apartments, vehicles and other property	15%
(iii) gross income (Receipt) received from Service rendered as an agent by an individual, service provided by professional service furnished by consultancy and advisory	15%
- If above income under para 9(a)(i)(ii)(iii) are from the projects permitted under Myanmar Investment Commission	10%
(iv) income derived from production, any business activity and any services (except CMP). If the income received is in foreign currency only, then the tax is to be paid by that currency. When the total income includes income in foreign currency in addition to the income in Kyats, the tax payable in foreign currency is to be determined separately according to the proportion of income in foreign currency to the total income, and the tax due shall be paid by Kyats and foreign currency.	30%
(v) gross income (Receipt) received from CMP	10%
Capital Gains	
(aa) gains other than oil and natural gas sector	10%
(bb) in oil and natural Gas sector gains	
-up to foreign currency 100 millions	40%
- between foreign currency 100 and 150 millions	45%
- foreign currency above 150 millions	50%
(b) Non-resident Foreigner	
(i) income from salary	35%
(ii) income from business other than salary or the tax at the progressive rates of the respective business whichever is greater	35%
(iii) Capital Gains	
(aa) gains other than oil and natural gas sector	40%
(bb) in oil and natural Gas sector gains	
-up to foreign currency 100 million	40%
-between foreign currency 100 and 150 millions	45%
-foreign currency above 150 millions	50%

However, the following types of payments shall be withheld as the withholding tax according to the rates shown below at the time of payment by the disbursing organization. When the final assessment is made at the rates shown in paragraph 9, the additional tax shall be payable after setting off the withholding tax from the total tax due.

	<u>Resident Foreigner</u>	<u>Non-Resident Foreigner</u>
(a) Interest	-	15%
(b) Royalties paid for the use of licenses, trade marks, patent rights, etc.	15%	20%
(c) Payments made by the State Organizations, Development Committees, Cooperative Societies, Partnership Firms, Companies, Organizations formed and registered under any existing law, for purchasing of goods and receiving executing works under a contract or an agreement or any consent	3%	3.5%
(d) Payments made by foreign Entrepreneur or foreign company for Receiving executing works and purchasing of goods locally under a contract or an agreement or any consent	3%	3.5%

Where in case State Economic Enterprise and Myanmar companies, undertaking joint venture with resident and non-resident foreigners, receive Kyat income only or foreign currency income only, then joint venture company are liable to pay income tax at the rate of 30% with the relevant currency. If the joint venture company receive both Kyat and foreign currency, the income tax shall be payable separately according to the proportion of income in foreign currency to the total income, and the tax shall be payable by Kyat and foreign currency as proportioned.

**Figure 5 collection of Income Tax (2001-02 to 2009-10)**



Source: annual report, Internal Revenue Department (IRD).

### Corporation Tax in Myanmar

Company Circle Tax Office (CCTO) is responsible for Corporate Income Tax and commercial tax for companies according to the income tax Law (1974) and commercial tax Law (1990), except state-owned enterprises. It is not responsible for individual income tax (profit tax), stamp duties and state lottery. The mandatory of CCTO is special to levy the tax on company, joint venture, share, and etc. Its duty is to collect income tax and commercial tax them.

If the headquarter of any company located in Yangon division, has to file their return at CCTO, however, CCTO is not responsible for state-owned enterprises.



## Salary income

Here, salary income means the following kinds of income received or receivable by a person from his or her employer;

- (a) salary, wage, annuity, pension, gratuity; and
- (b) any fees, commissions or perquisites received in lieu of or in addition to any salary and wages.

For the private sector employees, the threshold amount of salary income is 30,000 kyat for an income year. So, any person from the private sector whose salary income exceeds that threshold amount needs to pay salary income tax according to the income tax schedule.

## Deductible allowance

From the annual income of an individual some allowances are deductible such as;

- (1) basic allowance of 20 percent up to a maximum of kyat 12,000
- (2) family allowance for wife and children
  - for wife who has no taxable income kyat 5,000
  - for each child under 5 years kyat 1,000
  - for each child above 5 but under 10 years kyat 1,200
  - for each child above 10 but under 15 years kyat 1,600
  - for each child under 15 years kyat 2,000
- (3) allowance for insurance premiums
- (4) contributions toward saving funds as prescribed by the rules

## Tax rates

### salary earned in foreign currency

In November 1994, the Ministry of Finance and Revenue issued a notification concerning the incomes earned in foreign currency. According to that notification any person who earns salary income in foreign currency, for instance, Myanmar people who are working in foreign countries and who are working in the foreign firms in Myanmar, they are liable to pay the income-tax at the flat rate of 10 percent on the total income earned in foreign currency. In this case, it is not allowed to deduct any kinds of exemptions and relief.

