

# **Study on**

## **Corporate Tax Transparency Issues and Concerns in Bangladesh**

### **Its Implications on Tax Losses and Social Spending**

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# **1. Introduction and Objectives**

# 1. Introduction and Objectives

## 1.1 Introduction

- Corporate taxation has been a **complex issue** in businesses, and transparency has been a matter of **scrutiny by the regulators** and policymakers associated with tax affairs
- Tax transparency is related to **tax evasion and tax avoidance**
  - Tax avoidance is a method of **lower the tax bills** using the loopholes in the existing tax structure
  - Tax evasion is associated with **concealing income** or relevant information from the tax authorities
  - Tax avoidance is **legal** but tax evasion is **illegal**
- Tax transparency issues are related to the **stakeholders' information needs** and expectations that generally **do not match** with the approach of the **companies**.
- Tax avoidance and evasion have notable implications for government **expenditure on social desirable sectors**
  - Tax evasion broadens the **circle of poverty** and erodes the economy of developing countries (Oxfam International, 2013)
- Tax transparency would ultimately contribute to **minimizing fiscal deficit** and ensuring sustainable growth of the country

# 1. Introduction and Objectives

## 1.2 Objectives

### General Objective

- To **identify corporate tax transparency** issues and to **handle tax avoidance** and evasion challenges

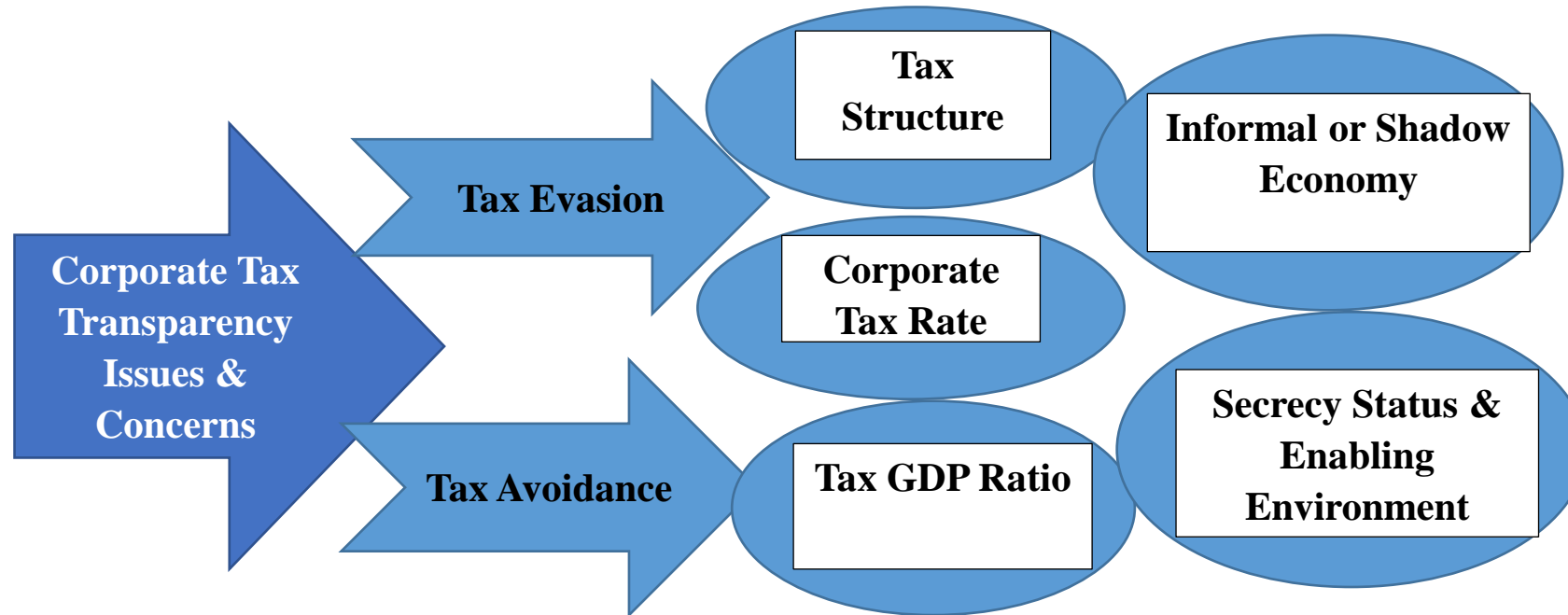
### Specific Objectives

- To **examine the corporate tax structure** of Bangladesh and sketch a **comparative assessment** with the selected developing countries;
- To **analyze the tax transparency** issues and concerns to **identify possible channels** of tax avoidance and tax evasion in the context of Bangladesh;
- To attempt **estimating losses** incurred due to tax evasion and tax avoidance;
- To point out **measures for improving** corporate tax transparency ultimately for improved tax governance in the context of Bangladesh.

