Volume: 35, Issue: 1
Page: 1-14
2024

International Journal of Science and Business

Journal homepage: ijsab.com/ijsb

Tax Reforms in Bangladesh: An Overview

Khadiza Begum

Abstract

In both industrialized and emerging nations, tax reform is a subject that requires ongoing attention. This topic is discussed in terms of creating a suitable tax base, bolstering tax administrations, and guaranteeing equity, efficiency, and progressive taxation. Throughout the past forty years, Bangladesh has implemented numerous reform measures. Since there isn't much research on business matters related to these initiatives in the context of Bangladesh, this study aims to review those initiatives by emphasizing them. This study uses strategies for conducting interviews as well as content and document analysis. According to the study, the results of those reforms are not all that positive. While there are still notable shortcomings in enforcement, audit, and compliance, there are also some notable successes, such as the creation of the Large Taxpayers Unit (LTU) and Central Intelligence Cell (CIC) and the digitization of the tax process. The revenue implications of tax reforms indicate a somewhat improving trend in both direct and indirect tax collection, with extremely gradual progress being seen in the overall tax-to-GDP ratio. It would be wise to investigate incentive programs to recognize prompt compliance and commend tax officers for their achievements. Since there hasn't been a thorough reform attempt in the corporation taxes space in almost ten years, we urge the launch of a new, comprehensive reform initiative that addresses all of the impending issues. Designing of tax policy that promises professional administration and induces adequate compliance remains a major challenge for public finance in developing countries.

IJSB
Review Paper
Accepted 12 March 2024
Published 17 March 2024
DOI: 10.58970/IJSB.2351

ISSN: 2520-4750 (Online) 2521-3040 (Print)

Keywords: *Tax reform, Tax-GDP, Tax administration, Corporate tax, Tax depreciation, Tax incentives.*

About Author (s)

Khadiza Begum PhD Fellow, Institute of Bangladesh Studies, University of Rajshahi, Rajshahi, Bangladesh. & Assistant Professor-Accounting, Rajshahi College, Ministry of Education, Dhaka, Bangladesh.

Introduction

Any nation's policy makers struggle with how best to use tax breaks to entice foreign direct investment (FDI). They probably would rather see all countries refrain from offering tax breaks and all businesses make equitable contributions to the national budget. However, because the majority of other nations—including wealthy ones—offer incentives, practitioners of investment promotion frequently feel compelled to equal or even exceed the competition in order to draw foreign direct investment FDI (Andersen et al. 2018). Tightening up international coordination might be the answer to this problem, but it doesn't seem like one is coming soon. While governments would be well advised to pursue ongoing efforts to enhance international cooperation at the regional and global levels, the process moves slowly and frequently creates gaps. Meanwhile, emerging nations and less developed nations like Bangladesh continue to heavily and rapidly utilize tax incentives. This research examined Bangladesh's most recent attempts at tax reform. Priorities for incentive regime design, openness, and administrative improvements are also reviewed. According to Andersen et al. (2018), tax incentive programs in developing nations frequently have poor design, opaque processes, and onerous management. Despite their well-documented drawbacks, tax vacations and preferential tax rates continue to be the most extensively employed incentive tools in developing nations. In addition to making incentives less appealing, opaqueness and large administrative costs also increase the indirect costs of incentives, which include the possibility of corruption and economic distortions. Developing nations can implement unilateral adjustments to improve the targeting and cost-effectiveness of tax incentives, even in the near term.

The landscape of tax reform is multifaceted, encompassing various dimensions from the intricacies of behavioral responses to the structural changes in tax policies (Jakobsen & Søgaard, 2022). Recent studies have illuminated different facets of tax reform, each shedding light on crucial aspects of this complex topic. For instance, Jakobsen and Søgaard (2022) introduce a novel approach for identifying behavioral responses to tax reforms, emphasizing the importance of graphical validation to understand treatment effects accurately. Meanwhile, Gnangnon (2023) delves into the intricate relationship between the shadow economy and tax reform in developing countries, distinguishing between structural tax reforms and tax transition reforms and highlighting how the shadow economy can impede tax reform efforts. Additionally, Yohou (2023) explores the nexus between corruption, tax reform, and fiscal space in emerging and developing economies, emphasizing the critical role of corruption control in ensuring the success of tax reform initiatives and expanding fiscal space for public expenditure. Meanwhile, Rodríguez, Robaina, and Teotónio (2019) provide valuable insights into the sectoral effects of green tax reforms, emphasizing the potential of tax policies to drive environmental sustainability and economic competitiveness. Amidst these scholarly discussions, Chowdhury and Hossain (2019) offer a comprehensive overview of tax reforms in Bangladesh from a corporate standpoint, highlighting both the achievements and challenges encountered in the country's tax system evolution. Collectively, these studies contribute to our nuanced understanding of the complexities surrounding tax reform initiatives globally, underscoring their profound implications for economic development, fiscal sustainability, and social welfare.

In Bangladesh, the tax revenue has not yet reached the expected levels to cover state expenditures, with the tax-to-GDP ratio remaining extremely low at 9.06 percent in FY 2016–17 (Annual Report 2016–17, 2019). Since direct tax contributes over one-third of all taxes collected in Bangladesh, it holds significant importance in generating tax income. Notably, around two-fifths of direct tax revenue in FY 2016–17 came from sources other than firms, with approximately three-fifths originating from companies (Annual Report 2016–17, 2019).

This study aims to review tax reform initiatives in Bangladesh, focusing on corporate tax issues and related administrative reforms. The goals are to list the corporate tax reform projects that Bangladesh carried out up to 2017; to validate these reform efforts by looking at notable results regarding corporate tax collection; and to outline the difficulties with Bangladesh's direct tax system. These policy changes can greatly improve the cost-benefit ratio of incentives, even while they do not completely replace the need for regional and international solutions (Ahmed, 2019).