### salary earned in Myanmar currency

For those who earn salary income in Myanmar currency, the salary income tax will be assessed on the net salary income after deducting the basic allowance and relief according to the following table;

There are 13 tax brackets under the income tax law and it can be seen in the following table.

**Table 8 Salary Income Tax Rates in Myanmar**

Taxable income	Tax rate
Up to 5000 kyat	3%
More than 5000 and up to and including 10,000	5%
More than 10,000 and up to and including 20,000	7%
More than 20,000 and up to and including 30,000	10%
More than 30,000 and up to and including 50,000	12%
More than 50,000 and up to and including 70,000	15%
More than 70,000 and up to and including 90,000	16%
More than 90,000 and up to and including 110,000	17%
More than 110,000 and up to and including 150,000	18%
More than 150,000 and up to and including 200,000	19%
More than 200,000 and up to and including 300,000	20%
More than 300,000 and up to and including 500,000	22%
More than 500,000	30%

Source: The State Budget Law 2005.

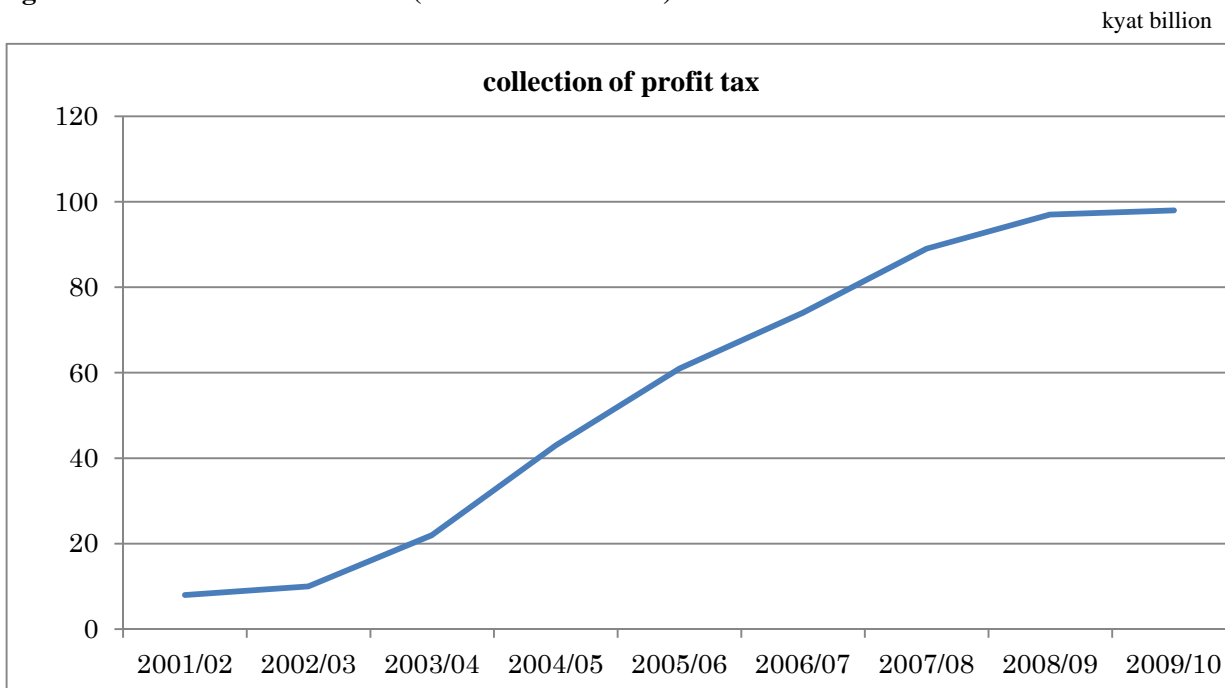
### Calculation of salary income

After deducting the allowances, the salary income tax is calculated according to the above table for those who earn their salary in Myanmar currency and for those who earn in foreign currency has to pay at the flat rate of 10 percent on their income without being deducted any kinds of exemption and relief.

### Profit tax

This law was enacted since 1976 with the intention of simplifying the taxation procedures for the private sector. Those having taxable income but not covered by the income tax law are subject to tax under the profit tax law. The profit tax revenue has been increasing by 8.039billions kyat in 2001-02 to 90.340 billion kyat fiscal year 2009-10. This law was removed by 2011-12 fiscal year.

