Potential of Personal Income Tax in Bangladesh
An Examination of Survey Data

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Part I:
Introduction and stylised facts

Introduction

Context

❑ Revenue mobilisation has become pertinent more than ever in the backdrop of the country's promotion to the LMIC status, need for financing the ambitious SDGs amid tepid recovery of the global economy and geopolitical rebalancing, and Bangladesh's impending graduation from the LDC category in the following decade

❑ Regrettably, revenue-GDP ratio of Bangladesh was 10.2% in FY17, which was 9.8% in FY10 (Source: MoF data)

➢ only 0.2 percentage point improvement from FY16 but still below the level of FY12 (10.8%)

❑ Tax-GDP ratio of Bangladesh was 9.0% in FY17, which was 8.1% in FY10

➢ substantially lower than the average 15% mark for developing countries

❑ The 7FYP has proposed raising the tax-GDP ratio to 14.1% and the revenue-GDP ratio to 16.1% by 2020 with growing significance of income tax collection

Introduction

Context

❑ Income tax (as % of GDP) is expected to rise to 5.4% in FY20 according to 7FYP (2.65% in FY17)

  ➤ 38.3% of total government tax revenue is expected to come from income tax (29.5% in FY17)

❑ Personal income tax collection is not only critical for mobilising government revenue, but also to establish a more equitable economy

❑ In this backdrop, it is essential for Bangladesh to gauge the depth of its actual revenue potential from personal income tax, formulate suitable policies to extract the most from this untapped resource pool and develop adequate capacity considering the geographic aspects of revenue mobilisation

Introduction

Objective of the study

❑ The primary objective of this study is to critically estimate the size of potential personal income tax and number of tax payers in Bangladesh using most survey data including the Household Income Expenditure Survey (HIES)

❑ Furthermore, this study attempts to find out the key determinants of public compliance regarding tax submission. To this end, a nationwide perception survey was conducted in 2018

Stylised facts

- Number of individual taxpayers has grown steadily during FY12-16.

FY	No of individual taxpayers (million)
FY12	1.2
FY13	1.4
FY14	1.4
FY15	1.6
FY16	1.7

Source: NBR

- However, pace of identifying new taxpayers appears to be slowing down
  - Collection from the newly identified taxpayers also exhibit similar trend
  - Limited data availability is a major concern to analyse over a long timeframe

FY	Target to identify new taxpayers	Actually identified new taxpayers	Achievement (%)	Tax collected from newly identified taxpayers (Crore Tk.)
FY13	120000	100000	83.3	-
FY14	100000	67060	67.1	15.5
FY15	200000	106237	53.1	5.4

Source: NBR

Stylised facts

- New Tax Identification Number (TIN) registration for individuals has picked up pace in the recent years

FY	Re-registration	New registration
FY14	892,138	299,861
FY15	94,557	290,403
FY16	16,571	303,665
FY17	7,632	918,931
FY18 (up to May)	3,332	544,747

Source: NBR

- Number of total TIN is currently about 3.4 million (as of May 2018), only half of them submits returns
- The tax collection from individuals' submitted returns could not keep pace with the number of submissions
- About 90% of return submitted are self-assessed, but ratio is declining

| As of	General returns	Self assessed returns	Total	Ratio of Self-assessed to General Returns
Jun '14	104,685	875,075	979,760	8.4
Jun '15	112,203	928,151	1,040,354	8.3
Jun '16	123,028	947,818	1,070,846	7.7

Source: NBR

Part II:
Tax effort and compliance: Exploring the determinants of Bangladesh's low tax base

Tax effort and compliance

❑ Revenue mobilisation should come through reforms that widen the tax base, increase tax compliance and lower tax evasion

➢ Tax-GDP ratio (9%) is one of the lowest in the developing world (15% average)

➢ According to Fenochietto and Pessino (2013), Bangladesh only collects 43% of potential taxable revenue, while other South Asian countries have comparatively higher tax efforts

➢ The 7FYP proposed increasing tax-GDP ratio to 14.1% by 2020

Tax effort and GDP per capita for select countries
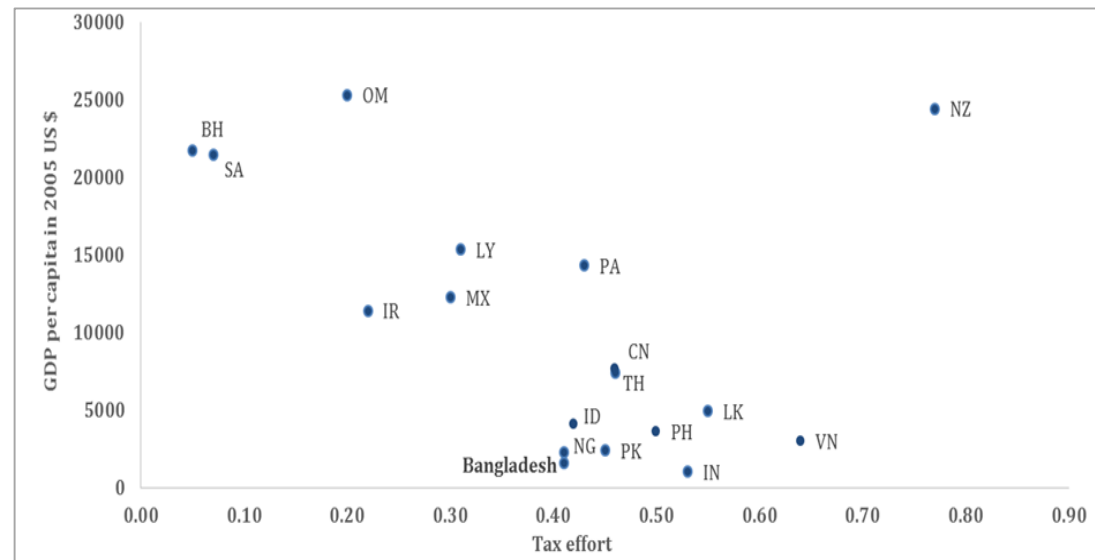
Source: Fenochietto and Pessino (2013)

