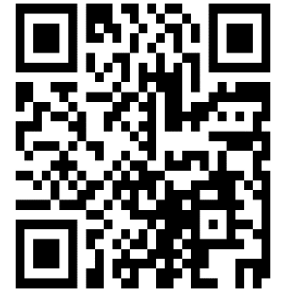


An Overview of the Reforms of Personal Income Tax (PIT) in Bangladesh

Sajia Nasrin Ete

Abstract

Bangladesh is a country of about 170 million people. But the tax-GDP ratio is yet to reach the double digit. There are some tax reform efforts already have taken to update the tax policy and tax administration for expected outcome. This paper attempted to review those reform efforts highlighting the personal income tax (PIT) and to summarize the reforms already have done and their implications in the revenue performance. It is an exploratory research and secondary sources of data are used to accomplish this study. After a thorough review of the reform initiatives, this study has got some point like complexity of the tax code, number of tax payers become double in last 5 years but the collected revenue is not proportional to the increased taxpayers. Collection of tax through TDS has increased to almost 60 percent. It implies the enhanced compliance and efficiency of the tax regime. Introduction of e-filing, e-payment, and universal self-assessment have reduced the hassle of taxpayers. Administrative capacity in terms of infrastructure and manpower has increased. All these progressive efforts do not bring any mentionable change in the tax structure of Bangladesh. Ratio of direct to indirect tax is very high i.e., about 30 to 70. Of this low-slung direct tax, contribution of PIT is about 40 per cent. To grow a middle-income country and sustain, contribution of PIT to the tax structure should be increased through appropriate reforms in this field.



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1. Introduction

Taxation is always a complex subject. There are so many factors to be considered at the time of designing the tax system of any country. Critical analysis of political economy, socio economic factors are some vital considerations among others. Hasan & Prichard (2013). As a developing country Bangladesh is eagerly trying to improve the tax-GDP ratio to the expected level. Personal income tax (PIT) plays a vital role in the revenue collection of the developed countries but in developing countries the contribution of PIT is comparatively low. Khaled (2021). It's indicated a society where the income of the society is not properly taxed or properly distributed. This study has reviewed some tax reform initiatives in Bangladesh in brief, highlighting the personal income tax policy issues and related administrative reforms. Hence the objectives of this study are to identify the mentionable reforms already have done in PIT by reviewing the reform efforts have been taken in Bangladesh till 2022 and then validate those reform efforts through examining mentionable outcomes in the personal income tax and finally to identify some shortcomings and challenges of tax reforms in Bangladesh. The rest of the paper is enfolded in seven segments. The second segment presents the data sources and methods of the study. The third segment deals with the review of the existing literature. The fourth section presents an overview of tax reforms in Bangladesh with a special focus on PIT matters. The fifth section summarizes the reform initiatives already have implemented in this field. The sixth section validates those reform efforts by showing some implications of tax reforms on revenue performances. The seventh section identifies some limitations, challenges and recommendations of tax reforms and finally the conclusion.

2. Literature Review

Following are some publications those have been evaluated in the context of income tax reform. Ahmed (2020) conducted a study on the imperative for tax reform and it observed that some socio-economic indicators are praiseworthy but some indicators like tax to GDP ratio is low and is in decreasing trend. He also found that no reform is actually implemented after 1991's introduction of VAT. In the personal income tax, required reforms are to lower the marginal and average tax rate and to broaden the tax base through voluntary compliance. He also suggests some institutional reforms like separation of tax policy from tax collection, strengthening tax policy and tax collection agencies, long tenure for NBR chairman, and full digitization of tax administration. Separate the wealth tax from the income tax and established a modern property tax system. Tajudeen et al. (2023) conducted a study on the moderating role of trust in tax authorities for the relationship between tax administration and personal income tax compliance in Nigeria. The study used a survey design to obtain data through a structured questionnaire administered to randomly select individual taxpayers from Nigeria and found that tax administration significantly affects personal income tax compliance, and trust in tax authorities moderates this relationship in Nigeria. Lum Collaku (2023) examines the relationship between tax revenues and the economic growth of Kosovo as a developing country. This study uses time series data and different statistical measures and found that fluctuations in tax revenues have a negative effect on the gross domestic product (GDP) in the long run. Khaled (2020) conducted a study on the causes of lower Tax-GDP ratio in Bangladesh and the psychological impact of tax evasion. This study is based on secondary materials. After the literature review and qualitative analysis of data it is found that being ruled by foreigners for hundreds of years, the psychology of the citizens has been developed in such a way that, revenue collected by the government is smuggled elsewhere. Dahal (2020) conducted a study to show the tax-to-GDP ratio condition and explore the relation of tax revenue with Nepal's GDP. It is based on the secondary data collected from various published sources. This study found that there is a high degree of the positive relationship between tax revenue and GDP of Nepal and it lies in the high rank among the various developing countries. He commented that