# 1. Introduction and Objectives

## 1.3 Methodology

Figure 1. Method Followed



- The study is based on both primary and secondary data
- The concerns and issues of tax transparency were at the center of data collection and analyses for the study (Figure-1)

# 1. Introduction and Objectives

## 1.3 Methodology

DESK STUDY	SAMPLE STUDY	KEY INFORMANT INTERVIEW
<ul style="list-style-type: none"><li>• A comprehensive <b>literature review</b> has been carried out<ul style="list-style-type: none"><li>• To examine the existing corporate tax structure</li><li>• Its issues and concerns related to tax avoidance and tax evasion</li></ul></li><li>• Data analysis has been done</li></ul>	<ul style="list-style-type: none"><li>• <b>Attempt</b> have been taken<ul style="list-style-type: none"><li>• To review the <b>financial analysis</b> of 60 selected listed companies covering<ul style="list-style-type: none"><li>• RMG</li><li>• Pharmaceuticals</li><li>• Cement</li><li>• Banking</li></ul></li></ul></li><li>• <b>To conduct survey</b><ul style="list-style-type: none"><li>• Survey team do not find any visible sample of tax evasion or avoidance</li><li>• Survey team did not get any response from the management</li></ul></li></ul>	<ul style="list-style-type: none"><li>• <b>Twelve KIIs</b> have been conducted<ul style="list-style-type: none"><li>• Ten with <b>professional chartered accountants</b></li><li>• Two with former top-level officials of the <b>National Board of Revenue</b><ul style="list-style-type: none"><li>• To draw their <b>opinions</b> on corporate tax structure, transparency, tax avoidance.</li></ul></li></ul></li><li>• The KIIs became <b>crucial primary information</b> to draw inferences for the study</li></ul>

## **2. Tax Transparency Issues and Concerns in the Context of Developing Countries**



## 2. Tax Transparency Issues and Concerns in the Context of Developing Countries

### 2.1 Tax avoidance and Evasion in Global Economics

- According to Tax Justice Network (2022), data on **tax evasion is illusive** - actual amount of tax evasion is **much higher** than the published amount
  - Countries are losing **USD483 billion** due to different types of tax abuse
    - **USD312 billion** of this due to **cross border corporate tax** abuse by MNCs
    - **USD171 billion** is due to cross-border tax abuse by **wealthy individuals**
  - Global tax abuse countries **hit lower income countries** more severely
    - Lower income countries lose nearly **48%** of their public **health budget**
- The **large** informal sector, **weak** economic base, and **incompetent** tax collection and administration contribute to having a historically lower percentage of tax to GDP in most **emerging market economies** (World Bank, 2019)
- A study found that, higher fiscal and monetary **freedom** would lower the level of tax **evasion**
  - A higher tax rate and higher level of inflation **discourages** people to pay taxes

## 2. Tax Transparency Issues and Concerns in the Context of Developing Countries

### 2.2 Tax Structure in the Global Economies /Developing Economies

- **Fairness** is a key issue in designing tax regime in a country (Kagan, 2021).
  - Corporate taxes have been one of the major sources of tax revenues in both developed and developing economies. Other key components are personal income tax and sales tax.
  - The worldwide average **statutory corporate tax rate** has consistently **decreased** since 1980
- Tax rate **varies** significantly within South Asian countries
- Poor tax-GDP ratio is an indication of **poor tax collection**
  - And **greater tax avoidance** and evasion tendencies in the country
- The range of tax-GDP ratio in South Asian countries is between 7.6% and 21%

**Table 2.1: Corporate Tax Rates, Other Tax Rates and Tax-GDP Ratio of the South Asian Countries**

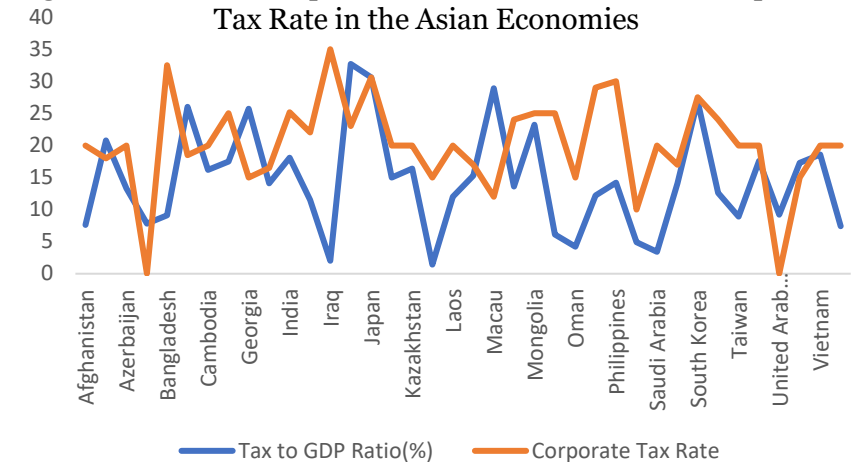
South Asian Countries	Tax to GDP Ratio (%)	Corporate Tax Rate	Personal Income Tax	Sales Tax
<b>Bangladesh</b>	<b>9.1</b>	<b>32.5</b>	<b>25</b>	<b>15</b>
<b>Bhutan</b>	13.6	25	0	50
<b>India</b>	<b>18.1</b>	<b>25</b>	<b>42</b>	<b>18</b>
<b>Nepal</b>	<b>20.3</b>	<b>25</b>	<b>20</b>	<b>15</b>
<b>Pakistan</b>	12.2	29	35	17
<b>Sri Lanka</b>	12.6	24	24	8
<b>Afghanistan</b>	<b>7.6</b>	<b>20</b>	<b>20</b>	<b>10</b>
<b>Maldives</b>	20.5	15	0	6
<b>Source: Tax Foundation 2021</b>				