**Figure 6 Collection of Profit Tax ( 2001-02 to 2009-10)**



Source: annual report, Internal Revenue Department (IRD).

### Indirect Taxation (Commercial tax)

Among the indirect taxes, Commercial Tax is the most important and of which share in the total tax revenue is more than 35 percent and has been increasing year by year. The Commercial Tax, which is a turnover tax, is imposed on a wide range of goods and services produced or rendered within the state and imported from abroad. The commercial tax is a kind of indirect tax paid by the consumers and the followings are chargeable to that tax;

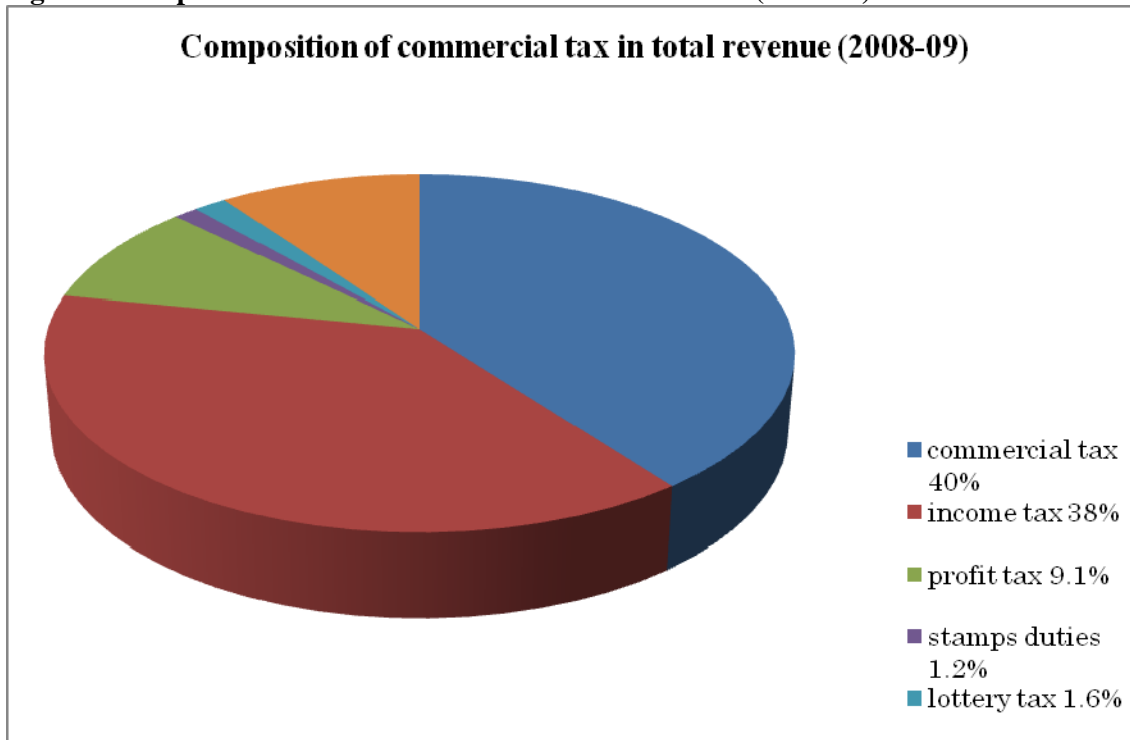
- (a) Goods produced within the state and sold domestic and abroad,
- (b) Goods imported from abroad,
- (c) Services rendered within the state. (There is chargeable to pay tax only on 10 kinds of services rendered within Myanmar)

The Commercial Tax Law was promulgated on March 31, 1990 to replace the Commodities and Services Tax Law in order to broaden the tax base, including private sector production, trading and services activities. This Law became effective from the fiscal year 1990-91. The commercial tax is levied according to the schedules appended to the said law. Certain items of goods, mostly basic foods and raw materials are exempted from it. Types of services liable to commercial tax include the

transport of passengers, entertainment, operations of hotels, lodgings, restaurants, cafes and food stalls, etc.

Among the indirect taxes, Commercial Tax is the most important and of which share in the total tax revenue is about 40 percent and has been increasing year by year.

**Figure 7 Composition of Commercial Tax in Total Revenue (2008-09)**



Source; annual report 2009, Internal Revenue Department.

### **Commercial Tax and its Administration**

Commercial Tax is a form of turnover tax which is collected at the stage of point in the production and distribution process. Myanmar Commercial Tax like other countries is similar to Goods and Services Tax (GST) or Value Added Tax (VAT). Although the name is different, the tax is the same indirect tax. This tax is imposed on the goods imported from abroad, goods produced within the country, and on services rendered within country.