tax to GDP ratio alone cannot ensure its economic growth unless the income of the general public increased. Acharya (2005) accomplished a study on tax reform in India and revealed its tax reform story from the mid-1970s to the present time and observed that enormous progress has taken place in the last 30 years judged by the standards of economic efficiency, equity, built-in revenue elasticity, and transparency. This study has identified some key areas for further reforms after studying the results of completed reform initiatives. Bala (2009) conducted a study and examines the way how income taxation in Bangladesh has been affected by various complexities and then tries to show some indications how one can perceive it in an easier way. This study mentions some areas of complications in the tax code like, different perspectives, different meanings, and same thing clarified differently, presence of unusual provisions, absence of provisions, provisions only through SROs, presence of unconstitutional provisions, ambiguous provisions, overlapping provisions for deductions etc. He commented that complexities in the tax laws are cost-incurring also. These costs are resource costs in terms of administrative costs (tax collection costs) and compliance costs (taxpayers 'costs) in terms of out-of-pocket costs and non-monetary costs. However, many of these complexities are beneficial for those who can exploit them. He further commented that livelihood of the tax lawyers and the tax practitioners is dependent on this complication of the tax code. Bird (2004) conducted a study on the administrative dimensions of tax reform. He observes that basic job of a tax administration consists of three distinct activities i.e., identification, assessment and collection. The main function of tax administration is to monitor compliance and to apply the sanctions suggested in the law against offenders. He also commented that, with the best of organization and effort, no tax agency can detect all offenders. Hence a major plank in the strategy of tax enforcement is to formulate methods to prevent or at least minimize non-compliance at all stages. He suggested that, key to success in tax administration reform in any country lies in developing a strategy that best utilizes the available resources to minimize the scope for non-compliance and to maximize the chance of detection and punishment of non-compliance, while simultaneously providing facilities and incentives for compliance at each stage of the compliance process. No single formula can apply everywhere. Each country must evolve its own strategy, depending on its own circumstances and background. Chipeta (1998) accomplished a study on tax reform and shown the relationship between tax reforms and tax productivity in Malawi. He found that estimated buoyancy and elasticity were 0.95 and 0.6 respectively, which confirmed that the tax base had grown less rapidly in Malawi than GDP. On the basis of the econometric analysis, a few taxes are buoyant. The tax system as a whole is not. He also found that, in the context of Malawi, relying on increasing tax rates, extending existing taxes to new activities and introducing new taxes are not sufficient for raising buoyancy of the tax system. He suggested that, to improve tax elasticity, the tax base must grow relative to GDP. Chowdhury and Hossain (2019) conducted a study that has reviewed the tax reforms initiatives in Bangladesh with a special focus on corporate matters. They used secondary sources of information to complete that study. The study found that outcome of the reform is mixed and, in some cases, noteworthy achievements are evident like establishment of Large Taxpayers Unit (LTU) and Central Intelligence Cell (CIC) and digitalization of tax process while remarkable weaknesses are still prevailing in enforcement, audit and compliance. They recommend a new all-inclusive reform effort covering all the upcoming challenges in the field of taxation. Ahsan (1995) conducted a study on tax reform in Bangladesh and identified some limitations of the tax system in Bangladesh and made some suggestions to overcome the same. The limitations are very small amount of revenue, high indirect to direct tax ratio, high dependence on import tax, narrow indirect tax base, virtual exemption of agriculture sector from the tax net and less progressive tax system. He suggested that long term revenue growth is unlikely to take place unless and until personal and corporate incomes are adequately taxed. So, the designing of the overall tax system is of critical importance. Alam and Masud (2007) in