# 2. Tax Transparency Issues and Concerns in the Context of Developing Countries

## 2.2 Tax Structure in the Global Economies /Developing Economies

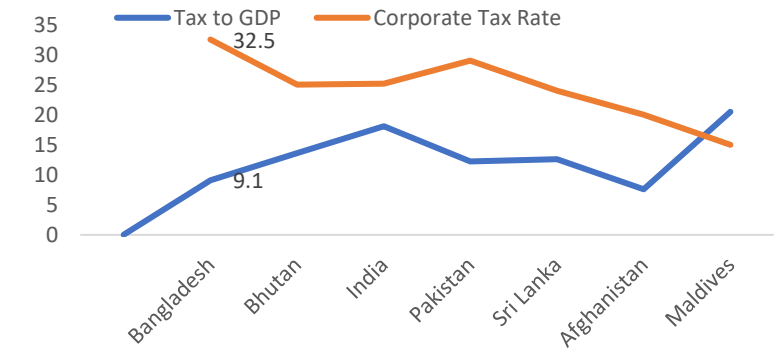
- Figure 2.1 shows the **cross country data** on the associations between ‘Tax-GDP Ratio and Corporate Tax
- This **does not reflect** any visible relationship between tax-GDP ratio and corporate tax rate in the Asian Countries
- It should be **true for all** the other regions of the globe including South Asia (Figure 2.2)
- **Difference between** tax-GDP ratio and corporate tax rate is the highest in **Bangladesh** as compared to South Asian peers (Fig. 2.2)
- It is quite evident that **high corporate tax rate** is not the factor
  - At least not a significant factor to **pull tax-GDP ratio**

Figure 2.1: Relationship between Tax-GDP Ratio and Corporate Tax Rate in the Asian Economies



Source: Based on Tax Foundation Data

Figure 2.2: Relationship between Tax-GDP Ratio and Corporate Tax Rate in the South Asian Economies



Source: Based on tax Foundation Data, 2021

## 2. Tax Transparency Issues and Concerns in the Context of Developing Countries

### 2.3 Informal economy, Shadow Economy and Tax Avoidance/Evasion

- Size of **informal and shadow** economy and tax revenues in any jurisdiction are connected
  - An informal economy (or shadow economy) is part of any economy that is **neither taxed nor monitored** by any form of government
- High informal economy is **expected to be associated** with lower tax collection and thus lower tax-GDP ratio
- The cross-country data **do not reflect** that kind of connectivity
- For example, though the **Brazil** is having very high informal economy of over 33% still its Tax-GDP ratio was reasonably high with 33.4%
  - Though **China's** size of informal economy was only 12.7%, its Tax-GDP ratio was much lower (17.5%)
- It means **other factors are crucial determinants** of the Tax-GDP ratio of an economy

Table 2.2: Informal Economy, Tax/GDP Ratio, and Corporate tax rates of the Selected Developing Economies

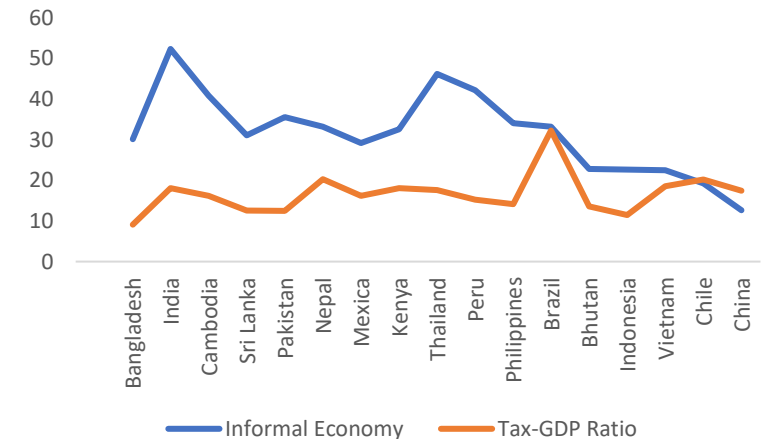
Country	Informal Economy	GDP PPP [Billion USD 2021] [Global Rank]	Tax/GDP Ratio	Corporate Tax Rate
<b>Bangladesh</b>	30.2%	350[85]	9.1%	32.5%
India	52.4%	8132 [7]	18.1%	25%
Cambodia	40.9%	51 [26]	16.2%	20%
Sri Lanka	31.1%	131[80]	12.6%	24%
Pakistan	35.6%	542 [47]	12.5%	29%
Nepal	33.2%	62 [63]	20.3%	25%
Mexico	29.2%	949 [91]	16.2%	30%
Kenya	32.6%	132 [68]	18.1%	30%
Thailand	46.2%	828 [17]	17.6%	20%
Peru	42.2%	270[24]	15.3%	29%
Philippines	34.1%	435 [57]	14.2%	30%
<b>Brazil</b>	33.2%	1384 [63]	32.3%	34%
Bhutan	22.8%	3 [112]	13.6%	25%
Indonesia	22.7%	1026[114]	11.5%	22%
Vietnam	22.5%	230 [121]	18.6%	20%
Chile	19.3%	115[127]	20.2	27%
<b>China</b>	12.7%	3847 [143]	17.5%	25%
Source:	www.worldeconomics.com			[2022];
	https://files.taxfoundation.org[2021]			12