Data collection tools and techniques

The study methodology indicates that it is exploratory in character. To finish the investigation, content and document analysis techniques are being used. Tax reform reports, financial acts, SROs, budget speeches, tax codes, rules and regulations, various NBR guidelines and official websites, as well as several ministries and regulatory organizations in Bangladesh, are some of the data sources. A few academic papers that are connected to the research have also been examined. In order to verify the documentary results, informal interviews with NBR staff are conducted. Additionally, academics and chartered accountants provided assistance with this tax reform matter in Bangladesh.

Literature Review

There aren't many articles on tax reforms in the context of Bangladesh; those that exist are primarily based on secondary sources of data and address the shortcomings and challenges of the current income tax system, as well as the necessity, scope, and recommendations for improvements. However, very little study has been done on business issues. The following articles have been examined in the context of Bangladesh and the subcontinent and are included in this section:

In 1995, Ahsan carried out research on tax reform in Bangladesh, pointing out some shortcomings in the country's tax structure and offering solutions. The extremely low revenue, significant import tax dependency, narrow indirect tax base, high indirect to direct tax ratio, virtual exemption of the agriculture sector from the tax net, and less progressive tax structure are the constraints. He made the argument that unless and until personal and corporate incomes are fairly taxed, long-term revenue growth is unlikely to occur. For this reason, the whole tax system's architecture is crucial. Similar to this, Alam and Masud (2007) have noted several successes, flaws, and difficulties with income tax on individuals and legal companies and have offered some suggestions for enhancing Bangladesh's income tax system. According to a different research conducted from a Bangladeshi viewpoint, tax non-compliance may be attributed to six different elements: tax evasion, ignorance, official harassment, the intricacy of tax rules, the absence of social benefits, and other issues. Each of these variables significantly affects income loss in Bangladesh, according to empirical results from regression analysis (Rahman & Rahman, 2010). In another study, large corporate taxpayers registered with Bangladesh's Large Taxpayers Unit (LTU) were asked to evaluate the efficacy of three coercive and three persuasive instruments. The results showed that, when used separately, coercion and persuasion are less likely to increase tax compliance than when used together, though coercion appears to have greater influence (Akhand, 2012). An further investigation examined the political economy of tax reform in Bangladesh across several decades in order to elucidate the complex elements that give rise to unusually strong and persistent opposition to notable improvements. The study made clear how important it is to identify deeply ingrained formal and informal institutions as well as micro-level stimuli that influence how short-term changes are arranged in order to comprehend tax results. According to the report, Bangladesh's tax system is incredibly haphazard, primarily manual, and characterized by enormous discretion, dishonesty, and informality. According to Hasan and Prichard (2013), the current tax system encourages low and traditional tax rates for corporations and other business entities. It also gives the tax administration a great deal of discretion and room to engage in dishonest practices. Finally, it serves as a vital conduit for political elites to raise money and distribute economic benefits. Another article focuses on the challenges Bangladeshi entrepreneurs confront in achieving sustainable growth. The unfavorable tax structure and the vexation of high import taxes on raw materials are the main obstacles to the nation's industrial progress, however there are many other issues as well. In order to prevent adding to the already heavy load on industrial output, the research recommends reviewing or eliminating all current government taxes and levies on imported raw materials. Doing so will increase the amount of corporate tax income (Khan, Khan, & Khan, 2008). Bangladesh urgently needs to modernize the National Board of Revenue (NBR), since these donor organizations have been increasing pressure on the government. According to a research conducted in this context, donor organizations have provided funding for many attempts at modernizing NBR, which were led by foreign consultants. Nevertheless, the majority of the time, the outcomes have been depressing. The report recommends using insiders to influence the NBR's modernization process. If not, NBR's modernization would be a distant dream (Quayum, 2011). Even if Indian businesses have not used evasion tactics to the same extent as Foreign Direct Investment (FDI) enterprises, both have demonstrated increased tax compliance. Therefore, it may be said that the government now receives a larger portion of corporate profits as a result of the STR reduction (Rajakumar, 2014). According to norms of economic efficiency, equality, built-in revenue elasticity, and transparency, a great deal of progress has been made in the previous thirty years, according to a different report that examined the Indian tax reform account from the mid-1970s to the present. After analyzing the outcomes of finished reform projects, the research identified a few crucial areas for additional changes (Acharya, 2005). According to a research conducted in Ghana, the tax reform has significantly improved the efficiency of the personal tax income stream as well as the overall tax system. The study also looked at the relationship between the tax reform and revenue performance. According to Kusi (1998), the tax reform has been successful in increasing tax revenue, enhancing the effectiveness of tax administration, and enhancing systemic equality. As there isn't much research on corporate matters related to these activities in the context of Bangladesh, Chowdhury and Hossain's 2019 study is an attempt to evaluate such projects. This study employs interviewing techniques in addition to content and document analysis (Chowdhury and Hossain, 2019). As a result, there is a dearth of research on tax reforms in Bangladesh that adequately addresses corporate concerns. This vacuum has led to the design of the current study, which looks into the corporate tax reform measures that Bangladesh has implemented thus far.