their paper have identified some achievements, weaknesses, and challenges of income tax on personal and legal entities and made some recommendations for improvement of the income tax system in Bangladesh. Rahman & Rahman (2010) in their article has identified some factors responsible for tax non-compliance, which are tax evasion, lack of awareness, official harassment, and complexity of tax laws, lack of social benefits, and other reasons. Empirical results through regression analysis confirmed that each of these factors has significant effects on revenue loss in Bangladesh. Hasan & Prichard (2013) in their work explored the political economy of tax reform in Bangladesh over a few decades to explain the complex factors those are responsible for unusual effective and continuous struggle to notable reforms. The study uncovered the necessity of recognizing deep rooted formal and informal institutions and micro-level incentive that shape the arrangement of short-range reforms to understand tax outcomes. The study found that the Bangladesh tax system is extremely casual, mostly manual and marked by high discretion, dishonesty, and informality. The existing system serves the core interests of influential political, economic, and bureaucratic elites. The existing tax regime recommends low and conventional tax rates for corporate entities and other forms of businesses, offers widespread discretion to the tax administration and also full scope for them to involve in dishonest practices, and acts as an essential media for political elites to raise money and distributes economic benefit. Quayum (2011) conducted a study on NBR and showed that modernization of the National Board of Revenue (NBR) is an urgent need for Bangladesh as some donor agencies have been putting extra pressure on the government. In this context, this study observed that the modernization of NBR has been undertaken several times under the leadership of international consultants and financed by donor agencies. However, the results have been depressing in most of the cases. This paper suggests involving stakeholders to bring about changes in the modernization process of the NBR. Otherwise, the upgrading of NBR would be a far cry. Kusi (1998) in his study has examined the links between the tax reform and revenue performance and found that the tax reform has had a significant positive influence on the productivity of both the personal tax revenue and the overall tax system. The tax reform has succeeded in terms of generating more tax revenue, augmenting the efficiency of the tax administration, and improving equity in the tax system. It has also removed market distortions and reinforcing economic incentives.

3. Sources of Data and Methodology

It is an exploratory research, and intrinsically content and document analysis methods are used to accomplish this study. Sources of data are tax reform reports, finance acts, S.R.O.s, budget speech, tax code, rules and regulations, guidelines and official websites of NBR and other relevant websites. Some relevant scholarly articles have also been reviewed for this study. To substantiate its documentary findings, some informal interviews have also been conducted with tax officials, income tax practitioners and some academicians, who have firsthand knowledge of personal income tax reforms in Bangladesh.

4. Review of Major Reform initiatives highlighting PIT

Taxation is a dynamic subject. It is always under review to rationalize with the current economic aspiration of the country. Acharya (2005) mentioned that there was a strong trend of tax reform between 1965 and 1990 all over the world. Main focus of those reforms was to reduce the dependence on export- import tax and to increase the share of domestically based tax. As a result, value added tax (VAT) was introduced and rationalization of individual and corporate tax were occurred in some countries. To cope with the global changes Bangladesh has also taken some initiative to reform the tax structure of Bangladesh. Main reform aspects of any tax system are reform in the tax policy and tax administration. Tax policy refers to the guidelines and principles established by a government for the imposition and collection of

taxes. Bangladesh has adopted a progressive taxation rate on personal income and it is determined by the finance acts of every fiscal year. On the other hand, the primary function of tax administration is to monitor compliance and to apply the sanctions prescribed in the law against offenders (Bird, 2004). After reviewing different tax reform reports and other study materials it has summarized some points on the reform of PIT highlighting tax policy and tax administration so that it can summarize the gradual developments in PIT.

4.1 Taxation enquiry commission (TEC), (1976): is the first effort to rationalize the tax system of Bangladesh. Main objective of that commission was to evaluate tax related laws and regulations and conduct an opinion survey of taxpayers to suggest a comprehensive tax reform. By observing the real economic situation, they found that the economy is mainly agrarian and business activities and industrialization are not up to the expectation. So, they suggest a new law to enact and consequently the Income Tax Ordinance 1984 was in force. Some observation regarding PIT in the TEC report were- there was a narrow tax base and higher marginal tax rate, it was due to the wide range of exemption and allowances. Other than this the commission suggests to broaden the tax base and reduce the tax evasion and avoidance. Some other observations regarding the tax policy reform were as follows: (a) Enlarging the concept of income and restricting the range of deductible income; (b) Prevent abuse of the tax exemption facilities of religious and charitable trust; (c) Check the conversion of remuneration into tax free special allowances; (d) A comprehensive external door to door survey should be carried out to identify the potential taxpayers; (e) The return form should be simpler and shorter and all supporting documents must be submitted with the return.