## 2. Tax Transparency Issues and Concerns in the Context of Developing Countries

### 2.3 Informal economy, Shadow Economy and Tax Avoidance/Evasion

- The higher the tax rate, the higher the **disincentive against tax compliance** and greater the propensity to generate black money.
- Thus, **reducing tax rates**, particularly the maximum marginal rates of progressive taxes, can increase tax revenue in two ways:
  - By increasing **tax base**
  - By increasing **compliance** with the tax rules (Haider, 2022)
- **Reporting on tax** increases transparency and promotes trust and credibility in the tax practices
- Mandatory **sustainability reporting** practices is a positive force in the context
  - In Asia, Malaysia, Philippines and India **have initiatives** on mandatory sustainability reporting/disclosure requirements for the public limited companies
  - **GRI** (Global Reporting Initiative) facilitates the reporting on tax through inclusion in the sustainability report

Figure 2.3: Relationship between Informal Economy and Tax-GDP Ratio



Source: Based on Tax Foundation Data, 2021

### **3. Tax Structure of Bangladesh and the Size of the Informal Economy**

## 3. Tax structure of Bangladesh and the Size of the Informal Economy

### 3.1 Tax Structure of Bangladesh with Special Reference to Corporate Tax

- The corporate tax rate in Bangladesh is **higher** than Global, Asia and South-Asia average
  - Sales and corporate tax rate are at relatively **lower** brackets
- Currently the **burden** of tax lies on a **limited number of** persons/companies with higher marginal tax rates
- The **existing tax policy** allows extensive level of tax **exemptions**, incentives and special provisions
  - These limit tax revenue and making effective tax base narrower
- Generally, it is argued that **widespread exemption** encourages tax evasion, erodes tax equity and creates distortions in the economy.
- Various other **tax breaks** legally keep many more people off the tax rolls.

Table 5.1: Comparative Average Corporate Tax vis-a-vis Other Tax Rates

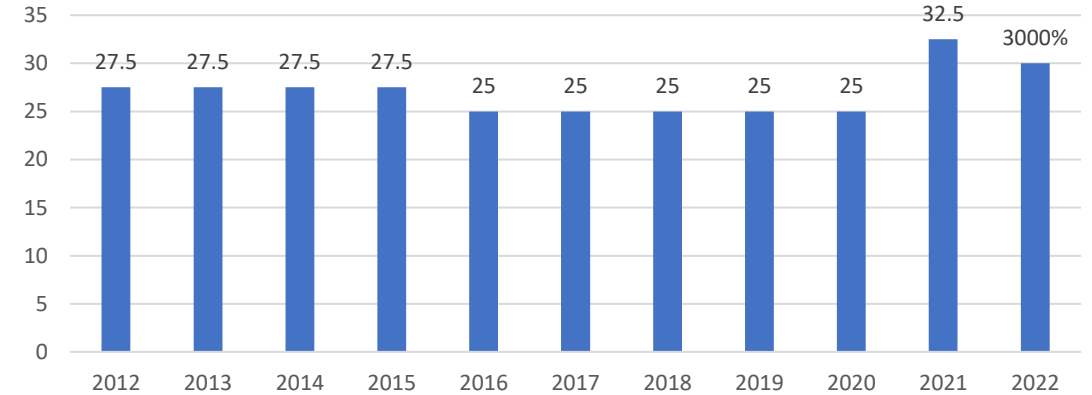
	<b>Global Average</b>	Asia Average	South Asia Average	Bangladesh Average
Personal Income Tax	30.7	19.2	23	25
Sales Tax	15.8	12.3	17.6	15
Corporate Tax	23.6	19.5	25.7	30
Note: based on <a href="https://tradingeconomics.com/country-list/personal-income-tax-rate">https://tradingeconomics.com/country-list/personal-income-tax-rate</a>				

# 3. Tax structure of Bangladesh and the Size of the Informal Economy

## 3.1 Tax Structure of Bangladesh with Special Reference to Corporate Tax

- In terms of Corporate Tax Rate, the country's position is **18<sup>th</sup>**
  - In terms of personal income tax and sales tax Bangladesh is **amongst the bottom**
- Between 2012 and 2022, corporate tax rate of the country did not show **any consistent trend** (Figure 3.1).
- In contrast to the most other economies, over the years the **rate did not decrease** rather increase (Figure 3.2).
- The 8<sup>th</sup> FYP has set the target of raising the tax-GDP ratio to 14.2% by 2025
  - Considering our socio-economic culture, the **present tax structure** is not suitable to attract enough people to pay taxes
  - As such the tax rate needs to be brought down to a level where everybody with taxable income **feels comfortable** paying income tax
  - The tax net would then be **wider**