Tax reforms in Bangladesh

Tax reforms in Bangladesh represent a dynamic interplay of various factors and challenges, as evidenced by a range of scholarly inquiries. Drawing from recent studies, it is evident that tax reform efforts in Bangladesh have been characterized by a mix of achievements and persistent obstacles. While there have been commendable strides, such as the establishment of units like the Large Taxpayers Unit (LTU) and Central Intelligence Cell (CIC), as well as the digitalization of tax processes, significant weaknesses still prevail in enforcement, audit, and compliance (Chowdhury & Hossain, 2019). Moreover, the ratio of tax revenue to GDP has shown sluggish progress, indicating a slow pace in expanding the tax base and increasing revenue collection (Chowdhury & Hossain, 2019; Ete, 2023). Additionally, issues such as a high dependence on indirect taxes, a limited tax base, and challenges related to tax evasion continue to pose hurdles to the effectiveness of tax reforms (Chowdhury & Hossain, 2019; Ete, 2023). Moreover, the influence of factors like corruption and political settlements further complicates the landscape of tax reform in Bangladesh, as highlighted by Hassan and Prichard (2016) and Ahmed (2019). Nevertheless, amidst these challenges, there is a growing recognition of the need for comprehensive reform efforts that address the diverse array of issues facing the tax system, underscoring the importance of coordinated actions and innovative approaches to navigate the complexities of tax reform in Bangladesh.

It was previously said that tax reform is a continuous process. During the extraordinarily strong wave of tax reforms that took place between 1965 and 1990, many countries—including developing economies—implemented value-added taxation (VAT), rationalised individual and corporate taxes, and decreased their reliance on taxes on goods and services traded abroad in response to the demands of growing global economic integration (Acharya, 2005). Bangladesh responded to global events by enacting many reform initiatives. First, the Taxation Enquiry Commission (TEC) suggested that the outdated Act be replaced. Consequently, in 1984, a new Income Tax Ordinance was passed. These policies principally sought to enlarge the tax base, enhance progressivity, equity, the ratio of direct tax to indirect tax, decentralise tax administration, integrate IT, and automate the tax system in order to boost the tax-to-GDP ratio and support sustainable economic growth. Certain reform initiatives are completed, while others are still under progress. The section that follows will provide a quick assessment of such reform initiatives.

Taxation Enquiry Commission (TEC), 1976 (Ministry of Finance, 1979)

On October 23, 1976, the Taxation Enquiry Commission (TEC), led by M. Nurul Islam, the governor of the Bangladesh Bank at the time, took the initial step toward tax reform. The commission's primary goal was to evaluate tax-related legislation and regulations and carry out a taxpayer opinion poll in order to recommend a complete tax reform. Below are the commission's principal conclusions and suggestions: Bangladesh's tax base was extremely limited due to the country's rural and agrarian economy. There was very little connection between sophisticated accounting and auditing systems and even the urban trade. Big businesses were all under the public sector. There were very few small-scale private sector businesses and sectors that strictly adhered to accounting and auditing standards. A straightforward, sensible, and comprehensive progressive tax structure was suggested by the TEC.

Thirty percent super tax and thirty percent income tax made up the sixty percent corporation tax rate. The group suggested combining the super tax and income tax into a single tax known as "corporate tax," with rates of 35, 55, and 60 percent depending on the revenue level of the business entities. In terms of corporate tax advantages, the commission examined the current investment incentives provided by the Income Tax Act. The entire income was free from taxes, and the permissible costs were deducted together with allowances from the total revenue to determine the taxable income. The panel suggested keeping those incentives in place since it believed they were enough for the period's industrial progress.

Tax Reform initiatives in Bangladesh are at a glance

Initiatives for tax reform	Highlights	Proposals
a) Taxation Enquiry Commission, 1976	Tax legislation and survey results pertaining to various taxpayer categories are examined in the context of comprehensive tax changes.	Expand the tax base, raise the tax-to-GDP ratio, do away with the corporate super tax, bolster tax authority, and create a simpler legal structure.
b) World Bank initiatives for tax reforms in Bangladesh,	To determine the tax structure's shortcomings and develop short-,	Raise the GDP ratio, expand the tax base, raise the proportion of direct tax to overall tax, lessen reliance on

1986 (The final report titled Bangladesh: An Agenda for Tax Reform)	medium-, and long-term measures to make the system stronger.	import taxes, and implement an integrated package for organizational reform.
c)Revenue Reform Commission, 2002	To strengthen internal resource mobilization, tax collection management, and organizational structure in order to create an independent economy.	Reduce the corporation tax rate, widen the tax base, enhance the standard of revenue management, raise the tax-to-GDP ratio, eliminate the dividend distribution tax, and tax holidays.
d)Reforms in Revenue Administration 2002 (RIRA)	To create a cutting-edge tax structure and efficient tax administration that enhance and enable voluntary adherence to tax regulations.	Reorganize the NBR, update laws, strengthen tax officer professionalism, deal with corruption and evasion, and communicate with taxpayers more.
e) Strategic Development Plan (SDP)	To guarantee accountability and openness from tax authorities as well as taxpayers.	By streamlining processes and updating tax administration, revenue collection objectives can be raised. Create a clear and well-founded legal and regulatory framework.
f) Modernization and Automation Project (MAP)	To increase institutional capacity in order to support better policy management and enhanced tax administration performance.	Bolster statistics and research initiatives; implement modern tax and VAT rules and processes; and increase the efficacy of the LTU, audit, and enforcement.
g) Tax Administration's Capacity and Taxpayers Service (TACTS)	To improve the business procedures being tested in the nation's LTUs and concentrate on enhancing taxpayer services to win over more confidence and encourage voluntary compliance.	Boost LTU efficacy, professionalism, and efficiency; bolster CIC; and step-up internal audit and inspection in LTUs.
h) Strengthening Governance Management Project (SGMP)	To create taxpayer information and support centres, encourage the filing of taxes online, and digitise tax returns.	Allow for the digitization of offline-submitted returns and online returns. Boost connection and networking, and automate workplace processes. managing databases and creating reports online.
i) Comprehensive Modernization Plan (CMP)	The aim is to consolidate all aspects of NBR reform initiatives into a single plan and to update and assess tax administration and policy.	Tax policy reform, business process optimization, and tax process automation. reorganizing the NBR in a way that makes sense given its size and activities. Boost outreach, education, and support to taxpayers as well as strategic communication.

