

An Evaluation of Tax Policy in Bangladesh: Perspective from Different Professionals

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Abstract

The purpose of this paper is to increase public awareness about the tax policy in Bangladesh. The study provides some policy level guidelines for tax system in Bangladesh. As Bangladesh earns less tax revenue than other neighboring countries as well as the global average level, it would enhance the government's capabilities for more development and meet governmental expenditures in an appropriate way. The study used both primary and secondary data. Primary data is collected through survey techniques using structured open-ended and close-ended questionnaires. A total of 160 respondents were selected randomly from different professional groups under two major categories (tax-payers and non-tax-payers) which are important to be considered for future policy reformation in the field of income tax system including collection and utilization of the source. As a greater public policy concern, this research contributes to the academia and policy-makers for future study or policy formulation purposes with an indirect aim of the overall socio-political and economic development of the nation.

Introduction

Taxes are one of the major sources of government revenue that is generally levied on income-generating activity, holding of property, and during the point of sale or purchasing of a commodity (OECD, 2014). It is a compulsory levy for the transfer of resources from the private to the public sector based on predetermined criteria and conditions without having any specific commitment in return, except for common national development. This is the system of an organized modern civil society (Thuronyi, 1996). Tax is calculated based on an income year. It is an internal revenue that is collected through two segments a) direct tax (i.e. income tax) and b) indirect tax (ie. Value Added Tax or VAT, Customs Duties, etc.).

The total number of taxpayers in Bangladesh is very negligible though it has increased in recent years. Due to the lack of proper tax management and citizens' willingness, it is indeed a very inconvenient task to collect taxes from taxpayers in Bangladesh. (Rahman, 2007) As an agri-based nation, Bangladesh inherited a weak economic infrastructure

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from the ancient period (Husain, 1997). The basic characteristics of the economy consist of slow growth in production, saving, capital formulation, and capital investments (Rahman, 2007).

Obviously, modern governments use taxes as one of the major sources of revenue collection to cover up their expenses. Economists including Seligman, Adam Smith, Bastable, Taussig, and Dalton hold the unanimous opinion that tax is a compulsory payment to the government by taxpayers or citizens without any expected returns, rather the state provides general services to its citizens only (Shil et al., 2017). That means tax is a compulsory contribution by the taxpayers (categorized citizens) to the government.

According to Article 152 (1) of the Constitution of Bangladesh, taxation includes the imposition of any tax, rate, duty, etc. (Government of Bangladesh, 1984). The present income tax law came into a new shape after passing three eras from 1947. However, the base of income tax in this South Asian zone originated in 1886 after the introduction of the Indian Income Tax Act (Rahman, 2007). The income tax rate is based on a range of income with a few exceptions, as such- for disabled persons, senior citizens, transgender, and female earners (BIDA, 2021).

The Income Tax Ordinance was introduced in Bangladesh for the first time in the year of 1984 (Government of Bangladesh, 1984). Later on, a separate authority called Income Tax Department (ITD) was established in the year of 1992, having an expansion in 2001. It runs under different zones with two major motives, i.e. a) tax collection and b) audit. Besides, to train the related government employees, a training center known as 'Tax Academy' and more formally 'BCS Tax Academy Bangladesh' is established in Dhaka (Sarker, 2003).

Since 1984 income tax collection has never reached as of forecasted level by the Bangladesh government. Though there is a huge amount of high-income residents in Bangladesh, there are very few regular taxpayers. The point to be noted is that the tax rate of a person depends on his/her residential status and income level and the amount of taxes collected yearly is not sufficient enough for the growth in production, saving, capital formulation, and capital investments for this nation.

In economics, there is a positive relationship between tax collection and economic growth. However, the main source of revenue for the Government of Bangladesh is also tax. Socioeconomic and infrastructure development is highly dependent on the tax. As the government could not collect the taxes properly, the economy, infrastructure, and overall development are getting hampered. Taxation principles argued that paying tax is not a penalty to the citizens; it's a willful contribution to the overall development of the country. By paying taxes, a citizen cannot claim any benefit from them but the benefit of the taxes will be provided as commonly as the citizen facilities, such as roads, bridges, public infrastructure constructions, poverty reduction, employment, etc.