Tax effort and compliance

❑ Widening the tax base is a top priority
  ➢ 7FYP argued that increasing the effective income tax rate to 10% for the top income decile (who own 36% of national income, according to HIES 2010 data) would yield a 2.5 percentage point increase to the current tax-GDP ratio
  ➢ Analysis of HIES data shows that, the size of income taxpayer base and income tax collections have almost doubled and quadrupled respectively between 2005 to 2010
    ▪ However, low compliance rates were observed as only 27.3% of all potential income taxpayers declared income tax in 2010
    ▪ Hypothetically, doubling the compliance rate would increase the 2010 income tax-GDP ratio by an additional 1.5 percentage points

Tax effort estimates using 2005 and 2010 HIES data

Year	Number of taxpayers (Lakhs)		Actual-potential taxpayer ratio (%)	Amount of income tax (Crore Tk.)		Actual-potential income tax ratio (%)	Income tax-GDP ratio (%)	
	Potential	Actual		Potential	Actual		Potential	Actual
2005	89.58	10.00	11.16	17,500.00	2,641.25	15.09	3.63	0.55
2010	70.26	19.19	27.31	19,700.00	9,893.24	50.21	3.05	1.53
Change (%)	-21.57	91.93		12.57	274.57			

Tax effort and compliance

❑ Geographically equitable access to tax instruments should be extended

  ➢ Regional variation in tax efforts was evident from 2005 to 2010

    ▪ The share of HHs paying income tax rose quite dramatically in Dhaka and Chattogram urban areas and SMAs

  ➢ Potential taxpayer growth suggests that geographically equitable access to tax instruments should be facilitated

Percentage of HHs, by year and region, that declared income tax

Division	Rural			Urban			SMA		
	2005	2010	Differences (%)	2005	2010	Differences (%)	2005	2010	Differences (%)
Barishal	<0.01	0.15	>1000	0.47	0.68	44.75	N/A	N/A	N/A
Chattogram	0.09	0.14	65.12	0.65	1.52	133.59	1.67	3.75	124.96
Dhaka	<0.01	0.14	>1000	0.81	1.89	133.17	1.04	6.29	505.38
Khulna	<0.01	0.09	>1000	0.23	1.49	554.63	0.71	N/A	N/A
Rajshahi	0.52	0.53	0.95	2.08	1.88	-9.66	1	0.58	-42.5
Sylhet	<0.01	<0.01	>1000	<0.01	1.00	>1000	N/A	N/A	N/A

Tax effort and compliance

❑ Designing effective policies for curbing tax evasion requires understanding the behavioural aspects of the tax compliance decision, particularly for income tax collection

❑ The present study of HH tax compliance using HIES data is first of its kind

  ➢ Empirically explores the drivers of low total and income tax compliance in Bangladesh between 2005 and 2010

❑ The empirical analysis was conducted using information on HH income, education, professional activities, tax behaviour and other socio-economic characteristics

  ➢ Self-reports of income include earnings from professional activities, own-production of goods and services, and assets

  ➢ Detailed consumption information regarding all aspects of the HH's socio-economic activities were recorded, and used to create a consumption index using the Filmer-Pritchett method of principle component analysis (PCA) that allows to rank HH consumption using information on the level, amount and variety of goods and services consumed

    ▪ This is used primarily in light of mis-reporting HH expenditure figures

Tax effort and compliance

❑ The analysis of HH tax compliance and its determinants uses the following specifications, where all error terms are normally distributed (~0,1):

$$paidtax^*_{i,t} = \alpha_0 + \alpha_1 householdcharacteristics_{i,t} + \alpha_2 income_{i,t} +$$

$$\alpha_3 fixedeffects_{i,t} + e_{i,t} \text{ ; where } paidtax_{i,t} = \begin{cases} 1 \text{ if } paidtax^*_{i,t} > 0 \\ 0 \text{ otherwise} \end{cases}$$

❑ The incidence of tax compliance was estimated using the probit model, arguing that HH-centric characteristics play a defining role regarding whether or not a HH pays tax. In order to control for region-specific effects on tax compliance, fixed effects were included for differentiating the various stratas surveyed

❑ In order to determine the level of tax compliance, the following Ordinary Least Squares (OLS) model was considered:

$$taxamount_{i,t} = \beta_0 + \beta_1 householdcharacteristics_{i,t} + \beta_2 income_{i,t} +$$
$$\beta_3 fixedeffects_{i,t} + e_{i,t}$$