Major tax reforms in recent times

The relative lack of tax changes in Bangladesh is a major contributing factor to the country's poor tax performance and feeble, stagnant revenue structure. In Bangladesh, tax changes have mostly been neglected. Recent significant tax revisions include the following:

Policy and procedure reformation

The introduction of the Taxpayer's Identification Number (TIN), Business Identification Number (BIN), and Universal Taxpayer's Identification Number (UTIN), as well as the simplification of the self-assessment procedure, increased scope of withholding tax, emphasis on audit operations, and the implementation of anti-avoidance and transfer pricing rules in the income tax ordinance to combat tax evasion, as well as specific steps to modernize the taxation system, include the following reforms: presumptive taxation, advance payment of tax, minimum tax, charge of additional tax, consideration of TDS as final settlement, and agreement to avoid double taxation with 33 countries.

Introduction of VAT

The introduction of the Value Added Tax (VAT) in 1991 was the first and only significant tax reform that was effective. This was the only tax reform that, in spite of significant setbacks, proved successful. In the 1990s, the implementation of the Value Added Tax (VAT) was accompanied by a significant decrease in trade protection, which included the elimination of the majority of quantitative limits and a drop in custom charges (Ahmed, 2012).

Tax reforms in corporate sectors

Since then, there have been sporadic adjustments to the tax code, most notably in the area of international trade taxes between 2000 and 2010, although the primary driving force behind these changes was the need to modify the highly protected trade regime as a requirement for receiving foreign aid. There was little loss in trade protection as a result of these second-phase customs duty adjustments. In fact, trade taxes reemerged as a key instrument for revenue mobilization based on the introduction of a complex system of regulatory and supplemental duties once the highly protected trade regime was lowered to more moderate levels during the first phase of trade and investment deregulation in the 1990s (Ahmed, 2012).

Recent Tax rate and classification of companies-

Over time, the tax rate has been progressively lowered and rationalized for all types of businesses. In 1972, all corporations had to pay capital gains taxes, which were levied at a rate of thirty percent on general revenue and thirty percent on dividend income. The super tax provision was discontinued in 1980–81, and the companies were split into three groups, each with a different tax rate announced: a) industrial undertakings using local materials (at 50%); b) industrial undertakings using imported raw materials (at 55 percent); and c) other companies (at 60%). Over the next few years, the tax rates were progressively decreased. Following a reorganization in 1993–1994, the corporate taxpayer categories were divided into three groups: publicly traded, non-publicly traded, and others, which included banks and other companies. Forty, forty-five, and fifty percent were the comparable rates. In the years that followed, the rates were reduced even more, to 27.5, 37.5, and 42.5 percent, respectively, in 2010–11. For the years 2007–2008, a special category was also created just for the mobile operator. According to FA2010–11, the tax rates for publicly traded enterprises were 35 percent, while the rates for privately held companies were 45 percent. Two further new categories—merchant banks and tobacco manufacturers—were introduced in 2011 and 2012. These groups paid taxes at rates of 37.5% and 42.5%, respectively.

In 2015, the tax rates were once more lowered. For the five aforementioned categories, the following rates were in effect: (1) Publicly traded companies were charged 25 percent; privately held companies were charged 35 percent; (2) Banks and Financial Institutions were charged 40 and 42.5 percent, respectively; (3) Merchant Banks were charged 37.5%; (4) Cigarette Manufacturing Companies were charged 45 percent; and (5) Mobile Phone Operator Companies were charged 40 percent for publicly traded and 45 percent for privately held companies. The prices and categories listed below are valid until 2018–19. The tariffs for FA 2019–2020 were as follows: The rates were forty percent for publicly traded firms and forty-five percent for non-publicly traded corporations. The companies that manufactured cigarettes were the first category, followed by banks and financial institutions, government-authorized banks, insurance and other financial organisations, and mobile phone operator companies. The rates were 25 percent for corporations that were publicly listed and 35 percent for those that were not.

Deductions from the revenue of business

Bangladesh has implemented an itemized deduction scheme; the Income Tax Ordinance of 1984 lists the tax-deductible items in sections 29, 30, and 30A. Generally speaking, all costs incurred during the applicable income year that are related to a corporate entity's business operations are deductible. Bad debts, on the other hand, are not deductible; however, there are certain provisions for accumulated costs incurred in the applicable income year that are, and prepayments of certain costs may be carried forward and subtracted in the applicable income year. In the same way, unpaid expenses' obligations are deducted in the year of payment but added to revenue in the fourth year.

Investment incentives

Rapid economic development was required immediately following independence, which is why the government at the time was understanding of deductions and tax exemptions. Different tax incentives, such as the first, special, accelerated depreciation, and tax holiday package, had to be introduced, and they did so without establishing any kind of selection process. In accordance with the suggestions of the World Bank and the IMF, the government liberalized trade policy in the 1990s, implemented the Value Added Tax (VAT), and moved the emphasis of revenue mobilization from foreign trade taxation to domestically based indirect taxation. The government has recognized the value of the corporate sector and is taking into account a range of tax breaks to expedite the nation's industrialization.

Tax holidays, tax deductions, rebates, accelerated depreciation, investment, and reinvestment allowances are just a few of the various tax incentives that are gradually being given to various industries. These incentives are also supplied sector- and location-specific. Bangladesh boasts of export processing zones, special economic zones, hi-tech parks, and power generation firms, all of which are eligible for a variety of incentive programs. In Bangladesh, tax incentives are provided by the tax authority through several SROs and sections 45 and 46 of the ITO 1984.
Between July 1, 2014, and June 30, 2019, the following substitute for the tax break indicated for the industrial undertaking under section 46B is reinstated on machinery and plant for new industrial entrepreneurs: 50% in the first year, 30% in the second, and 20% in the third. Under section 46C, the creation of a physical infrastructure facility is not eligible for accelerated depreciation. Tax holidays and accelerated depreciation are not combinable [Third Schedule paragraphs 7(2) (d), 7A (1) (a), and 7B (2) (d)].