Although there is moderate industrial and cultural development in Bangladesh as it is a developing country, there is very insignificant infrastructure development even after

having huge unemployment (5.3 percent), and a population below the poverty line 24.3 percent (BBS, 2020). The main purpose of this study is to increase public awareness about the tax policy in Bangladesh. The study focused on the professional observation and criticism regarding the tax system in Bangladesh as a taxpayer as well as a citizen which would be helped to develop the tax collection method for the betterment of the nation. It also aims to introduce a proper tax policy guideline in Bangladesh.

Literature Review

Taxes are a very important source for Bangladesh as it accounts for more than 80 percent of total internal resources in which indirect one contributes more than 75 percent including the import tax (50 percent). That is why, taxation is always the most important policy instrument in the armory of the government to carry out its objectives of raising revenue to meet the increasing public expenditure keeping such other broader objectives of the government as equity, efficiency, self-reliance, etc. For smooth economic development, the state socio-political institutions determine the level of taxation (Chowdhury & Hossain, 1988).

Governments of developing nations make investments or meet up necessary expenditures for large infrastructure development programs with tax revenues. Considering Bangladesh as a poor agricultural economy, predominantly subsistence in nature, it is forced to rely primarily on land taxation for revenue in earlier days.

The patterns are changing with the latest industrialization stages. With the increasing industrialization of the economy and gradual expansion of the monetized sector, effective tax bases increase and imposition of such taxes as excise, sales, etc. become feasible. Thus, indirect taxes, which are generally regressive in nature, become the major source of tax revenue at the middle stage of development. When the economy is fully developed, accounting systems are standardized and widely practiced, and the implementation of direct taxes to tap different sources of income is feasible. However, direct tax again becomes the major source of revenue and is made progressive in nature (Chowdhury & Hossain, 1988).

Matiur (2007) analyzed six factors or causes which are identified that might have contributed to the magnitudes of revenue loss in each category of taxpayers, as such- Evasion (EV), lack of awareness (LA), official harassment (OH), the complexity of the law (CL), lack of social benefits (LS), And other reasons (OR) including high compliance cost, political pressure, nepotism, not want to disclose income or assets, illegal and black money earned, giving unlawful benefit to taxpayers by tax officials taking bribe etc.

Sarker (2003) has identified the three main problems of the income tax system in Bangladesh. Those are- (i) the narrowness of the tax base, (ii) evasion and avoidance of tax, and, (iii) inadequate tax administration. It had identified some other impediments like- lack of tax education and public awareness programs by tax authorities, etc. However, the government of Bangladesh has failed to achieve the expected compliance level and found it a difficult task, even after thirty years of policy implementation. Without having a minimum educational level, people who were willing to pay tax had to visit other places to assess their income tax. That is why the self-assessment system (SAS) was not as successful as Japan's.

Later on, Sarker (2004) also found the heavy reliance on indirect taxation as a major obstacle to the economic development of poor nations. However, a positive relationship between revenue collection and industrial development with economic improvement are found in Bangladesh after 1984. With ups and downs, having some reforms in tax administration, the income tax had been on an increasing trend since the early nineties and is considered as the paddle of the economy after a long military rule in Bangladesh (NBR, 2020).

Sen and Bala (2002) discussed the modus operandi of the existing income tax audit in Bangladesh. It remarked that the tax audit practice of Bangladesh is extremely negligible. It suggested having a few more policy prescriptions, with an aim to get a great boost in expanding the tax audit net, which is much needed to improve internal resource mobilization in the country for overall social welfare and economic development.

Dahl & Mitra (1991) conducted a comparative study on tax reform packages among a few countries i.e. India, Bangladesh, and China tried to show how models can complement general principles in guiding the design of a tax reform package. The Bangladesh model highlights the sensitivity of judgments about desirable tax bases to assumptions about the labor market and substitutability in production. The China model quantifies the losses from recommending a single rate value-added tax when prices are controlled and public capital is freely provided to state enterprises. The India model shows what fiscal adjustment is consistent with tariff reductions undertaken to promote an outward-oriented development strategy.

Hossain (1995) investigates the income distributional implications of different value-added tax (VAT) schemes in Bangladesh. The results indicated that a revenue-neutral uniform VAT is regressive (relative to the pre-reform situation) in its impact on the income of different households.

Mansur et. al. (2011) argues that tax systems in Bangladesh suffer from weaknesses in both tax administration and policy. The study questioned the capacity of the government regarding tax collection or in response to the delivery of public services. Khan, et al. (2019) stated that revenue mobilization in Bangladesh has not been commensurate with its rapid economic growth. However, the present study tries to evaluate the reasons for the indebtedness of the income tax system in Bangladesh by collecting data from different professionals. Considering the recommendations, it would guide the professionals and policy-makers to reform the income tax system in Bangladesh. This paper tries to discover taxpayers' perception of the taxation system (especially the income tax) with their opinion about problems and prospects of the system in the context of Bangladesh.