Tax effort and compliance

- However, a simple OLS regression, using income as a control variable, can yield potentially biased estimates due to under reporting
  - Hence, the simple model was supplemented by introducing a first-stage equation that estimates the relationship between HH consumption and income, and, using predicted income as determinant, revisits the simple model in the second-stage by instrumenting income using the first stage predicted values
  - The advantage of using a two-stage regression model is that it allows to 'extract' the component of income that determines the degree of tax compliance, while controlling for unobservables that affect both income and the amount of tax declared
- **First stage**
  - $income_{i,t} = \partial_0 + \partial_1 consumptionindex_{i,t} + \partial_2 fixedeffects_{i,t} + e_{i,t} \Rightarrow \widehat{income}_{i,t}$
- **Second stage**
  - $paidtax^*_{i,t} = \alpha_0 + \alpha_1 householdcharacteristics_{i,t} + \alpha_2 \widehat{income}_{i,t} + \alpha_3 fixedeffects_{i,t} + e_{i,t}$
  - $taxamount_{i,t} = \beta_0 + \beta_1 householdcharacteristics_{i,t} + \beta_2 \widehat{income}_{i,t} + \beta_3 fixedeffects_{i,t} + e_{i,t}$

Tax effort and compliance

- HH head education level dropped from 5.5 years of schooling in 2005 to 3.9 years of schooling in 2010
- HH size has dropped slightly from 4.8 persons to 4.5, possibly as a sign of improved family planning
  - Particularly important in light of the (small) increase in the number of HH formal workers
- Burden of taxation is largely stemming from income tax
- Income tax payment doubled from 0.3% to 0.6%, which, despite being very low, is consistent with the current tax environment
- The number of HHs with at least one (working) potential income taxpayer doubled from 10.2% in 2005 to 22.8% in 2010

Summary statistics regarding the HH

Variables	2005	2010
Female HH head	0.0334***	0.0435***
Age of HH head	41.92***	42.09***
Education level of HH head	5.529***	3.862***
Size of the HH	4.811***	4.495***
No of formal workers in HH	0.829***	0.834***
Urban residence	0.241***	0.127***
Rural residence	0.618***	0.672***
HH member dependency ratio	0.677***	0.657***
HH yearly income (CPI adjusted)	137,902***	159,712***
HH consumption index decile	5.645***	5.331***
HH owns land	0.0536***	0.0268***
HH has potential income taxpayer/s	0.1021***	0.228***
HH paid municipal tax past year	0.0734***	0.0549***
HH paid income tax past year	0.00302***	0.00699***
HH paid any tax past year	0.0760***	0.0605***
Total taxes paid	14,733.18***	17,312.77***
Total income taxes paid	13,831.77***	17,063.6***
*** p<0.01, ** p<0.05, * p<0.1		

Tax effort and compliance

❑ When looking at the spatial distribution of tax compliance it can be seen that there has been substantial growth in urban HH tax compliance in Barishal, Dhaka, Khulna and Rajshahi (SMA only)

➢ Competing factors such as improved literacy, increase in wealth, and greater facilitation of tax instruments have played a vital role in increased tax collection

❑ The spatial distribution of tax payment is largely concentrated around more densely populated zones; the exception being Chattogram, for which there is no discernible explanation

Regional variance in tax compliance

Region	2005	2010
Barishal Rural	0.0321***	0.00741**
Barishal Urban	0.277***	0.331***
Chattogram Rural	0.00690***	0.0242*
Chattogram Urban	0.320***	0.225***
Chattogram SMA	0.0778***	0.0542**
Dhaka Rural	0.0180***	0.0282***
Dhaka Urban	0.162***	0.205***
Dhaka SMA	0.0500***	0.124***
Khulna Rural	0.00227	0.00909
Khulna Urban	0.359***	0.390***
Khulna SMA	0.100***	0.106**
Rajshahi Rural	0.104***	0.0358***
Rajshahi Urban	0.371***	0.203***
Rajshahi SMA	0.240***	0.299***
Sylhet Rural	0	0.00152
Sylhet Urban	0.0313**	0.15
*** $p<0.01$, ** $p<0.05$, * $p<0.1$		

Tax effort and compliance

Determinants of HH tax compliance (based on simple model)

Year	2005				2010			
Model	(1) Probit	(2) OLS	(3) Probit	(4) OLS	(5) Probit	(6) OLS	(7) Probit	(8) OLS
Variables	Total tax		Income tax		Total tax		Income tax	
	Compliance	Amount	Compliance	Amount	Compliance	Amount	Compliance	Amount
Age of the HH head	0.000903***	-0.802	1.09e-05*	0.068	0.000574***	0.106	-0.0000032	-0.331
Female HH head	-0.0124	-39.04	0.0000889	-52.11	-0.00695	-158.38	-0.00115	-185.28**
Education level of the HH head	0.00213***	9.1	5.24e-05**	12.85*	0.00166**	-10.3	0.000175*	-12.109
HH size	0.00248*	5.44	5.87e-05**	-2.09	0.00222**	-25.039	0.000452**	-28.65
Number of formal workers in the HH	-0.0025	4.96	-0.0000723	-20.17	-0.00318	-87.627	0.0000196	-92.99
HH daily income	-0.0000653	0.103	0.00000096	0.335*	-0.0000119	-0.277	-0.00000161	-0.335*
HH yearly income (CPI adjusted)	6.1E-10	0.0002	1.60e-05*	0.0003	2.12e-08***	0.0030***	2.52e-09**	0.0030**
HH owns land	0.0246*	22.64	0.000379	36.53	0.0187	-310.83	0.000283	-379.22*
HH bought a house recently	-0.0165	-98.06*		-62.92	0.0271	-783.65		-743.87
HH owns/uses a computer	0.0413	2,724.22*	0.00432	2545.5	0.0474**	3100.17	0.00851*	2973.9
Rural residence	-0.0549***	88.49	0.0283*	93.76	-0.0396**	-188.94	-0.00114	-154.78
Urban residence	0.109***	354.19***	0.606***	169.40**	0.0961***	-429.81	0.0000334	-440.69
Constant		-155.84		-168.57***		170.24		183.71