Reforms done in Tax Administration

The reform of the organizational structure has been aided by the establishment of functional tax units (LTU and CIC) and an income tax audit cell, as well as by stepping up legal actions to stop non-compliance, adopting an alternative dispute resolution (ADR) system, reforming the tax appellate tribunal, placing a special bench in the Supreme Court's High Court Division, creating a tax information and service centre, and creating a data forensic lab.

Digitalization and modernization of the tax system:

Reform initiatives have resulted in the creation of online tax calculators and the implementation of e-TIN, e-BIN, e-Filing, and e-Payment capabilities in some tax zones.

Reforms to ensure taxpayers services

The publication of taxpayer instructions and pamphlets, the planning of some motivational events, the celebration of National Tax Day, the introduction of an income tax fair, the awarding of the "kaar Bahadur" title to the top taxpayers, the introduction of the "Citizen Charter," and the issuance of tax cards as evidence of tax payment are just a few noteworthy events in this field. The newly elected administration of 2018 has finally announced another wave of tax reform in the National Budget FY 2020 (administration of Bangladesh, 2019b). It has adopted the PP 2041 as the long-term development vision and intends to begin putting the underlying macroeconomic and fiscal framework into practice. In this sense, it has acknowledged the past low tax performance and set an ambitious goal to raise the tax to GDP ratio by a staggering 3% of GDP in a single year. The key to reaching this massive tax objective will be the application of the amended 2012 VAT Law and better income tax management. According to Ahmed (2019), a preliminary evaluation of the proposed tax revisions indicates that they are insufficient and won't produce the anticipated revenue outcome.

Political Economy of Tax Reforms

Despite an overall strong economy and increasing fiscal constraints on growth, Bangladesh has not implemented any meaningful tax reforms. This is a severe issue that could jeopardize the long-term sustainability of development gains. The yearly ad hoc introduction of new budget measures, combined with new exemptions and special tax treatments, further complicates the transparency and predictability of the tax system.

Tax institutional reforms

According to the examination of the state's inadequate fiscal capacity, certain minimal institutional adjustments are necessary before there can be any real progress made towards increasing tax collection. Among them are the following:

1. Detachment between tax policy and revenue collection: Separating from tax policy and revenue collection is a crucial institutional reform. The NBR de facto acts as a tax collection entity even though it is tasked with both tax policy and tax collection. Even though it features senior tax collection is the main priority for tax policy professionals. It also clarifies the ad hoc character of tax policy throughout the yearly budget cycle, when the goal of tax policy is to increase revenues in order to reach the budget target, regardless of how the tax action would affect the efficiency or distribution of resources.

2. Strengthening tax policy and tax collection agencies: Regardless of the institutional setup the government chooses, hiring more qualified professionals will significantly boost both tax policy and tax collection activities. The NBR and the tax policy unit, which are the tax departments, require a considerably more robust mix of professional and civil service personnel. If necessary, more incentives might be offered to entice professionals with expertise in fixed-term taxation to the Ministry of Finance. Better revenue performance and tax policy would result from this minor investment in tax administration capabilities.

3. The choice and term of the NBR chairman: The regularity with which the NBR chairman is replaced has a detrimental effect on tax revenue. The government may wish to choose the chairman in a professional manner, remove the position's ties to the civil service, and give yourself a minimum of four or five years. This will depoliticize the role, improve the caliber of leadership in tax administration, and give the chairman stability and motivation to take firm action against unethical behavior.

4. Completely digitizing the tax administration: This is the top goal since it aligns with the Prime Minister's policy of quickly using online technology as the main way that people deal with the government. Although there has been some progress in the administration of VAT and customs, there is still more work to be done, particularly in the area of income tax administration.

5. Boosting the budget consultation process: The government currently has a good citizen-led consultation process, which should be maintained. But, there is room for improvement in terms of the involvement of the Cabinet and the Parliament. For example, the Cabinet review of the draft budget could be more fruitful if each Cabinet minister was required to present their annual development targets and objectives and discuss whether the proposed resource allocation was adequate to secure them. As for the Parliament, one way to improve the process would be to include early on the relevant Parliamentary Committee that oversees the budget and finance matters to obtain timely input.

6. Encourage fiscal decentralization: By strengthening the connection between accountability and service delivery, more fiscal decentralization may aid in revenue mobilization. The establishment of an elected local government institution structure has allowed the administration to make some progress toward administrative decentralization.

Revenue Implications of Tax Reforms

Proposed tax reforms are intended to be revenue-neutral initiatives; nevertheless, if the tax base is not increased in tandem with a significant decrease in the tax rate, the overall tax revenue may be negatively impacted (Rao, 2000).In Bangladesh, over the last few years, the proportion of direct taxes collected as a percentage of GDP has increased significantly. The following charts illustrate the direct taxation trend in Bangladesh:

a) Trend in Tax-GDP ratio

A rise in the tax-to-GDP ratio was suggested in every reform effort. A target increase in the tax-to-GDP ratio of 12.61 percent by FY 2012, with an annual growth rate of 0.45 percent, was stated in the Revenue Reform Commission (RRC) report. The achievement, which is still only one digit, did not keep up with the actual. The intended tax-to-GDP ratio in the Comprehensive Modernization Plan (CMP) was 13% by 2016. The following graph demonstrates that while tax-to-GDP ratios have steadily increased over time, they have fallen short of the goals established by various reform programs.