In the tax *administration area*, the following suggestions were made-

(a) NBR should be given the status of a division of the ministry of finance and established a directorate for research, statistics and planning and another directorate for publication and public relation; (b) Give proper training to NBR officials; (c) Adequate inspection and audit should be done; (d) Extra benefits should be given to the tax officials; (e) To constitute special bench in the high court to hear and dispose of the tax reference cases.

4.2 The World Bank (1989): as a development partner of Bangladesh conducted a study on the taxation system of Bangladesh and they submit their final report in 1989. The name of the report was "Bangladesh: An Agenda for Tax Reform." Main objective of the study was how to broaden the tax base, improve tax-GDP ratio and a smooth administrative structure. VAT has been introduced on the suggestion of that report. The World Bank initiative mentioned some observations after thorough review of the macro economy and the existing tax system of Bangladesh. Those are poor tax-GDP ratio, share of direct tax to total tax is very low, poor share of domestically based indirect tax to total tax is also low. Tax system is inelastic and heavily depends on import tax and the system is inequitable for some tax incentives and exemptions. Some other observation regarding Personal Income Tax (PIT) policy are— (a) inclusion of employment related allowances in the tax base, (b) introduction of conventional exemption limit, (c) introduction of withholding tax, (d) limiting the scope of tax-deductible investment allowance in approved asset, and (e) inclusion of realized capital gain in the tax base. On tax administration, the WB recommends an integrated package of organizational changes in the administrative structure of NBR, its auxiliary organizations and field level units both for the direct and indirect taxes. In case of direct taxes, the WB suggested to establish a separate directorate for inspection, training, survey and intelligence. The WB also suggests to include taxpayer's education under the directorate of survey. Some procedural aspects are also recommended. Those are area of self-assessment be enlarged, interest and penalties should be automatically levied and computerization should be introduced in a phased manner.

4.3 Revenue Reforms Commission (RRC), Ministry of Finance (2003): another major effort was taken in order to cope with the new economic situation that is market economy. Bangladesh was heading toward market economy in late 90s. Main objectives of the commission was to broaden tax base, rationalize the tax administration so that tax-GDP ratio can be improved and build a developed society through mobilization of resources. To make a strong foundation for a self-reliant economy higher internal resource mobilization is needed. For that revenue structure and tax management of the country should reshuffle. Overall suggestion of this commission was to raise tax-GDP ratio, quality of governance should improve, expand the tax net, and expand the requirement of TIN for more areas. Some other suggestions regarding income tax policy were—(a) Universal self-assessment should be implemented, (b) selection of return for scrutiny and audit should be done by computer program considering risk factor; (c) Expand the TIN requirements for more areas; (d) Basic exemption limit for PIT should be reviewed periodically; (e) tax rate for PIT should be reduced; (f) Allowable investment limit should be raised at 30% of the total income. Commission also mentioned that reforms in the tax administration means radical change in the existing system of assessment and in the relationship between the tax officials and tax payers. Suggested reforms in the administration ground were—(a) Satisfactory performance of the tax collectors should be rewarded by performance bonus; (b) Ensure administrative promptness in issuing of refunds. (c) Reorganize the structure and functioning of the taxes appellate tribunal; (d) Departmental appeal should be restored, and (e) Create new benches for the appellate tribunal.