Figure 3.1: Changing Corporate Tax Rate in Bangladesh [in %]



Source: based on data from: <https://tradingeconomics.com/bangladesh/corporate-tax-rate>

Figure 3.2: A Comparative Picture of the Change in the Corporate Tax Rates



Source: Based on data from: <https://worldpopulationreview.com/countryrankings/highest-taxed-countries>

<https://worldpopulationreview.com/countryrankings/highest-taxed-countries>



# 3. Tax structure of Bangladesh and the Size of the Informal Economy

## 3.1 Tax Structure of Bangladesh with Special Reference to Corporate Tax

**Table 5.2: Corporate Tax Rate for FY2022-2023**

Description	2021-2022	2022-2023	In case of failure to comply with the condition
Company producing all sorts of tobacco items including cigarette, bidi, chewing tobacco and gul	45% + 2.5% (surcharge)	45% + 2.5% (surcharge)	Condition not applicable
Private university, private medical college, private dental college, private engineering college or private college solely dedicated to imparting education on ICT	15.0%	15.0%	Condition not applicable
Publicly traded company that transfers more than 10% of its paid up capital through Initial Public Offering (IPO)	22.5%	20.0%	22.5%
Publicly traded company that transfers ten percent or less than ten percent of its paid up capital through IPO	22.5%	22.5%	25%
One Person Company	25.0%	22.5%	25%
Non-publicly traded company	30.0%	27.5%	30%
Association of persons	30.0%	27.5%	30%
Artificial juridical person and other taxable entity	30.0%	27.5%	30%
Publicly traded bank, insurance and financial institution (except merchant bank)	37.5%	37.5%	Condition not applicable
Merchant bank	37.5%	37.5%	Condition not applicable
Non-publicly traded bank, insurance and financial institution	40.0%	40.0%	Condition not applicable
Publicly traded mobile operator company	40.0%	40.0%	Condition not applicable
Non-publicly traded mobile operator company	45.0%	45.0%	Condition not applicable
Listed Mobile Companies	40%		
Non-listed Mobile Companies, Cigarette and other Tobacco Manufacturing Companies	45%		
Export-Oriented RMG and Export Oriented Industries	12% and 10% for green industries		
All the other Companies( Including private limited companies and branches of foreign companies)	30%(reduced from 32.5% in 2021)		

Source: based on data from: <https://juralacuity.com/tax-update-2021-2022-bangladesh/>

- There are sectoral variations in the corporate tax rates
- **Excessive reliance of corporate tax** by Bangladesh and some other developing countries are apparent

# 3. Tax structure of Bangladesh and the Size of the Informal Economy

## 3.2 Tax Collection, Evasion/Avoidance in Bangladesh and Tax-GDP Ratio

- The number of taxpayers in Bangladesh was only **2.5 million (FY22)**.
  - In a country of more than **165 million** people, this number is astonishingly low.
  - There are **2.5 lakh registered** companies of Bangladesh and only **30,000 companies** show income tax return.
  - According to a CPD Survey, **68% Bangladeshis** pay no income tax
- According to NBR, out of **213,505 companies** registered under RJSC, **only 45,000** submitted tax returns.
  - This implies that **CIT compliance rate is 21%**, i.e. only **1 in 5** registered businesses pay tax.
- **Eight types** of industrial companies, including - Jute, Textile, Knitwear, Poultry, Private Educational Institute, etc., are **enjoying waived tax rates**
  - Ranging between **3% to 15%** based on various criteria

Table 3.5: Corporate Tax rate & Tax-GDP Ratio of Bangladesh

Year	Corporate Tax Rate(%)	Tax to GDP Ratio
2012	27.5	9.6
2013	27.5	9.6
2014	27.5	9.5
2015	27.5	9.6
2016	25	7.9
2017	25	8.1
2018	25	8.1
2019	25	7.8
2020	25	6.9
2021	32.5	7.9
2022	30%	8.2

Source: Trading Economics

### 3. Tax structure of Bangladesh and the Size of the Informal Economy

#### 3.2 Tax Collection, Evasion/Avoidance in Bangladesh and Tax-GDP Ratio

- **Size of the informal economy** is one of the key reasons of tax losses by an economy
- According to the estimated World Economics
  - The size of the informal economy is **decreasing marginally** over time
  - It has decreased from **36%** in 2002 to **30.2%** in 2021 (table 3.2)
- Over ten years (2010-2011), the **volume of tax loss** due to shadow economy **increased** by four times
  - From **BDT 22,200 crore** in 2010 to **BDT 84,200 crore** in 2021

Figure 3.3: Growing Tax Loss due the Shadow Economy [in billion BDT]