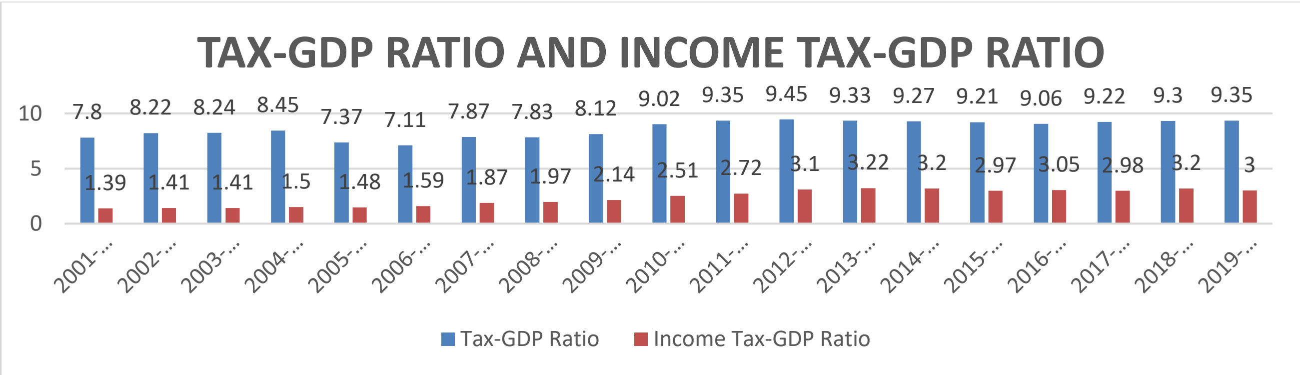

Figure 1: Tax-GDP ratio trend in Bangladesh

b) Trend in the direct and indirect tax collection

Bangladesh, like many developing nations, has implemented a progressive tax system to increase the proportion of direct tax revenue to total tax revenue as well as the direct tax to indirect tax ratio. According to Revenue Vision 2021, by FY 2020–21, direct tax revenue should account for more than half of all tax revenue. The trend of direct to indirect tax collection from 2001–2002 to 2016–2017 is depicted in the following line chart. It is clear that over time, the contributions from direct taxes have increased and indirect taxes have decreased, which is somewhat in line with the goal and the tax system's progressivity.

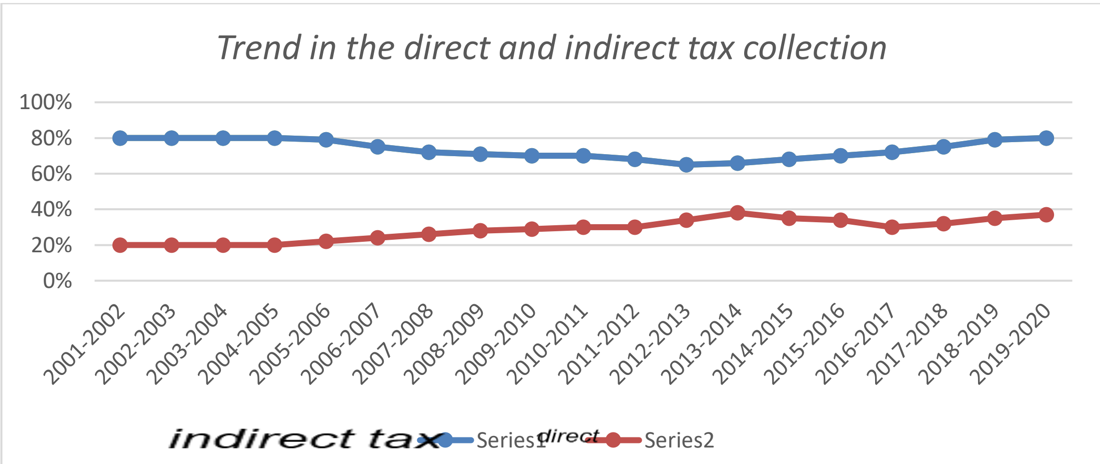

Figure 2: Trend in the direct and indirect tax collection

Conclusions

Over the past forty years, a variety of reform projects have been implemented; some were all-encompassing, while others had a specific goal in mind. Out of these, some supported modernizing and streamlining the tax system, while TEC, the World Bank's effort, RRC, and CMP covered the entire spectrum. Over the past forty years, a number of reform projects have been launched; some were all-encompassing, while others had a specific goal in mind. Out of these, some supported modernizing and streamlining the tax system, while TEC, the World Bank's effort, RRC, and CMP covered the entire spectrum. There was no significant attempt at direct tax reform following the CMP in 2011. The VAT Act was just approved and implemented; however, the 2012 direct tax code is still unknown. However, the actualized revenues fall well short of the potential, and there is still more work to be done in order to increase the tax system's horizontal equality by widening the tax net. While some business organizations, such as the FBCCI, consistently advocate for a decrease in the corporate tax rate, the current rate is still fair when compared to other South Asian nations. There is still demand to raise the standard deduction exemption level because it is not possible to include all registered companies in the tax net. Tax incentives must to be planned with both FDI attraction and local import substitution businesses in mind. To solve the current constraints and difficulties in Bangladesh's tax system, an all-inclusive tax reform commission should be established as there hasn't been a comprehensive reform initiative in the last eight years.

Applications

The insights gained from studies on tax reforms in Bangladesh hold significant implications for policymakers, tax authorities, researchers, and other stakeholders. Here are some key applications based on the findings of these studies:

Policy Formulation: Policymakers can utilize the findings to formulate more effective tax policies and reform initiatives tailored to the specific challenges faced by Bangladesh. Understanding the factors influencing tax revenue collection, such as corruption, political settlements, and the structure of the tax system, can inform the design of targeted interventions aimed at addressing these issues.

Tax Administration: Tax authorities can leverage the research findings to enhance tax administration practices, including enforcement, audit procedures, and compliance mechanisms. Insights into the weaknesses and strengths of the current tax administration system can guide efforts to streamline processes, improve efficiency, and combat tax evasion more effectively.