*** $p<0.01$, ** $p<0.05$, * $p<0.1$

Tax effort and compliance

❑ Based on the results from the table before, it can be suggested that skill (education) and experience play a role in increasing tax compliance

   ➤ Individuals, through tax fairs, communal workshops on Bangladesh's tax system, and increased access to digital information on tax structure, stand to gain a better grasp of the role that taxes play in the economy and its redistributive effect on social measures

❑ Measures of literacy include both education level and access to computers, both of which are positively correlated with tax compliance

   ➤ Greater digitisation of the tax system, ranging from information to tax declaration, would ease access to tax compliance instruments for a large share of the workforce

❑ Urban HHs, largely by virtue of earning higher incomes and having more well educated members, are better able to comply with tax laws

   ➤ This is especially true in urban and semi-urban areas where access to tax information and instruments are far easier relative to rural areas

Tax effort and compliance

Determinants of HH tax compliance - 2 stage model

Year	2005					
Model	(1) OLS	(2) Probit	(3) OLS	(4) OLS	(5) Probit	(6) OLS
		Total tax			Income tax	
Variables	1st stage: HH yearly income	2nd stage: Compliance	2nd stage: Amount	1st stage: HH yearly income	2nd stage: Compliance	2nd stage: Amount
Age of the HH head		0.000903***	-0.696		1.05e-05*	0.176
Female HH head		-0.0123	-27.41		8.12E-05	-41.29
Education level of the HH head		0.00214***	10.87		5.14e-05**	14.66
HH size		0.00251*	18.29		6.13e-05**	10.99
Number of formal workers in the HH		-0.00249	6.61		-7.02E-05	-18.49
HH daily income		-6.55E-05	0.02		8.90E-07	0.249
Predicted income values from 1st stage regression		-7.35e-08**	0.0004		5.94E-10	0.0004
HH owns land		0.0247*	34.27		0.000385	48.38
HH bought a house recently		-0.0166	-110.89*			-75.99
HH owns/uses a computer		0.0415	2,756.9*		0.00415	2,578.80
Rural residence		-0.0550***	83.71		0.0298*	-88.88
Urban residence		0.109***	359.25***		0.625***	174.56**
HH consumption index	66,904***			66,904***		
Constant	132,395***		-241.84	132,395***		-259.89**

*** p<0.01, ** p<0.05, * p<0.1

Tax effort and compliance

Determinants of HH tax compliance - 2 stage model (contd.)

Year	2010					
Model	(1) OLS	(2) Probit	(3) OLS	(4) OLS	(5) Probit	(6) OLS
	Total tax			Income tax		
Variables	1st stage: HH yearly income	2nd stage: Compliance	2nd stage: Amount	1st stage: HH yearly income	2nd stage: Compliance	2nd stage: Amount
Age of the HH head		0.000592***	1.405		0.00000345	0.954
Female HH head		-0.00631	-51.03		-0.00109	-79.07
Education level of the HH head		0.00194***	17.72		0.000219**	15.62
HH size		0.00267***	33.67		0.000484**	29.44
Number of formal workers in the HH		-0.00193	-4.58		0.000283	-10.83
HH daily income		-0.000011	-0.061		-0.00000131	-0.122
Predicted income values from 1st stage regression		9.40e-08***	0.0015***		2.19e-08***	0.0013**
HH owns land		0.0193	-291.68		0.000626	-360.27
HH bought a house recently		0.0297	-470.68			-434.18
HH owns/uses a computer		0.0608**	4,289.8**		0.0110*	-4,151.0*
Rural residence		-0.0418***	-442.45**		-0.00132	-405.62**
Urban residence		0.0936***	-588.22*		-0.000121	-597.44*
HH consumption index	66,027***			66,027***		
Constant	138,598***		13.81	138,598***		58.02

*** p<0.01, ** p<0.05, * p<0.1

Tax effort and compliance

❑ Columns 1 and 4 from the two tables before show that consumption is a very good proxy for HH income, and, provides a richer picture of a HH's underlying wealth

❑ From columns 2 and 5, it can be observed that HH head age, education level, HH size and urban residence are still strongly and positively correlated with both total and income tax compliance

➢ In 2010, however, income tax compliance does not correlate significantly with urban residence

Tax effort and compliance

❑ A curious result worth noting is that predicted income residuals from the first stage display opposite relationships with respect to total tax compliance in 2005 and 2010

  ➢ In 2005, the relationship is strongly negative, while in 2010 it is strongly positive. Qualitative evidence regarding increase in total taxpayers in Bangladesh during that time could help explain this phenomena, as most new taxpayers stemmed from upper-income groups

  ➢ This calls for a tax system that incentivises poorer (but eligible) HHs to declare their income

  ➢ Barriers to tax facilitation at the workplace affect lower income groups who are largely employed in the shadow economy

Tax effort and compliance

❑ Urban HHs were likely to pay higher levels of tax in 2005; curiously this relationship reversed in 2010