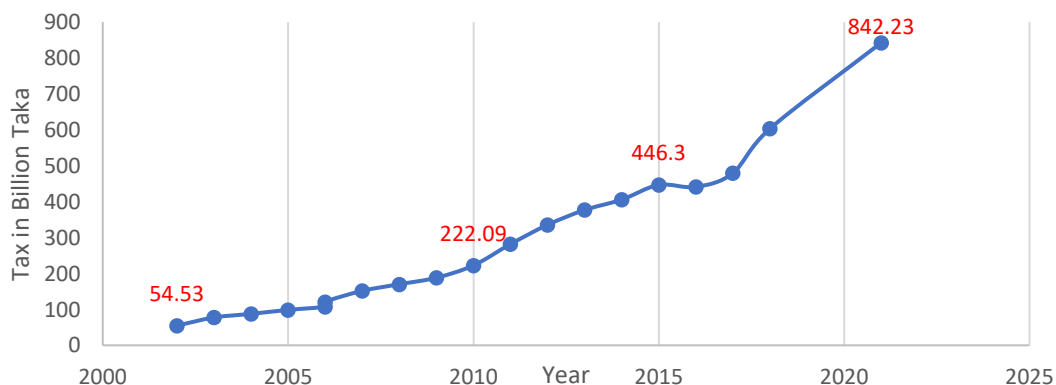


Table 3.6: Size of Informal Economy and the Associated Tax Loss in Bangladesh

Year	Size of the Economy (GDP) (in billion BDT)	Informal Economy as a % of official GDP	Tax to GDP Ratio	Size of the Informal Economy (in billion BDT)	Tax Loss (in billion BDT)
2002	2252.51	36.18	6.70	814.98	54.53
2003	3005.80	36.86	6.97	1108.05	77.18
2004	3329.73	37.21	7.05	1239.12	87.31
2005	3707.07	37.19	7.14	1378.49	98.36
2006	4157.28	36.70	7.04	1525.74	107.46
2006	4823.4	36.21	6.92	1746.68	120.82
2007	5498.0	35.93	7.66	1975.56	151.25
2008	6286.8	36.02	7.50	2264.63	169.80
2009	7050.7	35.54	7.50	2506.04	187.91
2010	7975.4	35.54	7.83	2834.71	222.09
2011	9158.3	35.39	8.69	3241.28	281.54
2012	10552.0	35.20	9.02	3714.07	335.18
2013	11989.2	35.04	8.96	4201.52	376.56
2014	13436.7	34.93	8.64	4693.43	405.30
2015	15158.0	34.65	8.50	5251.63	446.30
2016	17328.6	34.77	7.32	6025.03	440.85
2017	19758.2	34.66	7.00	6847.84	479.15
2018	22504.8	34.65	7.73	7798.81	602.99
2021	35301.85	30.20	7.90	10661.16	842.23

Source: World Economics (<https://www.worlddeconomics.com>) and 'Bangladesh National Accounts Statistics' Data.

### 3. Tax structure of Bangladesh and the Size of the Informal Economy

#### 3.2 Tax Collection, Evasion/Avoidance in Bangladesh and Tax-GDP Ratio

- Certain benchmark rates might be helpful to understand the **gap in the tax revenue** that should be targeted by an economy to attain its **growth and development** targets.
- According to a study conducted by the IMF, countries should have a tax-to-GDP ratio of at least **12%** in order to experience accelerated economic growth
- According to the World Bank (2021), tax revenues above **15% of GDP** are a key ingredient for economic growth
- Bangladesh’s current Tax-GDP ratio (**7.9%**) is far behind from that of an ideal benchmark of 15%.
  - Bangladesh needs to collect additional tax revenue of **BDT 1450 billion** to reach to 12% of tax-GDP ratio and additional **BDT 2506 billion** to reach 15% tax-GDP ratio

Table 3.7: Calculation Tax Gap to reach to the Expected Tax-GDP Ratio of 15%

Year	GDP [billion BDT]	Tax Volume calculated based on Tax/GDP Ratio	Tax volume at 15% Tax-GDP Ratio	Gap in Tax Volume [Billion BDT]
2010	7975.4	624.85	1196.31	571.46
2011	9158.3	795.48	1373.74	578.36
2012	10552.0	952.27	1582.80	630.53
2013	11989.2	1074.52	1798.38	723.86
2014	13436.7	1160.31	2015.51	855.20
2015	15158.0	1288.18	2273.70	985.52
2016	17328.6	1267.92	2599.29	1331.37
2017	19758.2	1382.51	2963.73	1581.22
2018	22504.8	1740.02	3375.72	1635.70
<b>2021</b>	<b>35301.8</b>	<b>2788.85</b>	<b>5295.28</b>	<b>2506.95</b>

Source: Authors’ Calculation based on ‘Bangladesh National Accounts Statistics’ Data.