### **Charge of Tax**

The commercial tax is levied on either domestically produced or imported goods into the country. Most of the basic foods and raw materials are exempted from tax. Types of taxable services liable to pay tax include transport of passengers, entertainment, trading, operating of hotels, lodgings, restaurants, cafes and food stalls, tourist or tourism business, insurance business except life insurance, beauty parlors hairdressing and body fitness business, clearing and oiling of motor vehicle business, and printing business. The commercial tax is levied according to the schedules appended to the said law. Certain items of goods, mostly basic foods and raw materials are exempted from it.

### **Multiple and highly differentiated tax rates**

The commercial tax is computed on the sale proceeds of the goods produced within the State and sold domestic and abroad, and in the case of goods imported, the tax is charged on the landed cost. The rates of taxes on different types of goods are described in Schedule 1 to 6 of the Commercial tax.

The Commercial Tax is levied according to the schedules appended to the said law (summary of Commercial Tax Rate).

(1) Schedule 1	List of 72	goods not chargeable to tax
(2) Schedule 2	List of 58	goods taxed at 5 percent
(3) Schedule 3	List of 134	goods taxed at 10 percent
(4) Schedule 4	List of 91	goods taxed at 20 percent
(5) Schedule 5	List of 55	goods taxed at 25 percent
(6) Schedule 6	List of 19	specific goods taxed at 30 to 200 percent
(7) Schedule 7	List of ten types of services	taxed at 5 to 30 percent

*Schedule 6* lists specific types of goods such as cigarettes, taxed at 125 percent, rum at 200 percent, and pearls and jade at 100 percent. *Schedule 7* lists ten types of services, such as passenger transport fares taxed at 8 percent, movies and video entertainment at 30 percent, workshops, hotels, lodging inns and restaurant businesses at 10 percent, and trading and beauty salon and printing at 5 percent.

Multiple and highly differentiated tax rates considerably distorted producer and consumer choices. In addition, various tax-exemptions and reductions offered under the tax for certain specific purposes also eroded the basis of the tax.

The commercial tax is applicable to all three sectors via : public, co-operative and private, any person (citizen, foreigner) is liable to pay tax in foreign currency is prescribed as follows:-

- (a) Sale proceeds in foreign currency from production and trading business of any commodity (Schedules 1 to 6 of Commercial Tax Law) are liable to pay commercial tax at the rate of 8% (not including export sale of CMP);
- (b) Out of 10 kinds of services save the sale proceeds from the trading business of purchase and sale of goods, if the foreign currency includes in the receipts the commercial tax is payable with the currency use in transaction at prescribed rates according to the type of services shown in paragraph 16;
- (c) In border trade, if the goods are imported from abroad, the commercial tax, at the rates contained in Schedules according to the types of goods, shall be levied with the currency used in import transaction.

### **Tax Credit**

Tax paid on the import of partly –finished-goods which are used as raw materials in the manufacturing of products may be credited against tax levied upon the sale of finished products, provided that the importer and the manufacturer must be the registered taxpayers. The same principle holds true for locally produced partly-finished-goods which are used as raw materials of products.

### **Exemptions and Reliefs**

The Government may grant tax exemptions and reliefs to any taxpayer or on any kind of commodity or service. It may also prescribe the maximum amount of sale or service-receipt not chargeable to tax threshold. The list given below shows the threshold for each kind of sale proceeds or turnover, up to which Commercial Tax may not be charged. These thresholds do not apply to Government or State sector, or the sale of personally manufactured salt.

(a)	On the sale of manufactured goods	Ks 240000
(b)	On the passenger receipts of water or road transport	Ks 180000
(c)	On the sale proceeds of merchandise Trading	Ks 300000

### **Stamp duties**

They are collection from sale of judicial and non-judicial stamp. Judicial stamps are supplied for use in judicial proceedings, while non-judicial stamps are for general purposes.

In conducting business activities, cooperation with foreigner, transferring of technology and establishment of company, partnership and joint venture, proper stamp duty shall be charged on those

instruments of contracts. In instituting instruments such as transfer of share, conveyance, pawn or pledge and mortgage-deed, it is also necessary to be duly stamped for them.

When the amount or value of the instrument is in foreign currency, it is converted Kyats at the prevailing rate, and the stamp duty is to be calculated and paid on that amount of values. The proper stamp duty for any kind of instrument and persons who are responsible to pay stamp duty for any kind of instrument are prescribed in Myanmar Stamp Acts.