4.4 Other Reform Initiatives: Some other reform efforts which have significant role in the tax reform of Bangladesh. Those initiatives are briefly mentioned in this section. Chowdhury & Hossain (2019) Reforms in Revenue administration (RIRA)'s main objective was to increase tax revenue by improving efficiency and responsiveness of tax administration through institutional and procedural reform. The outcome of the project was introduction of Large Tax payers unit (LTU) and Central Intelligence cell (CIC). Another one is Strategic Development Plan (SDP), Government of Bangladesh has initiated this plan to modernize the tax administration and develop IT based tax administration. So that higher internal resources can be mobilized and investment in the infrastructure and social sector are made possible. Some other emphases of this project are increase revenue collection targets through modernizing tax administration and simplifying procedures and develop a sound and transparent legal and regulatory system. Another initiative was Modernization and Automation Project (MAP). This project derives from SDP with the help of different donor agencies. Main aim of this project is to strengthen institutional capacity in the policy level and ensure better performance of tax administration. Some other stated objectives are to improve the effectiveness of the LTU, audit, and enforcement; introduce contemporary tax and VAT policies and procedures and reinforce statistics and research efforts. Another donor aided reform effort is Tax administration capacity and Taxpayer's service (TACTS). The UK's donor agency DFID and Government of Bangladesh implemented this project. Prime objective of this project was to enhance income tax revenue collection by improving the level of tax compliance and tax base and also to increase tax payers' services to increase taxpayers trust and voluntary compliance. One more donor aided initiative is Strengthening Governance Management Project (SGMP). This project is jointly financed by Asian Development Bank (ADB) and GoB. Main objective of this project was to introducing online activities like online tax filing and digitalization of tax return and initiating a taxpayer's information database. NBR (2011) has undertaken a Comprehensive Modernization Plan (CMP) plan to modernize all components of reform aspect in one plan. Main objective of this initiative was tax policy reform, business process reform, automation of the tax process, redefining the status and regulatory power of NBR among other objectives. A

new tax code is in the offing under this project but is not yet finalized and still under the scrutiny of the authority.

5. Reforms already have accomplished in PIT

5.1 Reforms in the Tax Policy: At the time of independence the goal of income taxation was to collect more revenue for meeting public expenditure but the goals in recent years have changed. Its main aim is now revenue maximization, increase investments, create employment opportunities and rapid industrialization with a view to ensuring social justice. Some points of reform already have done regarding income tax policy are presented below:

Tax rate and income slabs: In case of individual taxpayers there was too many income slabs and higher tax rate in the first two decades after independence. There were 12 income slabs and maximum 70% rate in 1972. The number of income slabs were increased from 12 to 14 in 1977, further reduced to 13 in 1978, to 9 in fiscal year (FY) 1980-81, to 5 in FY 85-86 to 4 in 91-92, further increased to 5 in 2002-03 which was continued till 2013-14, to 6 in 2014-15, to till today. In case of tax rate, highest tax rate for individual taxpayers were gradually reduced over the years it was 70% in FY 72-73, 65% in 78-79 to 1982-83, 50% in 85-86, 45% in 1991-92, 30% in 92-93 and 25% from 93-94 to 13-14 and 30% from 14-15 to 2019-20 and it is 25% from 2020-21 to till today. **Tax free income level:** Tax free income level for individual tax payers was TK.6000 of total income in 1972 which was gradually increased over years and in 1991-92 it was Tk. 40000. In 1992-93 tax calculation system was changed from threshold system to conventional exemption limit (also called tax free income limit) system. After introduction of the new system the conventional exemption limit was gradually expanded for the individual tax payers considering the per capita GDP, cost of living, inflation and overall economic situation. In 1992-93, the tax-free income level was tk. 40000 which was increased at tk.165000 in 2008-09, Tk.180000 in 2011-12, Tk. 200000 in 2012-13, Tk. 220000 in 2013-14, and Tk. 250000 in 2015-16 and Tk.300000 in 2020-21. **Additional tax and surcharge:** There are provisions in income tax ordinance 1984 (charge of surcharge under section 16A and additional tax under section16B). However, these surcharge and additional taxes are rarely imposed. Surcharge was imposed in 1988-89to 1990-91. Government abolishes the Wealth Tax Act and impose surcharge in 1999-2000 on the basis of net wealth (instead of wealth tax.) again in 2012-13 10% surcharge was imposed on tax payable amount if total wealth exceeds taka 2 crore. This provision is still continuing but the total wealth should exceed tk.3 crore. Some other policy reforms were done to increase the number of taxpayers and amount of revenue. Some reforms on those grounds are as follows: (a) In order to expand the tax base taxpayer's survey was conducted in 2001-02 and in 2002-03, (b) Taxpayers Identification Number (TIN) was introduced in 1993 to generate a common database for the taxpayers and those old TINs are now converted into e-TIN.(c) Scope of mandatory TIN requirement has been expanded to avail some government and non-government services.(d) Scope of mandatory return submission has been expanded under sec 75(1)(e) Spot assessment system was introduced in 1999 to bring the small businessmen and professionals into the tax net.(f) Self-assessment system was introduced in 1990-91to reduce the fear and harassment of the taxpayers and increase self-compliance. (g) The scope of the withholding taxes is increasing day by day because it is an easy way to collect direct taxes. (h) Provision for minimum tax was introduced in FY 1994-95. (i) Exemptions and investment allowances are prescribed in Schedule 6's part A and part B. This schedule is rationalizing every year. (j) Various reform and changes were done to simplify the 'tax return form' time to time. Now there are three types of form for individual taxpayers. (k) Simplification of appeal and revision procedure are done with specific form and stipulated time period for disposal and supplying of the orders. (l) Agreement has been done with some countries to avoid double taxation.(m) Incorporating alternative dispute resolution (ADR) related provisions in tax code, incorporating transfer pricing and other