❑ Compared to the simple OLS results, it would appear that non-consumption measures attributable to urban dwellers might be playing a role here, but, given the scope of the data used, an exact relationship is difficult to elicit

❑ HHs that own a computer are likely to pay higher levels of total tax, as only relatively affluent households are able to afford home computers but it can also indicate the importance of (ICT) education

Part III:
Public perception on tax compliance

Public perception on tax compliance

❑ HIES data does not allow to explore the effects of networks, societal norms, scope of punishment and enforcement on individuals tax compliance behaviour

❑ To this end a nationwide perception survey was carried out

  ➢ Based on the LFS 2016-17, a multi-stage cluster sampling was done. The PSUs, which are primarily Mouzas/Mahallas were used for population proportionate sampling

  ➢ Since the target group for this survey was tax eligible individuals (annual income being at least Tk. 2.5 lakhs), the eligible population in each PSU was estimated by using LFS data

  ➢ Location of PSUs was used as stratification variable such that the distribution of the clusters is the following - rural (27%), urban (31%) and city corporation (42%). This distribution was estimated from the eligible taxable population. Therefore, 16 PSUs from rural locality, 19 from urban and 25 from city corporation were selected. These PSUs are located in from 21 districts

 ➢ Based on the above considerations, the sample size was determined to be 1200

Public perception on tax compliance

❑ Because of using LFS as the sampling frame, the weight factors estimated for each PSU in the LFS is also applicable for this survey

❑ For sampling individual respondents, a random walk method was followed since each cluster has very small geographical boundary

➢ Before starting the full interview, the respondents were screened based on their last year's annual income

➢ The interviews were conducted both at the houses and at the work places depending on the nature of clusters
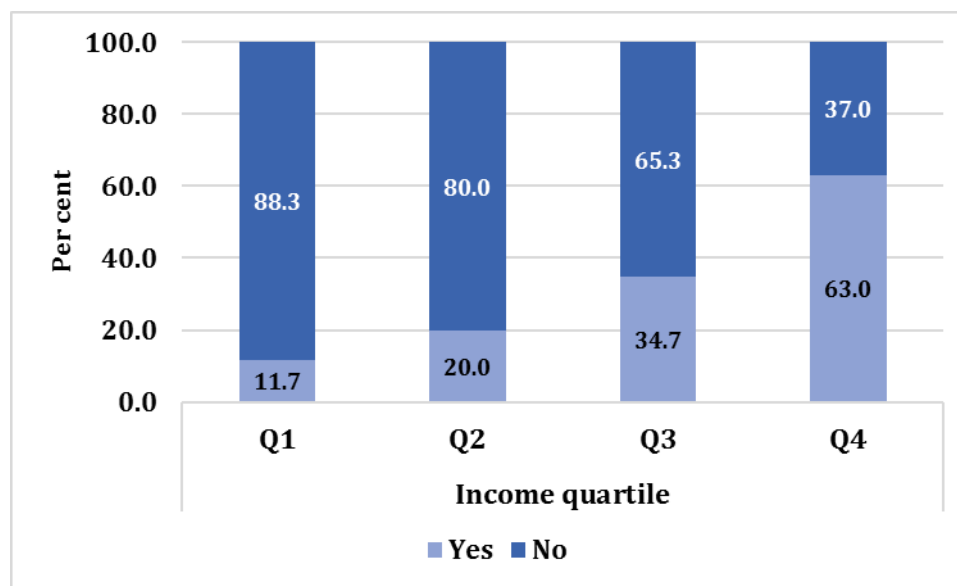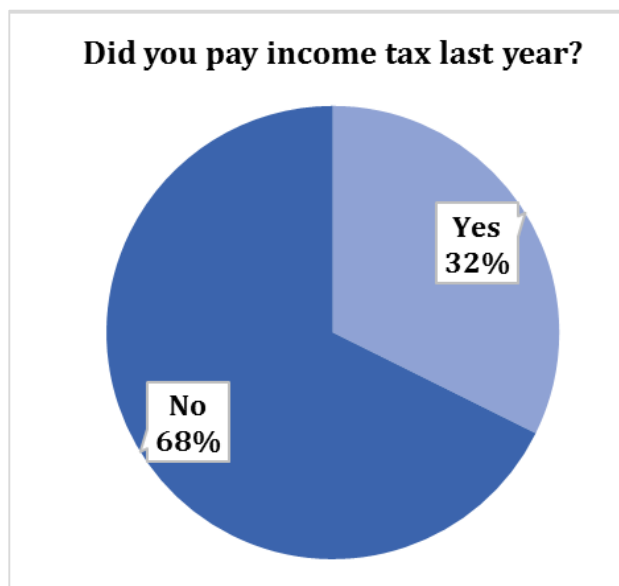
Public perception on tax compliance