Methodology

To gather professionals' perspectives on the tax system in Bangladesh, a mixed-methods approach had been used in this study. A structured questionnaire had designed, consisting of both closed-ended and open-ended questions. It was distributed randomly among the different professional groups (both tax-payer and non-payers). A field-level survey was conducted from June 2022 to July 2022 on randomly selected both taxpayers and non-taxpayers in Bangladesh. The samples are randomly selected from 4 categories, i.e. Teachers, Government service holders, Private Service holders, and Businessmen. Data was collected from 80 taxpayers and 80 non taxpayers and it was equally distributed. A structured questionnaire was used in the survey. The respondents were asked to what degree the obligations of the taxation system concerning the 47 variables related to the 12 dimensions problems considering individual perceptions and knowledge. The respondents were interviewed face to face through personal visits by the authors to their places and filled up a self-administrative questionnaire except a few via online Google forms.

General statistical techniques (i.e. percentage) were used to measure the level of indebtedness of the taxation system and; respondents' perception, mode, and tax behavior according to their individual beliefs, perception, and practice, and tried to incorporate all the findings of the analysis in different tabular and graphical forms of representation. General statistical techniques are being used in the paper for information generation and ease of presentation. This study did not use any special statistical tools or mathematical models due to the limited size of the data.

Discussion and Findings

Taxation is the principal source of revenue that is the lifeblood of governments (Ahmed, 2016). But it is a complex issue in nature to the general citizens of a nation. Despite the obvious political barriers to reform, significant, if incomplete, policy and administrative reforms have taken root across much of the developing world, and particularly in Africa and Latin America (Keen, 2013). By contrast, reform has been much more halting and incomplete across South Asian nations too. Despite repeated reform initiatives revenue

collection has remained stubbornly low, while the administrative system has continued to be largely manual and characterized by high levels of discretion and corruption (Hassan & Prichard, 2013).

Table 1: Participants' (taxpayer) perception about the tax system in Bangladesh

Taxpayer (By Profession)	Percentage	Male (%)	Female (%)	Convinced	Not Convinced	No Comment
Teacher	25	76	24	55	44	1
Businessman	25					
Private Service	25					
Govt. Service	25					

Source: Data based on Field survey, 2022

Data Facts:

Taxpayer considerations are as given below-

- The samples are paying tax for different time horizons. 29% of them are paying for 1-5 years, 36% of them are paying for 6-10 years, 19% of them are paying for 11-15 years, 10% of them are paying for 16-20 year 6% of them are paying for 21-25 years.
- From the total, the 55% population's highest tax rate is 10%, the 18.25% population's highest tax rate is 15%, the 15% population's highest tax rate is 20%, and the 11.25% population's highest tax rate is 25%.
- Teachers who are paying the lowest rate, also poor in nature, are convinced but the rich who are paying at a high rate, are not convinced.
- 55% of taxpayers are convinced with the rate, they are paying. Another 44% are not convinced and 1% did not give any comment as they don't care about the rate.
- Among all the responses 45% of teachers think it's justified and others think not justified. All businessmen consider the tax rate is not equally justified, whereas 95% of private service holders think as not justified. But 20% of government service holders think that the tax rate is equally justified and 70% think not equally justified.

- The overall taxation system is merely familiar to most of the respondents as 61% are familiar with it, 21% know very little about it and 18% are totally unfamiliar with it.
- As per their own justification, 50% of teachers, 50% of businessmen, 70% of government service holders, and 75% of private service holders have a clear understanding of the taxation system. On the other hand, 15% of teachers, 30% of businessmen, 25% of government service holders, and 15% of private service holders know very little about it whereas 35% of teachers, 20% of businessmen, 5% of government service holders and 10% private service holders don't know about the system at all. This shows that teachers' and businessmen's understanding of the taxation system is comparatively less than the government and private service holders.