Capacity Building: Identifying areas where capacity building is needed within the tax administration can help prioritize training programs and skill development initiatives for tax officials. Strengthening the capacity of tax administration personnel can enhance their ability to enforce tax laws, conduct audits, and implement reforms more efficiently.

Revenue Forecasting: Researchers and policymakers can use the insights from studies on tax reforms to develop more accurate models for forecasting tax revenue. Understanding the factors influencing tax revenue collection trends can improve the accuracy of revenue projections, enabling better fiscal planning and budgetary allocation.

International Comparisons: Comparative studies on tax reforms in Bangladesh can provide valuable insights for policymakers by benchmarking Bangladesh's tax system against those of other countries. Identifying best practices and lessons learned from similar contexts can inform the development of more effective tax policies and reform strategies.

Public Awareness and Education: Communicating the findings of research on tax reforms to the public can help raise awareness about the importance of taxation, foster a better understanding of tax policies, and promote compliance. Educating taxpayers about their rights and obligations can contribute to building a culture of tax compliance and accountability.

Overall, the applications of research on tax reforms in Bangladesh extend beyond academic discourse to inform policy decisions, improve tax administration practices, and promote fiscal sustainability and economic development.

Limitations and Suggestions

Despite numerous reform measures implemented since Bangladesh's independence, the tax system still exhibits several concerning aspects. The ratio of taxes to GDP has yet to reach the expected level, indicating a gap in revenue generation. Although direct tax coverage has improved over time, unresolved issues persist within the tax structure and administration, hindering progress towards a more equitable system. The government's strategy to attract investment for rapid industrialization through significant tax incentives and exemptions underscores its commitment to economic growth. However, the influence of powerful political lobbies occasionally impacts government decisions, introducing complexities into tax policies. Key challenges include a high dependency on import taxes relative to income tax, a limited tax base, a low tax-to-GDP ratio, and a disproportionate ratio of indirect to direct taxes. To address issues of tax evasion and income leakage, tax authorities must intensify auditing efforts and enhance surveillance mechanisms. Assessing contributions to corporate tax revenue across various sectors, including the public sector, can provide valuable insights for tax policy formulation. However, these efforts are hampered by frequent judicial decisions in tax matters, undermining tax collection initiatives. Addressing current challenges in corporate income tax requires tailored incentive schemes aligned with the National Industrial Policy of 2016, considering regional disparities and industry-specific needs.

According to the Office of the Registrar of Joint Stock Companies and corporations (2018), as of December 2018, the Registrar of Joint Stock Companies (RJSC) has 3,462 public limited companies, 161,894 private limited companies, and 860 foreign corporations registered. Nonetheless, according to NBR (2019), only 75,144 of these companies are actively reporting taxes, showing a large discrepancy between registered and tax-paying enterprises. Improving collaboration across the RJSC, ICAB, and NBR offers a workable plan to rectify this discrepancy and raise registered business tax compliance.

Despite the valuable insights provided by this study, several limitations warrant acknowledgment. Firstly, the analysis primarily relies on secondary data sources, which may be subject to limitations in terms of accuracy and completeness. Additionally, the scope of the study focuses primarily on corporate tax reform initiatives in Bangladesh, thus potentially overlooking other facets of tax reform such as personal income tax or value-added tax. Furthermore, the study does not delve deeply into the qualitative aspects of tax reform, such as the perceptions and experiences of taxpayers and tax administrators, which could provide additional insights into the effectiveness of reform measures. Moreover, the study does not consider the dynamic nature of the tax system, including changes in tax laws and regulations over time, which could influence the outcomes of reform initiatives.

Building upon the findings and limitations of this study, several avenues for future research emerge. Firstly, future studies could adopt a mixed-methods approach, combining quantitative analysis of tax revenue data with qualitative interviews or surveys to provide a more comprehensive understanding of the challenges and opportunities in tax reform. Additionally, researchers could explore the impact of specific tax reform measures on different sectors of the economy, such as manufacturing, services, and agriculture, to assess their effectiveness and equity implications. Furthermore, longitudinal studies could track the implementation and outcomes of tax reform initiatives over time, allowing for a more nuanced analysis of their long-term effects. Moreover, comparative studies across countries or regions could provide valuable insights into the factors driving successful tax reform efforts and identify best practices that could be applied in the context of Bangladesh. Finally, future research could explore the role of technology and digitalization in tax administration and compliance, as well as innovative policy tools such as environmental taxes or wealth taxes, to address emerging challenges and promote sustainable fiscal policies. Overall, addressing these research gaps could contribute to the development of more effective and equitable tax systems in Bangladesh and beyond.

References

Acharya, S. (2005, May). Thirty years of tax reform in India. Economic and Political Weekly, pp.2061-2070.

Ahmed, N. (2019). Improving Tax Compliance in Bangladesh, draft policy note. BRAC Institute of Governance and Development (BIGD), BRAC University, Dhaka.

Ahmed, S. (2024). Institutional Dimensions of Tax Reforms in Bangladesh. In *Is the Bangladesh Paradox Sustainable?* (pp. 185–217). Cambridge University Press. https://doi.org/10.1017/9781009284677.012

Ahmed, S. U. (2019). Taxation Challenges for Bangladesh. *The Cost and Management*, *47*(04), 13–21.

Ahsan, S. M. (1995). Tax Reforms in Bangladesh: Some theoretical and practical issues. In S. Rashid, Bangladesh Economy: Evaluation and a Reform agenda. Dhaka: University Press Ltd.

Akhand, M. H. (2012, May). Coercion or Persuasion? Making large corporations tax compliant in Bangladesh. Ph.D. Thesis. Birmingham, UK: University of Birmingham.

Alam, M. F., & Masud, M. Z. (2007). Reforming Taxes in Bangladesh: The dilemmas of Achievements and Challenges. Journal of Business Studies, 243-259.