❑ The perception survey focused on the following 10 aspects of tax compliance on the basis of literature review
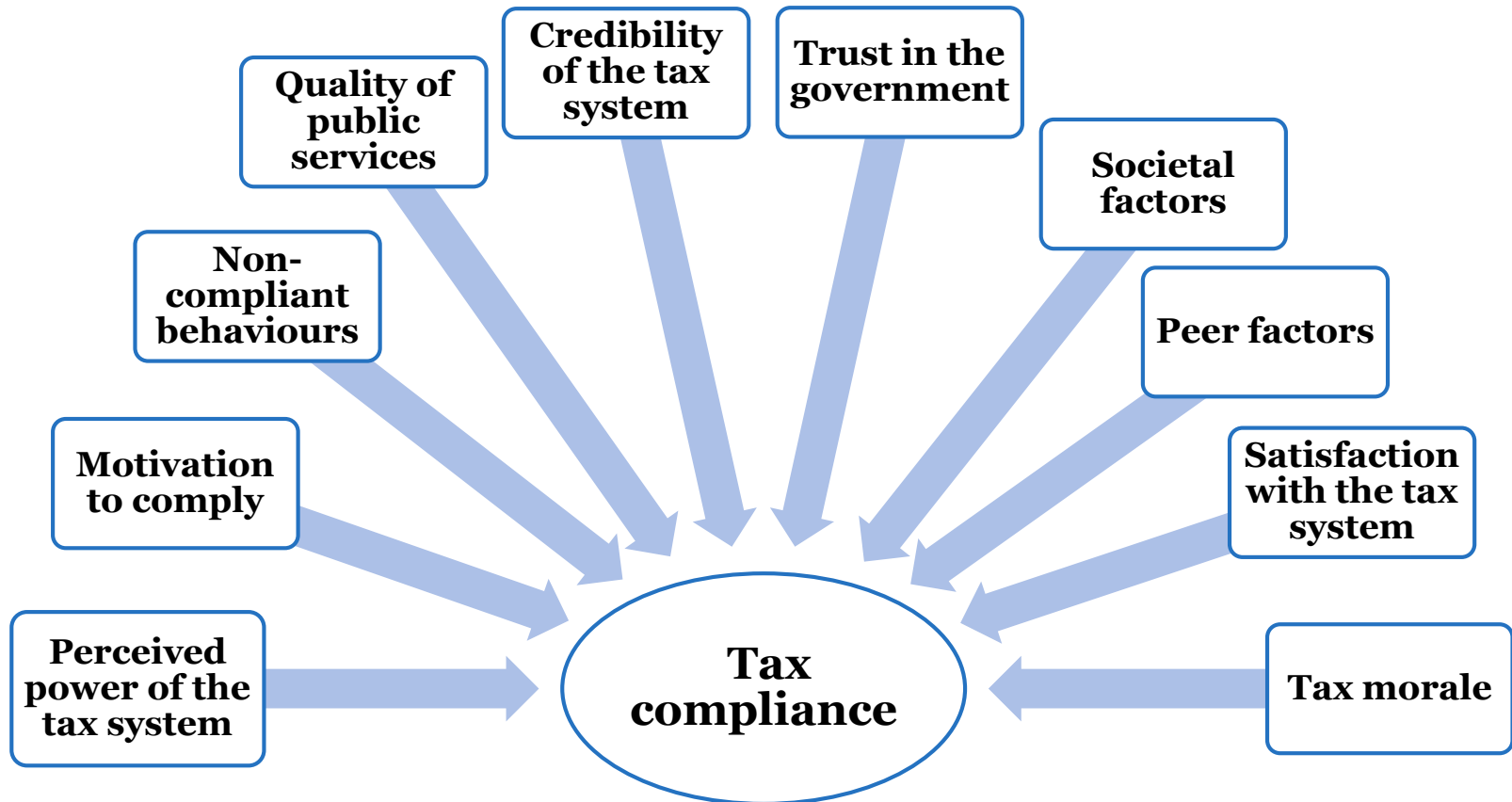
Public perception on tax compliance

❑ 32% of the respondents claim to have paid income tax in the previous year

  ➢ Only 29% of the respondents submitted their income tax returns

❑ Income quartile-wise distribution reveals that tax compliance rises with the increase in income

  ➢ Still, more than one-third of the top earners did not pay tax!

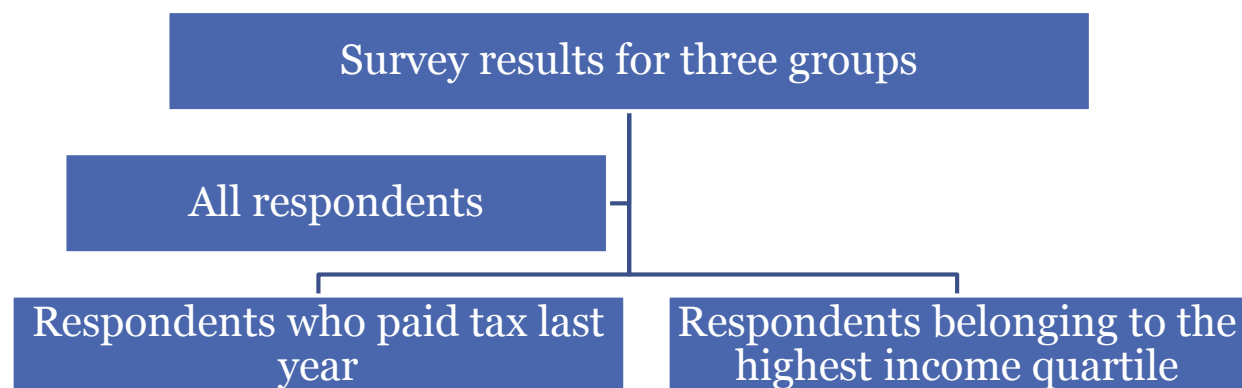 ➢ However, this does not mean no tax is evaded!

Did you pay income tax last year?