international tax anti avoidance provisions in tax code.(n) Tenure of NBR chairmen's are very consistent from 2009. It is around 3 years and it is a noteworthy policy shift from the government. Due to larger time span it may have some implication on the performance of NBR.

5.2 Reforms in the Tax Administration: Administrative reforms can be described from different angles. Reforming organizational structure, reform in the administrative function, modernization and digitization of tax environment and reform in the taxpayer's services. Following are some administrative reform activities already have done are:

(a) *Expansion of tax administration*- the organizational set up of the tax authority has been expanded over the years to improve tax collection. There was 14 taxes zone up to 2000 but now total offices regarding direct tax is 40. Of them 31 is directly relating to collection tax and 7 offices are relating to appeal 1 is related to training and another one is relating to inspection. By this expansion income tax offices reached out to important upazila headquarters,(b)*Establishment of Large Taxpayers Unit (LTU)*: this unit is established in 2003 to collect taxes from large taxpayers through developing a modern, responsive and efficient tax system.(c)*Establishment of Alternative dispute Resolution (ADR)* in place of tax settlement commission for hassle free disposal of huge tax litigations.(d)*Reorganization of taxes appellate tribunal* by enhancing the scope of appointing the tribunal members other than NBR officials. Special bench also established in High Court to quick disposal of revenue cases. (e) Enhancing legal actions to prevent non-compliance and introducing incentives and rewards for detecting tax evasion cases. (f)*Reduction of some discretionary power of tax officials and decrease of time for discharging the administrative activities.* (g)*Direct communication of tax officials with taxpayers were discouraged in order to reduce harassment and corruption.* (h)*Modernization and digitalization of tax environment is ongoing through SDP project.* E-filing, e-payment and other online services are providing by NBR. (i)*Taxpayers services also increased through publicity and awareness building, celebrated national income Tax Day and conducting income tax fair* (due to COVID 19 it is not taking place for last 3 years (j) *publication of taxpayer's instructions for filing the return from 2009-10 and recognition of tax payers by providing best taxpayers both locally and nationally.*

6. Implications of Tax Reforms in Different Fields

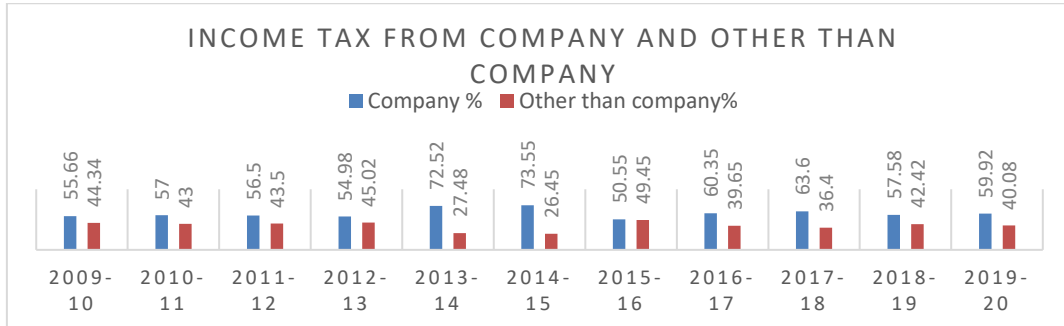
6.1 Number of Taxpayers: Number of individual taxpayers are increasing gradually which indicate the expansion of tax base. It is happening because of the reformed tax policy. NBR is gradually expanding the scope of mandatory TIN requirement for individual taxpayers. This is the main cause for the increased number of taxpayers. Though the income tax collection is not proportional to the increased number of taxpayers. Number of taxpayers has become double from 2015 to 2020. Following table show the taxpayer's information according to their income class.