Non-taxpayer considered (including those who pay earlier but not in recent years)-

- A large number of the population think that the tax rate is not equally justified and needs further modification. About 80 percent of the total population think that tax rates are not equally justified, 17% think it's justified, and 3% didn't make any comment.
- Respondents think that the taxation system is very complex, where traders, businessmen, government and private service holders have equally rated perceptions. Very few businessmen and government service holders think the taxation system is effective for the economy, but no teachers and private service holders think that it is effective. The third most rated perception is unfriendly.
- Most of the respondents think that the taxation system is not user-friendly. Different types of problems they face, when they enter into the system.
- Most problems are faced as an unfriendly system by the private and government service holders and then the teachers. Here the businessmen's perception is not identical as considered to comment.
- Only one percent thinks that the taxation system is friendly, efficient, and easy but they consider it as one kind of pressure on them.
- More than 66% of people face a serious time loss to pay taxes. Sometimes they lose an entire day or sometimes a week even. Among all the businessmen who face these problem most then private service holders, then government service holders, and teachers.
- The second biggest problem is unnecessary harassment by the authorities. 65% of respondents have been harassed while paying tax, among the mostly harassed population are private service holders and businessmen. More than 58% of the population faced the inattention of the authorities. Sometimes they were waiting for several hours, but the authorities didn't pay attention to them.

- More than 50% of the total population faces helplessness during pay tax, where government service holders and businessmen face this most. Then the most rated problem is the complexity of the system. Around 50% of respondents of all categories of the sample faced the complexity of the law and the system. Businessmen who are less educated face this problem the most. In this situation, they feel helpless and don't get any help from anybody there.
- Respondents recalled that corruption is a very familiar term in Bangladesh, especially in government offices. To get earlier services and avoid harassment taxpayers sometimes have to pay bribes to the authoritative officials and peons. More than 41% of the total population has to give bribes to pay income tax and get a return. Among all, the businessmen faced bitter experiences of corruption in this system.
- 41% of the population faced problems with documentation. Although they have proper documentation, they faced rejection by the authorities.
- Everybody believes that their tax is increasing the government's revenue, but does not reflect on citizen facilities. So, if they pay tax, it would be used properly, and also in return, they will not get anything except harassment by the authorities.
- With tax, there is a bribe that has to be paid by the taxpayer which is unacceptable to many people. 55% of the total population and more than 65% of teachers faced this problem while trying to pay taxes.
- Almost 50% of respondents think that income tax law in this nation is very complex. To avoid complexity, they do not wish to pay taxes. So, in most cases, they do not pay tax as long as it is not a necessity.
- About 40% of taxpayers think tax and the unjustified tax rate is a huge burden to the people, among the 40% of taxpayers most of them are government service holders. There are 26%, who think people escape tax liability due to problematic bureaucratic policy.
- 55% of respondents think that the taxation system is the main obligation of generating income tax revenue. Another 32% think that individual value is the main obligation behind that 13% of the total population is neutral to recommend this point.

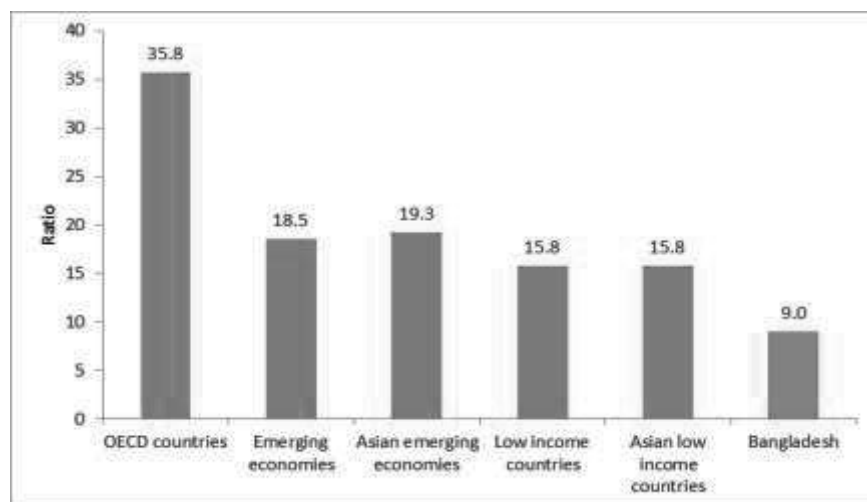
Mansur et. al. (2011) suggested the following issues to be taken care of to develop the whole system for ensuring better service delivery to the taxpayers-

1. Modernization of VAT, tax, and customs administration would go a long way in enhancing tax revenue in Bangladesh.
2. Tax administration should be geared toward providing taxpayers' services.