#### State Lottery

The State lottery directorate of IRD is the only authorized organization to hold lotteries and to collect tax from sale of lottery tickets. The state lottery directorate sells lottery tickets through its sale counter at Yangon, the capital of Myanmar, and township revenue offices. Sixty percent of the proceeds from sale of tickets are distributed in prize and the remaining forty percent is collected as lottery tax.

#### **Exemption and reliefs under other rules and regulations**

And then in respect of foreigner enterprises operating under the Union of Myanmar Foreign Investment Law, Commission is empowered to grant a tax holiday (exemption from income-tax) for a period of 3 consecutive years from the date of commencement of production or services. And in case where it is beneficial to the State further reasonable period of exemption or relief may be extended, and the following 9 categories of exemptions and reliefs are allowed-

- (a) exemption or relief from income tax on profits of the business if they are maintained in a reserve fund and reinvested therein within one year after the reserve is made;
- (b) right to deduct accelerate depreciation from profit in respect of machinery, equipment, building or other capital assets used in the business at the extent of the original value for purpose of income tax assessment;
- (c) if the goods produced by any enterprise are exported, relief from income tax up to 50% on the profits accrued from the said export;
- (d) right an investor to pay income tax payable to the state on behalf of foreigners who have come from abroad and are employed in the enterprise and the right to deduct such payment from the assessable income;
- (e) right to pay income tax on the income of the above mentioned foreigners at the rates applicable to the citizens residing within the country;
- (f) right to deduct from the assessable income such expenses incurred in respect of research and development relating to the enterprise, which are actually required and are carried out within the State;
- (g) right to carry forward and set-off of loss up to 3 consecutive years from the year the loss is sustained within 2 years immediately following the enjoyment of exemption or relief from income tax as contained in the main para 27 above, for each individual enterprise;
- (h) exemption or relief from customs duty or other internal taxes or both on machinery, equipment, instruments, machinery components, spare parts and materials used in the business, which are imported as they are actually required for used during the period of construction;
- (i) exemption or relief from customs duty or other internal taxes or both on such raw materials imported for the first 3 years' commercial production following the completion of construction.

As above according to the section 31 of Myanmar Gems Stone Law if royalty has been paid in foreign currency by gem producer and jeweler, income tax and commercial tax is exempted.

Therefore enterprises operating under the Union of Myanmar Foreign Investment Law are entitled to a tax holiday for a period of 3 consecutive years from the date of commencement of production or service, the exemption and relief of other income tax, commercial tax and Stamp duties can be applied to the Ministry of Finance and Revenue and Foreign Investment Commission respectively.

### **Some Problems**

There are some problems in our Taxation System. They are :