Table1: Number of Individual Taxpayers (other than company) according to income class

Income Classes	Number of Individual Taxpayers and Fiscal Years				
	2019-20	2018-19	2017-18	2016-17	2015-16
0 to 100000	837845	817964	829901	687752	649542
100001 to 300000	975616	701718	687699	634108	480951
300001 to 550000	857795	679352	651911	561016	446460
550001 to 900000	623345	610960	457294	372594	331569
900001 to 1000000	367235	420212	374253	280187	167802
1000001 and above	340373	134190	112661	95974	92750
Total Taxpayers	4002209	3364416	3113719	2631631	2169074

Source: Data compiled from the annual reports of NBR.

6.2 Share of Individual Income Tax (other than company) to Total Income Tax: In the total direct tax, corporate tax contributes a major portion. Gradual increase in the contribution of personal income tax is evident from this table except three abnormal years 2013-14, 2014-15 and 2015-16. But this trend is not proportional to the number of added individuals in last 5 years. As tax base expand (number of individual taxpayers increased) share of income tax should also be increased proportionately. Average 11 years contribution of PIT is 39.77%



Source: Data used for this graph are collected from the NBR's Annual Report 2019-20.

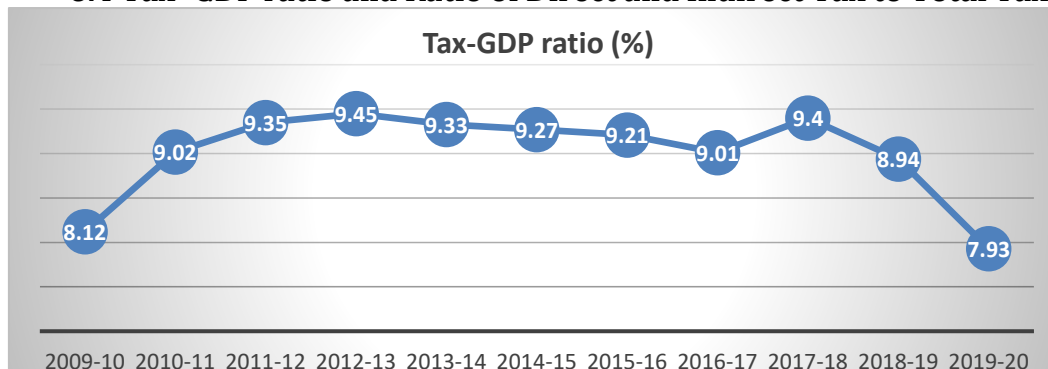
6.3 Increasing the share of Tax Deducted at Source (TDS): Income Tax are mainly collected through TDS, advance payment of tax under section 64 and payment of tax on the basis of return under section 74. The share of TDS is increasing over the years. Increasing TDS indicates the increased compliance and efficiency of the tax system. Another observation regarding TDS is, contribution of salary income to TDS is almost 100%. Less than 1% of income tax from salary income is collected other than TDS. It is happening due to the computerized payment of salary in the public and private sectors.

Table2: Share of Tax Deducted at Source (TDS) of total income tax collection

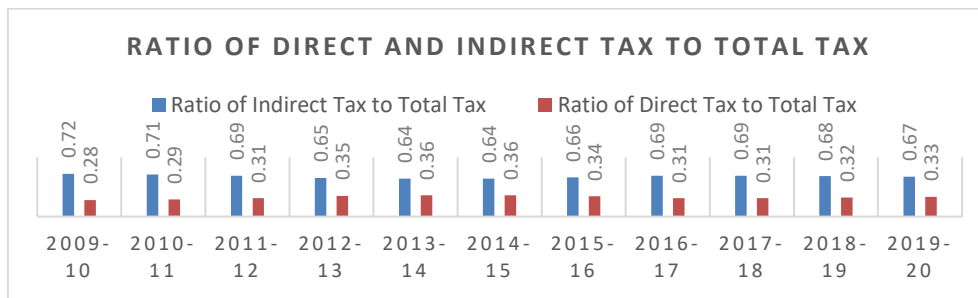
Fiscal Year	Total Income Tax	Tax Deducted at Sources (%)	TDS for salary income (%)
2019-20	41805.22	59.10	5.92
2018-19	42090.59	60.94	5.53
2017-18	37355.13	61.09	4.59
2016-17	31987.60	60.63	4.48
2015-16	31996.43	62.34	3.10

Source: Data compiled from the annual reports of NBR.