Yes 32%
No 68%

Public perception on tax compliance

❑ Based on the aforesaid aspects of tax compliance, the following questions were asked

❑ The responses to these questions were in Likert Scale form which is shown in the following table:

Question	Likert Scale					
	0	1	2	3	4	5
Do you believe that the tax revenue is collected for social welfare?	No response/comments	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
For me, paying taxes is an obvious thing to do.	No response/comments	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
What is the probability that the NBR finds out that income is not declared or deductions are exaggerated?	Don't know	Very low	Low	Moderate	High	Very high
The taxation system is favourable towards the rich/elite section of the society.	No response/comments	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
The tax system in our country is overly complex.	No response/comments	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
People will be more motivated to pay taxes if the services provided by the government and their quality are increased.	No response/comments	Strongly disagree	Disagree	Neutral	Agree	Strongly agree

Public perception on tax compliance

Question	Likert Scale					
	0	**1**	**2**	**3**	**4**	**5**
There is corruption in the taxation system.	No response/ comments	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
How common is it to pay for goods or services without a bill or invoice in order to avoid VAT?	Don't know	Extremely likely	likely	Average	Unlikely	Extremely unlikely
Think about three adults you know best, like your close friend or family members. What would they think if they learnt that you did not declare all of your income to the authority?	Don't know	Absolutely right	Right	Indifferent	Wrong	Absolutely wrong
Tax paying system is very easily accessible in my area.	No response/ comments	Strongly disagree	Disagree	Neutral	Agree	Strongly agree

Survey results for three groups

All respondents

Respondents who paid tax last year

Respondents belonging to the highest income quartile

Public perception on tax compliance

All respondents

Question	Share of respondents						Comment(s)
	0	1	2	3	4	5	
Do you believe that the tax revenue is collected for social welfare?	1.4	0.3	1.1	3.8	74.3	19.2	93% respondents believe that social welfare is the target to be achieved through tax collection ➢ Exhibits signs of strong tax morale amongst the respondents
For me, paying taxes is an obvious thing to do.	0.3	0.4	0.8	3.4	59.3	35.9	95% of the respondents consider paying taxes as an obvious duty ➢ This implies that motivation to comply is high
What is the probability that the NBR finds out that income is not declared or deductions are exaggerated?	5.0	13.6	26.8	15.2	31.9	7.5	People's perception regarding the ability of the tax enforcement appear to be polarised ➢ 39% consider high or above and 41% consider low or below
The taxation system is favourable towards the rich/elite of the society.	5.7	2.1	5.7	11.4	56.2	19.0	75% of the respondents feel that the tax system inherently favours the elite
The tax system in our country is overly complex.	11.0	2.2	22.1	16.3	40.8	7.7	About half of the respondents consider the tax system to be overly complex

Public perception on tax compliance

All respondents (contd.)

Question	Share of respondents						Comment (s)
	0	1	2	3	4	5	
People will be more motivated to pay taxes if the services provided by the government and their quality are increased.	1.5	1.0	6.2	6.9	59.8	24.7	85% believe that increased provision and quality of public services will induce people to pay taxes
There is corruption in the taxation system.	11.4	1.9	7.3	14.3	49.7	15.4	65% believe that corruption is prevalent in the taxation system
How common is it to pay for goods or services without a bill or invoice in order to avoid VAT?	7.3	25.3	52.7	12.4	2.3	0.2	78% of the respondents find incidences relating to VAT avoidance occurring regularly
Think about three adults you know best, like your close friend or family members. What would they think if they learnt that you did not declare all of your income to the authority?	5.6	0.2	1.3	13.8	70.4	8.8	79% of the respondents believe that their peers will not encourage non-compliant behaviour
Tax paying system is very easily accessible in my area.	20.8	3.0	20.7	17.2	36.8	1.6	Only 38% believe tax paying system is easily available

Public perception on tax compliance

Respondents belonging to the highest income quartile

Question	Share of respondents						Comment(s)
	0	1	2	3	4	5	
Do you believe that the tax revenue is collected for social welfare?	0.3	1.0	0.7	2.0	71.3	24.7	Similar to "All Respondents" (More towards higher scale)
For me, paying taxes is an obvious thing to do.	0.0	0.7	0.7	5.3	45.0	48.3	Similar to "All Respondents" (Less towards higher scale)
What is the probability that the NBR finds out that income is not declared or deductions are exaggerated?	2.3	14.3	24.7	16.0	31.7	11.0	Similar to "All Respondents" 43% consider high or above and 39% consider low or below
The taxation system is favourable towards the rich/elite of the society.	3.3	3.7	6.0	9.7	51.0	26.3	Similar to "All Respondents" (More towards higher scale)
The tax system in our country is overly complex.	8.3	3.7	20.7	11.0	43.7	12.7	Similar to "All Respondents" (More towards higher scale)

Public perception on tax compliance

Respondents belonging to the highest income quartile (contd.)