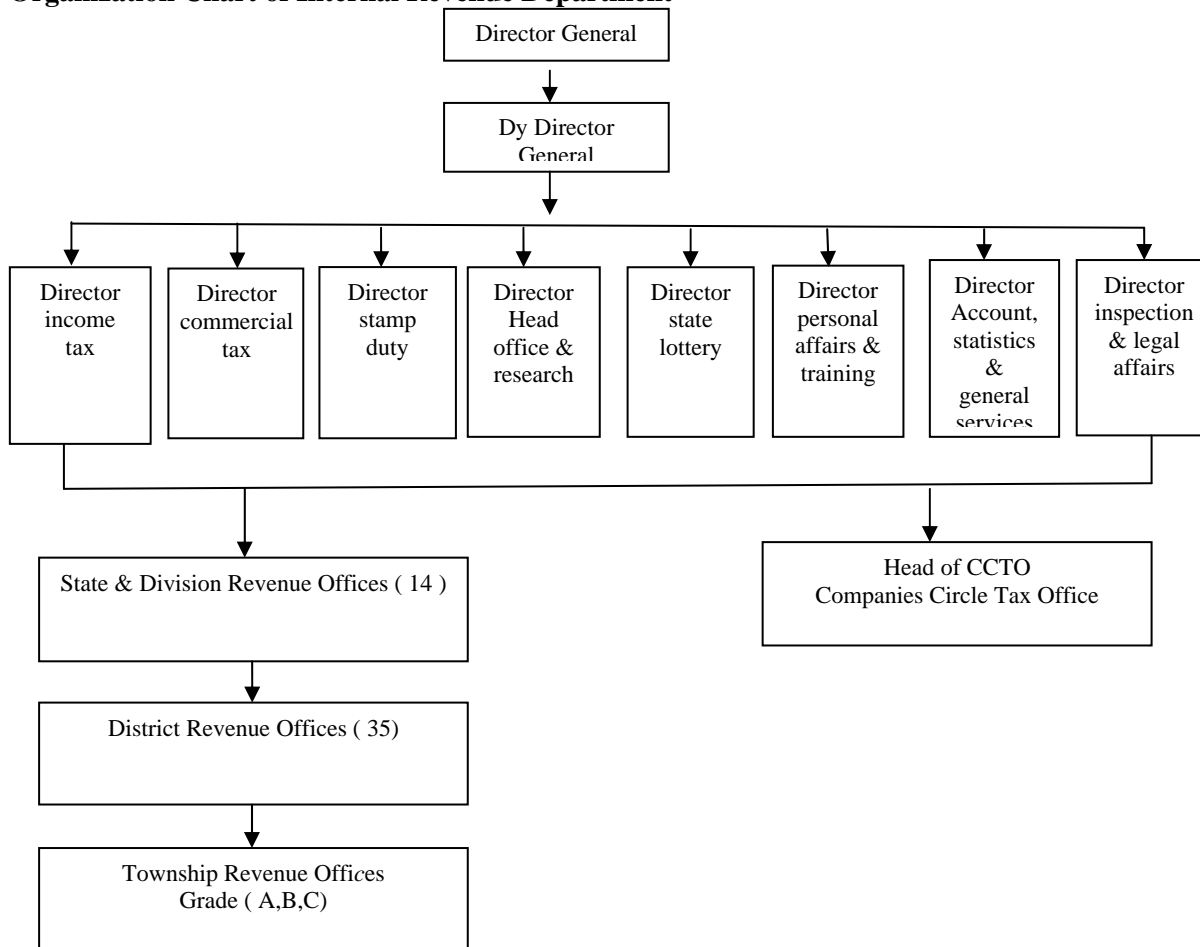
- The rates of land revenue and irrigation taxes are very low as compared to their sales proceeds of agricultural products.
- Though income from agricultural sector is not exempted, at the present time IRD does not levy tax income of farmers.
- Commercial tax and Income tax exemptions have to be given in wide area of taxation.
- Thresholds in Commercial tax, Income tax and Profit tax are very low as compared to consumer price index of present time.
- Commercial tax rates are no more appropriate with the living standard and pattern of the consumers.
- Ample stamp duties can't be imposed due to old fashioned land evaluating system.
- Very low rate of tax payer's compliance.
- Computerization cannot be introduced yet
- Weakness in misbehavior among tax personnel is thriving.
- Enforcement of law is weak.
- Tax education for tax payers is also very weak and not thoroughly conducted.

### **Tax Administration**

The Internal Revenue Department has established offices of the following four levels.

- a. ine directorates at Central Level
- b. State and Divisional Revenue Offices at Regional Level
- c. District Offices at District Level
- d. Township Revenue Offices at Township Level

## Organization Chart of Internal Revenue Department



Thus, tax revenue in Myanmar is extremely low. The low level of tax revenue in Myanmar can be explained in terms of both a narrow tax base and an apparently poor culture of compliance. As the economy has changed from a planned to market economy, newly emerged goods and services are not covered in the present tax system. Therefore, strengthening the tax administration is needed.

### Tax Reform in last Decade

Since the current tax administration is not satisfactory, to successfully introduce VAT, we should consider, because the structure of the Commercial Tax is complicated and thus hard to understand for the public. Moreover, the tax base of the commercial tax is extremely narrow. In fact, only small portion of services were being taxed, i.e. passenger transport fares, entertainment, car servicing, hotels and lodging etc. It indicates that the current Commercial Tax cannot reflect the changing economic situation. To solve this problem, VAT can be used to collect huge revenue, because VAT can cover the entire consumption, with as few exemptions as possible and with a zero rate for exports. Moreover, it does not discourage saving or investment. So, VAT should be the foundation of new tax administration system.

To replace the Commercial tax to VAT, the ignorance of taxpayers is the main problem. The taxpayers are not knowledgeable and are not accustomed to bookkeeping and they are unaware of their obligations for tax compliance. The service given by IRD to taxpayers is not enough. An effective procedure needs to provide for promoting their compliance. Since Myanmar still has many loopholes in current taxation system, before introducing the VAT, IRD should decide to made necessary foundation to increases the taxpayer's compliance.

Apart from weaknesses in legal framework, the Internal Revenue Department (IRD) lags behind in information technology. It still does tax administration and assessments procedures manually. Without computerized systems, it is so hard to maintain all the records and information, which in turn causes more weaknesses in tax administration. Another factor is the IRD collect its share of tax revenue with only about 4000 staffs throughout the country. Furthermore, most of the staffs know little about the ways and means of current tax system although they had a long experience in the tax administration under the socialist planned economy.