6.4 Tax- GDP ratio and Ratio of Direct and Indirect Tax to Total Tax



Source: Data used for this graph are collected from the NBR's Annual Report 2019-20.



Source: Data used for this graph are collected from the NBR's Annual Report 2019-20.

Tax- GDP ratio indicates the contribution of tax revenue to the GDP. Higher ratio indicate higher internal resource mobilization and higher resource can be used for further investment and employment generation. It was recommended in the RRC report, yearly growth for tax- GDP will be 0.45% but in reality, it is sometimes diminishing. Ratio of direct and indirect tax express the tax structure of the country. In the developed countries direct taxes contribution are more because direct tax is more progressive than indirect tax. Above mentioned graph shows the consistent ratio of direct and indirect tax having a very slow positive movement to the direct tax.

6.5 Larger tenure of the NBR Chairmen: NBR already have got 28 chairmen from 1972 to till today. From 2009 NBR chairmen's tenure are consistently larger than previous incumbents. It is a noteworthy policy by the government because it is not possible for any leader to implement his vision in a very short span of time. It may have some revenue implication.

7. Limitations, Challenges and Recommendations

There is no perfect tax regime in the world. Each of the tax regime has some integral limitations and distortions. Economic condition of the country and income of the people are considering at the time of formulating tax policy. There is no scope for ambitious tax policy as it is a highly unpopular activity by the government. Adequate survey and research are not in place to formulate the appropriate tax policy in Bangladesh. There are some challenges from both political and institutional arena. Political leadership in Bangladesh has gone a major shift. Now a large number of businessmen are in the local government and in the national assembly to make laws for the country instead of career politician. They will be reluctant do anything against their economic interest. Tax officials are reluctant to change their status quo. Taxpayer's education regarding tax laws is poor and there is no visible efforts from the NBR to educate taxpayers by conducting workshop, in-house training to different types of taxpayers. Tax laws are relatively complex and general people want to understand it in an easier way. (Bala, 2014) It is very lengthy process to formulate and implement a new law. There is no direct tax code since 1984. All the reform initiative's prime objective was to broaden tax base, rationalize the effective and marginal tax rate, and increase tax-GDP ratio and streamlining administrative units for enhanced compliance and collection of tax. There are some developments in some policy and administrative area. But still a lot to do in some area. Some of them are- Bangladesh is a country of around 170 million people but there are only 4 million individual taxpayers, of them a big number only submit returns without paying tax. Survey should conduct on untaxed people of different groups and small retail business units to broaden tax base. Enhance the activities for taxpayer's education and services. Enhance the scope of establishing tax office in all upazila because there are all other administrative units other than tax collection unit. Increase the scope of e-filing and e-payment of tax. Tax fair should reinstate to bring a festive mood in our tax culture. Enhance the scope of TDS gradually as it is a cost-effective approach for collecting taxa.

8. Conclusion

Tax reform is a continuous process. After the independence of Bangladesh some mentionable reform initiatives were carried out. Of those some were from own thrust and some from the development partners like the WB and IMF's prescription. Some efforts were inclusive and some were for fulfilling particular objective. All the efforts have some encouraging implications on the development of our tax structure and tax environment. Some notable developments in PIT are number of individual taxpayers are increased, number of tax offices and officials are also increased for enhanced service to the taxpayers, introduction of e-TIN, e-filing and e-payment of tax in some areas reduce the hassle and cost of the taxpayers. Collection of tax through TDS is increasing gradually which is a sign of enhanced efficiency and compliance. Though some significant suggestions of those initiatives were not implemented and sometimes the process of implementation was very slow and not timely. Tax authority is falling behind to increase the tax-GDP ratio due to poor compliance and narrow tax base. Some other limitations of our tax structure are low direct to indirect tax ratio, educating taxpayers are nonexistent, harassment by the taxmen and so many discretionary powers of the tax officials, and a S.R.O based old tax code are among other limitations. Another notable observation is that there is no reform effort fully implemented due to some political and administrative failure. There are some inherent limitations in the tax research as there is no primary data available for the researchers. If NBR publishes some time series data it will be easy for the researcher to find some new field of research in taxation. And finally, it is recommended that an all-inclusive reform project is necessary to overcome the present challenges for effective tax reform.

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