# **4. Financial Secrecy and Enabling Environment for Tax Evasion/Avoidance**

## 4. Financial Secrecy and Enabling Environment for Tax Evasion/Avoidance

- **Financial secrecy** facilitates tax abuse, enables **money laundering** and undermines the human rights of all.
  - The **secrecy index** identifies the world's biggest suppliers of financial secrecy
- Tax Justice Network (2022) published **secrecy score** (as part of Financial Secrecy Index)
  - Based on the analyses of the **rules on Corporate Tax Disclosure** (covering accessibility of tax ruling, disclosure and publication of industries contracts, and publishing of country reports etc.),
- Bangladesh has moved to two notches up to rank **52<sup>nd</sup> among 141 nations** in the financial Secrecy Index 2022
  - Meaning the country has become **more secretive** in helping individuals to hide their finances from the rule of law
- The score of Bangladesh is **reasonably good** as compared to developing and neighboring countries

## 4. Financial Secrecy and Enabling Environment for Tax Evasion/Avoidance

Table 4.1: Comparative Secrecy Score of Selected Developing Countries

Country	Secrecy Score
Vietnam	81/100
Sri Lanka	76/100
<b>Bangladesh</b>	<b>75/100</b>
Thailand	70/100
Philippines	67/100
Kenya	67/100
China	66/100
Pakistan	66/100
Malaysia	66/100
Chile	60/100
India	55/100
Mexico	53/100
Brazil	49/100
Argentina	49/100

Note: based on 20 indicators associated with **ownership registration, legal entity transparency, integrity of tax and financial regulation, and international cooperation and standard.**

Source: Tax Justice Network, 2022

Table 4.2: Secrecy Score on 'Corporate Tax Disclosure' and 'Tax Administration Capacity'

Country	Corporate Tax Disclosure	Tax Administration Capacity
<b>Bangladesh</b>	<b>75</b>	<b>63</b>
China	100	63
Chile	100	50
India	50	53
Kenya	100	75
Malaysia	100	75
Mexico	98	53
Pakistan	90	63
Philippines	80	63
Sri Lanka	100	63
Brazil	90	50
Argentina	95	25
Vietnam	100	63

Note: **Higher Score indicates greater scope** to hide income and thus avoid/evade taxation

Source: Based on Financial Secrecy Index Scores, 2022

## 4. Financial Secrecy and Enabling Environment for Tax Evasion/Avoidance

Table-4.3: Secrecy Score on 'Avoids Promoting Tax Evasion' and 'Anti-Money Laundering'

Country	Avoids Promoting Tax Evasion	Anti-Money Laundering
<b>Bangladesh</b>	<b>90</b>	<b>38</b>
<b>China</b>	90	45
<b>Chile</b>	80	38
<b>India</b>	70	47
<b>Kenya</b>	100	86
<b>Malaysia</b>	100	26
<b>Mexico</b>	0	42
<b>Pakistan</b>	70	46
<b>Philippines</b>	80	42
<b>Sri Lanka</b>	80	47
<b>Brazil</b>	0	52
<b>Argentina</b>	0	77
<b>Vietnam</b>	40	63

Note: Higher Score on 'Avoids Promoting Tax Evasion' indicates greater scope to hide income and thus avoid/evade taxation; Higher Score on Anti Money Laundering indicates greater scope of tax evasion through money laundering.

Source: Based on Financial Secrecy Index Scores, 2022

Table-4.4: Secrecy Score on 'Legal Entity Identifiers' and 'Tax Court Secrecy'

Country	Legal Entity Identifiers	Tax Court Secrecy
<b>Bangladesh</b>	<b>100</b>	<b>100</b>
<b>China</b>	100	100
<b>Chile</b>	100	50
<b>India</b>	50	100
<b>Kenya</b>	100	0
<b>Malaysia</b>	100	0
<b>Mexico</b>	50	100
<b>Pakistan</b>	100	100
<b>Philippines</b>	100	100
<b>Sri Lanka</b>	100	100
<b>Brazil</b>	100	0
<b>Argentina</b>	100	0
<b>Vietnam</b>	100	100

Note: Higher score indicates higher scope to hide taxable income.

Source: Based on Financial Secrecy Index Scores, 2022



## 4. Financial Secrecy and Enabling Environment for Tax Evasion/Avoidance

- Based on the score and ranks on the different secrecy indicators of the selected developing economies of the globe, Bangladesh’s positions, required steps, and performing country examples may be presented in tabular form (Table 4.6).
- Bangladesh **needs to improve** in the several fronts especially in the areas of ‘Avoids Promoting Tax Evasion’, ‘Using Legal Entity Identifier’, and ‘Tax Court Secrecy’ following the examples of Latin American countries (Argentina, Brazil, Mexico etc.).
- **Latin American** countries are also very good examples for improving the capacity of the tax administration.

Table 4.6: Performing Economy and Bangladesh’s Status in Terms of Secrecy Indicators

Relevant Areas	Performing Economy/ Economies	Performance & Required Action by Bangladesh
• <b>Anti-Money Laundering</b>	Malaysia, Chile, Bangladesh	Amongst the performing countries; should continue with the efforts
• <b>Corporate Tax Disclosure</b>	India	Amongst the moderately performing countries; need additional efforts
• <b>Capacity of Tax Administration</b>	Argentina, Brazil, Chile	Amongst the moderately performing countries; need additional efforts
• <b>Avoids Promoting Tax Evasion</b>	Mexico, Brazil, Argentina	Amongst the low performing countries; need considerable efforts
• <b>Using Legal Entity Identifier</b>	Mexico, India	Amongst the low performing countries; need considerable efforts
• <b>Tax Court Secrecy</b>	Brazil, Argentina, Malaysia, Kenya	Amongst the low performing countries; need considerable efforts