In this regard, the adoption in computerized system, the need for more efficient tax officials and staffs, and research and training (R&D) works for the development of the current tax system is urgently needed. As we have already discussed, Myanmar need to boost up tax revenue to finance the budget deficit. However, raising tax rates will deteriorate the efficient tax system. Expanding the tax base is also impossible at the moment due to the weaknesses and loopholes in the current tax laws and it will worsen the conditions of emerging businesses in the private sector. Thus, just like other ASEAN countries, Myanmar should apply the Value Added Tax (VAT) system, which based on the consumption.

## **8. Accounting Standard**

Although all documents and records shall be made available for inspection by tax authorities, at the moment, account keeping by traders is poor in Myanmar. Thus, the tax administration is complicated. The auditors and accountants are not enough for Myanmar changing economy. Most of businesses are owned by family and they have lack of knowledge about accounting. This is the main problem for tax compliance. However, Myanmar is now implementing to the improvement in accounting standards and bookkeeping practices conducted by Institutes of Economics and Attorney General.

## **Programs for Quality Services in Myanmar**

There are two Central Institutes of Civil Services in Myanmar. One is situated in Phaunggyi, Hlegu Township, Yangon Division and other one is in Pyin Oo Lwin Township, Mandalay Division. One of the objectives of these two Institutes is to develop the quality services of the public servants in Myanmar. Moreover, all of the Government Departments including Internal Revenue Department arrange Introduction Course, Departmental Refresher Course, on the job training, field training to perform the responsibility effectively and efficiently.

## **Program for Tax Payer Education**

A tax system of a country will not be perfect until and unless the public is aware of the regulations and rules to be abided by the taxpayer. Since tax laws are complex and intricate, a comprehensive understanding of the tax mechanism is vital for increased tax yield. Promoting taxpayers services include publication of revenue laws in abridge format that is easy to understand, establishing service centers for supplying information when asked for trouble shooting, offering technical advice when sought for.

The IRD at present intends to set up an information center to offer advice, provide references for offering assistance to the general public. Tax payer services are provided through out the year during the period of filling season voluntary organization chamber of commerce members/students combine the resources in assisting the filling of return, moreover the tax department issues booklets, pamphlets, guidebooks with a view to get acquainted with the updated current laws. In addition to that the department also issues establish norms, gross profit rate, and current value of land, building and motor vehicle so as to assist in determining a fair and equitable assessment.



## IV. Country-Specific Fiscal Issues

On the fiscal front, in order to improve the existing fiscal imbalance, appropriate measures have been taken on both the revenue and expenditure side. On the revenue side, in order to increase tax revenue, measures have been taken to strengthen tax administration and collection, and to reduce tax evasion and increase contributions from the State Economic Enterprises (SEEs). On the expenditure side, unproductive expenditures have been discouraged and prioritisation has been encouraged. Due to these efforts, the fiscal deficit which stood at 3.9% of GDP in 2007/08 declined to 1.6% in 2008/09. Myanmar has to rely mainly on its own resources for infrastructure reform and development which is crucial for the development of the country. Myanmar's budget still remains in deficit.

To improve tax policy and administration, some reform measures have been undertaken in 2006 March. Previously, tax law amendments including changes in tax coverage and tax rates were made by the State Budget Law. Starting from 2006, the Ministry of Finance and Revenue can make such changes by issuing notifications, with the approval of the Government.

To strengthen tax administration and to develop the skills and capability of both tax officials and staffs, training programs have been conducted continuously every year as they are the main engine to run the whole system effectively and efficiently. Moreover, efforts have been made to be able to utilize Information and Communication Technology in the workplaces. Papers on tax administration and some other tax related topics were published, delivered and Paper Reading Sessions were also held at the Head Quarter occasionally to enrich the knowledge of tax officials. In term of the changes in coverage, shares, bonds and other similar instruments were included in the definition of Capital Assets. The foremost measures of overall tax law amendments are being made and those are now in the process of getting approval from the Government.

Formerly, withholding tax was imposed by notification interest, royalties, payment on contract to citizen, resident and non-resident foreigners. The withholding agents were organizations from public and cooperative sectors. In 2009-2010 FY, a new notification on withholding Tax, which extended the withholding Agents to include organizations from private sectors such as companies domestic and foreign, INGOs, NGOs other organizations apart from government and cooperative sectors and source of income to include payment on taking of services and purchasing goods was issued with the approval of the Government.