Question	Share of respondents						Comment (s)
	0	1	2	3	4	5	
People will be more motivated to pay taxes if the services provided by the government and their quality are increased.	0.7	1.7	7.7	7.7	51.7	30.7	Similar to "All Respondents" (Less towards higher scale)
There is corruption in the taxation system.	9.3	1.0	8.3	12.7	45.0	23.7	More among richer group (69%) think there is corruption compared to "All Respondents" group (65%)
How common is it to pay for goods or services without a bill or invoice in order to avoid VAT?	3.0	28.7	48.3	17.0	2.7	0.3	Similar to "All Respondents" (Less towards lower scale)
Think about three adults you know best, like your close friend or family members. What would they think if they learnt that you did not declare all of your income to the authority?	1.3	0.3	0.7	13.3	70.7	13.7	More among richer group (84%) believe that their peers will not encourage non-compliant behavior compared to "All Respondents" group (79%)
Tax paying system is very easily accessible in my area.	15.0	4.7	22.0	14.0	42.3	2.0	More among richer group (44%) believe tax paying system is easily available compared to "All Respondents" group (38%)

Public perception on tax compliance

Respondents who paid tax last year

Question	Share of respondents						Comment(s)
	0	**1**	**2**	**3**	**4**	**5**	
Do you believe that the tax revenue is collected for social welfare?	0.0	0.5	0.8	3.4	69.9	25.5	Similar to "All Respondents" (More towards higher scale)
For me, paying taxes is an obvious thing to do.	0.0	0.3	0.8	4.4	48.2	46.4	Similar to "All Respondents" (Less towards higher scale)
What is the probability that the NBR finds out that income is not declared or deductions are exaggerated?	2.3	10.6	27.1	17.0	33.0	10.1	Similar to "All Respondents" 43% consider high or above and 38% consider low or below
The taxation system is favourable towards the rich/elite of the society.	2.6	3.4	8.8	11.9	55.2	18.3	Similar to "All Respondents" (Less towards higher scale)
The tax system in our country is overly complex.	1.0	4.4	28.6	11.9	42.5	11.6	Dissatisfaction regarding the complexity appear to be higher amongst people who paid tax last year ➢ 54% amongst who paid last year ➢ 46% amongst who did not

Public perception on tax compliance

Respondents who paid tax last year (contd.)

Question	Share of respondents						Comment (s)
	0	1	2	3	4	5	
People will be more motivated to pay taxes if the services provided by the government and their quality are increased.	0.5	1.3	5.9	7.7	54.1	30.4	Similar to "All Respondents" (Less towards higher scale)
There is corruption in the taxation system.	9.8	2.6	12.1	17.3	41.8	16.5	Less among tax payers (58%) think there is corruption compared to "All Respondents" group (65%)
How common is it to pay for goods or services without a bill or invoice in order to avoid VAT?	3.1	27.6	50.3	16.2	2.6	0.3	Similar to "All Respondents"
Think about three adults you know best, like your close friend or family members. What would they think if they learnt that you did not declare all of your income to the authority?	0.5	0.0	1.3	13.1	71.4	13.7	More among tax payers(85%) believe that their peers will not encourage non-compliant behavior compared to "All Respondents" group (79%)
Tax paying system is very easily accessible in my area.	3.1	5.4	25.3	13.4	49.5	3.4	More among tax payers (44%) believe tax paying system is easily available compared to "All Respondents" group (38%)

Public perception on tax compliance

❑ However, there is considerable divergence regarding ease of access based on locality

  ➢ Dissatisfaction is higher amongst rural respondents

Ease of access	Share of respondents			
	Rural	Urban	City Corporation	Total
No response/comments	26.9	10.8	24.6	20.8
Strongly disagree	3.4	2.9	2.8	3.0
Disagree	23.4	20.5	19.0	20.7
Neutral	16.9	22.4	13.4	17.2
Agree	28.8	39.2	40.0	36.8
Strongly agree	0.6	4.2	0.2	1.6
Total	100.0	100.0	100.0	100.0

Part IV:
Recommendations

Recommendations

- More educated and 'being employed in formal sector' people are likely to pay tax

  - ✓ Improve scope for employment in formal sector to bring a greater share of the work force under the income tax net

  - ✓ Encourage self-assessment by simplifying return submission for lower-income group

  - ✓ Provide incentives to lower-income households to become tax payers (e.g. prioritised public services such as education of children, health care in public hospitals)

- People living in rural areas find tax services less accessible

  - ✓ Enhance geographical access to tax offices that provide information about the tax code and provide assistance for tax declaration – currently tax offices are located mostly in Dhaka and large cities

  - ✓ Use information technology

Recommendations

- People's perception towards tax policy formulation needs to change to positive

  - ✓ Tax policies must be finalised and implemented through participatory and transparent manner

  - ✓ Ex-ante impact analysis needs to be carried out in undertaking major reforms

  - ✓ Finalise and implement planned reform measures including the proposed Direct Tax Act – ease of tax payment and return submission needs to be taken into cognisance

  - ✓ A more equitable tax system needs to be developed - consider introduction of more equitable and modern property and wealth tax

  - ✓ Ensure that tax laws will be enforced in a strict manner, particularly for richer groups

- Tax office needs to be more professional

  - ✓ There is a need to build tax office as a corruption-free institution

Recommendations

- Efficient use of public money and providing better public services encourage people to pay taxes

  - ✓ Invest more on public services including education, health, infrastructure and social protection

  - ✓ Establish Public Expenditure Review Commission

- Awareness among the tax payers is key

  - ✓ Tax payers also need to be responsible

  - ✓ In the medium term, greater education of individuals about the importance of systemic tax compliance for the economy, through school initiatives coupled with governmental support, would potentially improve tax compliance level

- Data on tax needs to improve

  - ✓ Make more disaggregated and quality data available in a timely manner

  - ✓ Ensure accessibility of data for analysis without undermining privacy

  - ✓ Integrate with other data sources

Thank You

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