Amin, S., Jamasb, T., Llorca, M., Marsiliani, L., & Renström, T. I. (2022). Decarbonisation policies and energy price reforms in Bangladesh. *Energy Policy*, *170*. https://doi.org/10.1016/j.enpol.2022.113224

Amni, S., Fitrios, R., & Silfi, A. (2023). The Influence of Thin Capitalization, Capital Intensity, and Earnings Management on Tax Avoidance with Tax Havens Country as Moderator. *International Journal of Science and Business*, *20*(1), 109-122.

Andersen, M. R., et al. (2018). Corporate Tax Incentives and FDI in Developing Countries. Global Investment Competitiveness Report-2017/2018. doi:10.1596/978-1-4648-1175-3

Cestnick, T. (2007). 101 Tax secrets for Canadians: Smart strategies that can save you thousands. Toronto: John Wiley and Sons.

Chowdhury, M. M., & Hossain, S. Z. (2019). An Overview of Tax Reforms in Bangladesh: Corporate Perspective. *Global Journal of Management and Business Research*, , Volume 19, Issue 4, Version 1.0, 15–25. https://doi.org/10.34257/gjmbrdvol19is4pg15

Devex. (2007). Retrieved from devex: https://www.devex.com/jobs/vat-ltu-reforms-in-revenueadministration-26696

Devex. (2009). Retrieved from devex: https://www.devex.com/jobs/tacts-project-manager-192870

Ete, S. N. (2023). An Overview of the Reforms of Personal Income Tax (PIT) in Bangladesh. *International Journal of Science and Business*, *21*(1), 42-53.

Gnangnon, S. K. (2023). Effect of the Shadow Economy on Tax Reform in Developing Countries. *Economies*, *11*(3). https://doi.org/10.3390/economies11030096

Hasan, M., & Prichard, W. (2013). The political economy of tax reform in Bangladesh: Political Settlements informal Institutions and the negotiation of reform. Brighton: ICTD.

Hassan, M., & Prichard, W. (2016). The Political Economy of Domestic Tax Reform in Bangladesh: Political Settlements, Informal Institutions and the Negotiation of Reform. *Journal of Development Studies*, *52*(12), 1704–1721. https://doi.org/10.1080/00220388.2016.1153072

Jakobsen, K. M., & Søgaard, J. E. (2022). Identifying behavioral responses to tax reforms: New insights and a new approach. *Journal of Public Economics*, *212*. https://doi.org/10.1016/j.jpubeco.2022.104691

Khan, A. Z., Khan, M. G., & Khan, M. S. (2008). Reconsideration of the tax system in Bangladesh for industrial development: An empirical study. Prime University Journal.

Kusi, N. K. (1998). Tax Reform and Revenue Productivity in Ghana. The African Economic Research Consortium.

Mathew, A. B. (2021). Impact of Comparative Tax Administration on Import/Export Tax Tariff Rates: Evidence from South Sudan NRA Customs Revenue Division. *International Journal of Science and Business*, *5*(9), 14-25.

Ministry of Finance. (1979). Final Report of the Taxation Inquiry Commission. Dhaka: Ministry of Finance.

Ministry of Finance. (2003). Final Report of the Revenue Reform Commission. Dhaka: Ministry of Finance.

Mirza, H., & Prichard, W. (2014). The Political Economy of Tax Reform in Bangladesh: Political Settlements, Informal Institutions and the Negotiation of Reform. *SSRN Electronic Journal*. https://doi.org/10.2139/ssrn.2436434

NBR. (2009). Final Report part 1. Dhaka: NBR.

NBR. (2011). Outline of Modernization Plan. Dhaka: NBR.

NBR. (2015). Annual Report 2013-14. Dhaka: NBR.

NBR. (2019). Annual Report 2016-17. Dhaka: NBR.

Office of the Registrar of Joint Stock companies and firm. (2018). Retrieved from Office of the Registrar of Joint Stock companies and firm: http://www.roc.gov.bd/

Quayum, M. J. (2011). Bringing Change to Government Administration: Insights from the development projects of the National Board of revenue. Journal of Bangladesh Studies.

Rahman, A. M., & Rahman, A. M. (2010). Loss of Revenue under Direct Taxation in Bangladesh: Causes and Remedies. The Southeast University Journal of Business Studies, 113-135.

Rajakumar, J. D. (2014, December). Corporate Response to Direct tax Reforms. Economic and political weekly Research foundation.

Rao, M. G. (2000). Tax Reform in India: Achievements and Challenges. Asia-Pacific Development Journal.

Rodríguez, M., Robaina, M., & Teotónio, C. (2019). Sectoral effects of a Green Tax Reform in Portugal. *Renewable and Sustainable Energy Reviews*, *104*, 408–418. https://doi.org/10.1016/j.rser.2019.01.016

Sarker, T., & Ahmed, M. S. (2022). The Role of Government Reform in Improving Voluntary Tax Compliance in the Digital Economy: The Bangladesh Experience. In *Taxation in the Digital Economy: New Models in Asia and the Pacific* (pp. 240–259). Taylor and Francis. https://doi.org/10.4324/9781003196020-14

The World Bank. (1989). Bangladesh: An agenda for tax reform. Washington D.C: World Bank.

World Bank. (2017). Global investment competitiveness report 2017/2018: Foreign investor perspectives and policy implications. The World Bank.

Yohou, H. D. (2023). Corruption, tax reform and fiscal space in emerging and developing economies. *World Economy*, *46*(4), 1082–1118. https://doi.org/10.1111/twec.13385

Cite this article:

Khadiza Begum (2024). Tax Reforms in Bangladesh: An Overview. *International Journal of Science and Business, 35*(1), 1-14. DOI: https://doi.org/10.58970/IJSB.2351
Retrieved from http://ijsab.com/wp-content/uploads/2351.pdf

Published by