Moreover, departmental instructions on taxpayers services and tax educations were issued to provide better services and conduct tax educations were issued. The departmental directives on tax area collections were also issued for increasing tax collection and promoting compliance.

Every possible assistance is to be given to people, farmers and workers to enhance their socioeconomic status, the government is implementing rural development and poverty alleviation scheme across the nation. The poverty rate of the nation has declined to 26 per cent from 32 per cent in around 2005 and it is targeted to decrease to 16 per cent in 2015, for which 8-point rural development and poverty alleviation plan is being widely implemented for rural people who constitute the 70 per cent of the population, setting the time frame from July, 2011 to 31 December, 2015. Works are in effective operation on the ground in cooperation with the rural people in 82 sub-townships of 330 townships all over the country. It is learnt that microcredit union laws in the process of formulation to help accelerate the works.

Myanmar is heading for its fifth five-year plan (2011-12 to 2015-16) for national economic development, setting an annual target of 10.5-percent economic growth for the fiscal year 2011-12 starting in April

## V. Conclusion: Where We Stand and Where We Go?

Myanmar has been implementing the National Development Plan with the aim to accelerate growth, achieve equitable and balanced development and to reduce socio-economic development gap between rural and urban areas of the country. The Short-Term plans set priorities for promoting economic development. When development is being pursued as the top priority in the Short-Term Plans, we all strived for sustained and stable growth of the economy guided by a philosophy of environmentally sound development that improved the quality of life of the people, make proper use of natural resources and protect essential ecological processes and biodiversity.

Regarding the economic might, Myanmar has to try for economic growth. Myanmar is an agro based country. Successive governments paid serious attention to Agriculture, so the country has enjoyed surpluses of crops. Now, the nation has got sound foundations for agricultural farming such as dams and river water pumping stations for food security of the population of new years. However, agricultural development alone is not enough for the country to become a developed one. So, Myanmar must turn to national industrialization to transform country into a developed, rich one with a lot of employment opportunities and high per capita income. Myanmar is rich in natural resources. However, we need capitals, energy and human resources. Government will try to be best for national industrialization while scaling up agricultural development.

Necessary infrastructural buildings in the economic sector were built and necessary laws, rules and procedures were promulgated in recent years for evolution of the market economy. The country has made many constitutional reforms including privatization. Therefore, Myanmar will have to work harder than ever and make amendments to financial and tax policies as necessary for evolution of the market economy and improvement of the socio-economic status of the people. Myanmar will practice the market economy as the economic policy for achievements in the economic program. The theme of the economic program is evolution of the market economy. In the process, that all the economic forces such as the State, regional organizations, cooperatives and private enterprises can work in harmony in the framework of the market economy. In addition, to give all-round encouragement to small and medium enterprises that play an important role in the economy of Myanmar, a developing country.

Regarding the market economy, open doors, make reforms and invite investments as necessary for development of the nation and the people. In some countries, the market is not under the control of the governments concerned. In some countries, the governments concerned take control over the market to an extent. It has to ensure proper market economy designed to reduce the economic gap between the rich and the poor, and development gap between urban and rural areas.

Myanmar would try to attract foreign investments and establish special economic zones to create jobs and technical know-how, and provide assistance to national entrepreneurs for development of their industries and boost productivity. If the nation to enjoy development and economic growth, the nation has taken a giant step to transform itself into an industrialized one. And there are signs of sustainable development of the nation. Therefore, It plan to transform the nation into a modern, industrialized one with the use of the benefits from the agricultural sector and internal and external investments.

Government determined to improve the living conditions of peasants and workers. So that Government will adopt to update the laws to safeguard the rights of peasants, to step up tasks for agricultural development, ensuring reasonable prices of agricultural produce, and improving the quality of agricultural produce. In particular, they can enjoy the benefits derived from their labour in proportion to their contribution, and social security. Myanmar need more and more human resources of intellectuals and intelligentsia in building a modern, developed democratic nation. In this regard, a fundamental requirement is development of human resources including new generations who will take over State duties. Therefore, promote the nation's education standard to meet the international level and encourage human resource development.

Today, Myanmar is entering into a new era and new system. The government and people are joining hands in building the modern, developed, new democratic nation. Relatively distinct reforms can be seen in political, economic and social areas, highlighting the democratization process of the

nation. Especially, the nation and its people are making changes every single time and these changes are definitely of positive ones. However, transitional period is prone to challenges and transitional process of Myanmar is no exception. Some challenges, we have overcome, some, we are dealing with and some, we will encounter in the future. Nevertheless, it should not be forgotten challenges go hand in hand with opportunities. It is important to surmount the challenges and grasp the opportunities

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