3. The New VAT Act must eliminate existing distortions like truncated base, tariff values, account current and tariff values.
4. Reforms on the direct tax systems should aim at the reduction of exemptions/deductions and tax holidays, taxation of capital gains, and harmonization of corporate and individual income tax rates to improve equity and efficiency of the direct tax system.
5. Broadening the base of the income tax by eliminating special treatments would improve the horizontal equity of the tax.
6. Policy reforms must go hand-in-hand with the modernization of tax administration.

Both tax-payer and non-taxpayers faced problems in Bangladesh and made negative comments about the tax system of the nation. However, Hassan & Prichard (2013) described this tax system of Bangladesh as highly informal, largely manual, and characterized by high levels of discretion and corruption while it serves the core interests of powerful political, economic, and administrative actors. The research also recalled that the tax bargain reflects Bangladesh's broader political economy, which is characterized by entrenched informal institutions underpinning the combination of generally weak governance and high levels of economic growth – the so-called 'paradox of Bangladesh'.

Figure 1: Bangladesh Tax-Revenue-to-GDP Ratio vis-à-vis comparators



Source: Vargas, et al. 2016

Figure 1 shows Bangladesh's Tax-Revenue-to-GDP Ratio as a comparison with OECD countries, emerging economies, Asian emerging economies, low-income countries, Asian

low-income countries, etc. and Bangladesh is found as the lowest of the lower level. In recent times also, the scenario is found almost the same without any significant changes.

Conclusions and Recommendations

Bangladesh is a country with a little over 166.5 million populations but over one percent of the population pays their taxes regularly only (BBS, 2020). Moreover, a large share of the total population has no adequate tax education at all. As a result, these taxpayers are not aware of the moral and legal aspects of payment of taxes that require running an independent government and sustaining development efforts. So, the taxpayers do not comply with tax laws, especially, an income tax law which causes substantial revenue losses in Bangladesh. Relying on the outcomes of the survey, intentionally conducted in this study of this thesis identified the causes of indebtedness from Bangladesh's point of view and then categorized them into main two parts, one is centralized and another is decentralized. The centralized one is individual value or willingness, and the decentralized one includes all macro factors i.e. official harassment, illegal income-related issues, lack of social benefit, the complexity of the law, huge burden, bureaucratic policy, and other reasons, etc.

The following suggestion is highly appreciated in tax reform policy formulation or amendment in the context of Bangladesh, which has some similarities with the earlier findings by Sarker (2003) -

1. The tax laws have to be amended to ensure appropriate filing and to strengthen the penalty provisions.
2. Self-assessment cases should be brought under the direct purview of the Commissioner of Taxes. I
3. Tax counseling and other taxpayer services should be provided free of cost.
4. More manpower is needed to provide strong taxpayer services, particularly during the peak tax filing period.
5. The NBR must ensure the wide dissemination of information to enhance taxpayer compliance and also introduce taxpayer education programs.
6. Introducing automated systems to record and/or answer taxpayer queries
7. Establishing an Information Management System and computerized data input, analysis, and audit selection systems should be established, and used to detect cases for more detailed scrutiny.
8. These information management systems will be able to secure and process important third-party or income-related data, which can then be matched against a taxpayer database to detect any discrepancies in the tax returns filed.
9. Linkages with external information sources should also be formed.

10. A computerized matching system would form the platform for the computerized audit system.
11. Tax Education is extremely important to ensure to educate the young, who are the next generation of taxpayers, on the significance and role of taxes.
12. The NBR should also make an effort to obtain cooperation from local public bodies and relevant private organizations. In short, it is known as GO-NGO cooperation.

The citizens of the nation want to pay taxes as per professionals' suggestions and comments but they just need a proper environment to perform the job without harassment. Government action should not be digit centric rather than educating to ensure more participation. The existing tax rate is useful for the time being, but it is also required to be updated with the business cycle and global economic situation. It is much more a public policy issue than a financial subject to handle. Government willingness regarding this revenue-generating activity is highly involved in socioeconomic and structural development (Hassan & Prichard, 2013). This paper has provided a detailed view of the importance of dynamics in the governance of taxation, thus providing a new horizon for public policy authorities. Ahmed (2016) recalled this issue and mentioned that governments can collect and utilize a sufficient amount of the total revenue to reduce poverty and provide social infrastructure, healthcare, education, security, transport, pensions, and public goods that are necessary for citizens as well as to ensure good governance.

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