**Note: Authors’ assessment based on the Tables 4.1-4.4.**

# **5. Attempts to Find Evidence of Tax evasion and Avoidance by the Corporate Entities in Bangladesh**

## 5. Attempts to Find Evidence of Tax evasion and Avoidance by the Corporate Entities in Bangladesh

### 5.1 Failed Attempts on Evidence from the Analysis of Financial Statements

- There were **attempts to review** financial statements of selected listed companies covering
  - RMG, pharmaceuticals, cement and banking industry
- Considering the importance of the sector in the economy, and the **export orientation**, most corporate entities were picked
  - In addition, **financial statements** of the selected listed companies from the pharmaceuticals, cement, banking industry were gathered
- It was observed that tax amount of companies **vary widely even after having similar** level of sales or assets
- They are having **differential composition of sales** (domestic and exports) and these come after **differential tax rates and benefits** even being in the same sector
- Financial statements are prepared **professionally**
  - Do not offer any **visible symptom of tax evasion**

# 5. Attempts to Find Evidence of Tax evasion and Avoidance by the Corporate Entities in Bangladesh

## 5.2 Summary Outcomes of KII

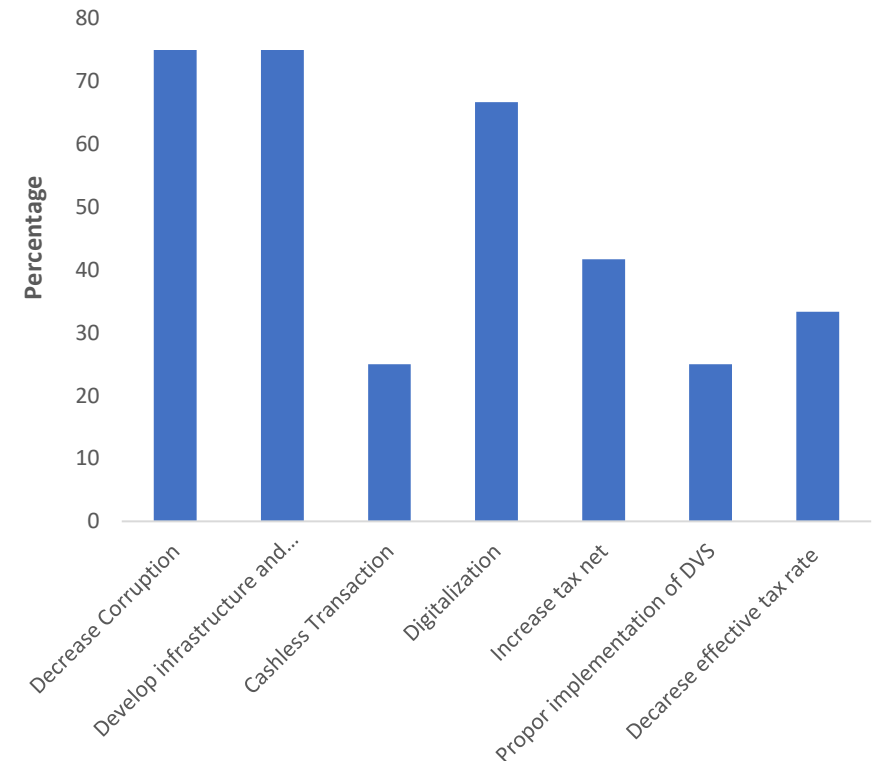
- KII respondents, comprising **chartered accountants** and **former NBR top level officials**, identified several issues and factors associated with tax structure of the country, tax evasion, and avoidance
- **Differential Opinions of Corporate Tax Rates in Different Sectors**
  - To most of the respondents, **corporate tax rate** in Bangladesh is **reasonable**
  - Minority of the respondents suggested to decrease it
  - According to most of them, **tax benefits and cash incentives** offered to RMG sector are **logical**
  - Some of them **proposed to shift focus** to other sector
- **Volume of Tax Evasion/Avoidance Ranges from 5% to 80%**
  - **Two third of the respondents** did not mention any concrete proportion of tax avoidance or evasion
  - **All agree on tax loss** due to tax evasion and avoidance
  - Tax losses might range between **5-25 percent for tax avoidance** and **15-80 percent for tax evasion**

## 5. Attempts to Find Evidence of Tax evasion and Avoidance by the Corporate Entities in Bangladesh

### 5.2 Summary Outcomes of KII

- **Very Narrow Tax Net that Needs to be Increased**
  - All the respondents agreed on increasing the tax net - out of 170 million population, only 2.4 million submit income tax returns
  - This is only **1.4 percent of the total population**- much lower compared to several developing and neighbouring countries
- **Corruption and Efficiency are Key Challenges**
  - **Corruption**, lack of efficient manpower and **adequate infrastructure** are identified as key challenges of lower tax to GDP ratio and tax evasion
  - As solution, transparency and corruption need to be addressed
  - In addition to that, some more things need to be considered
    - **Efficiency** of tax administration
    - **Digitalization** of tax system
    - **Creation** of cashless society

Figure 5.3: Suggested Steps to Ensure Corporate Tax Transparency

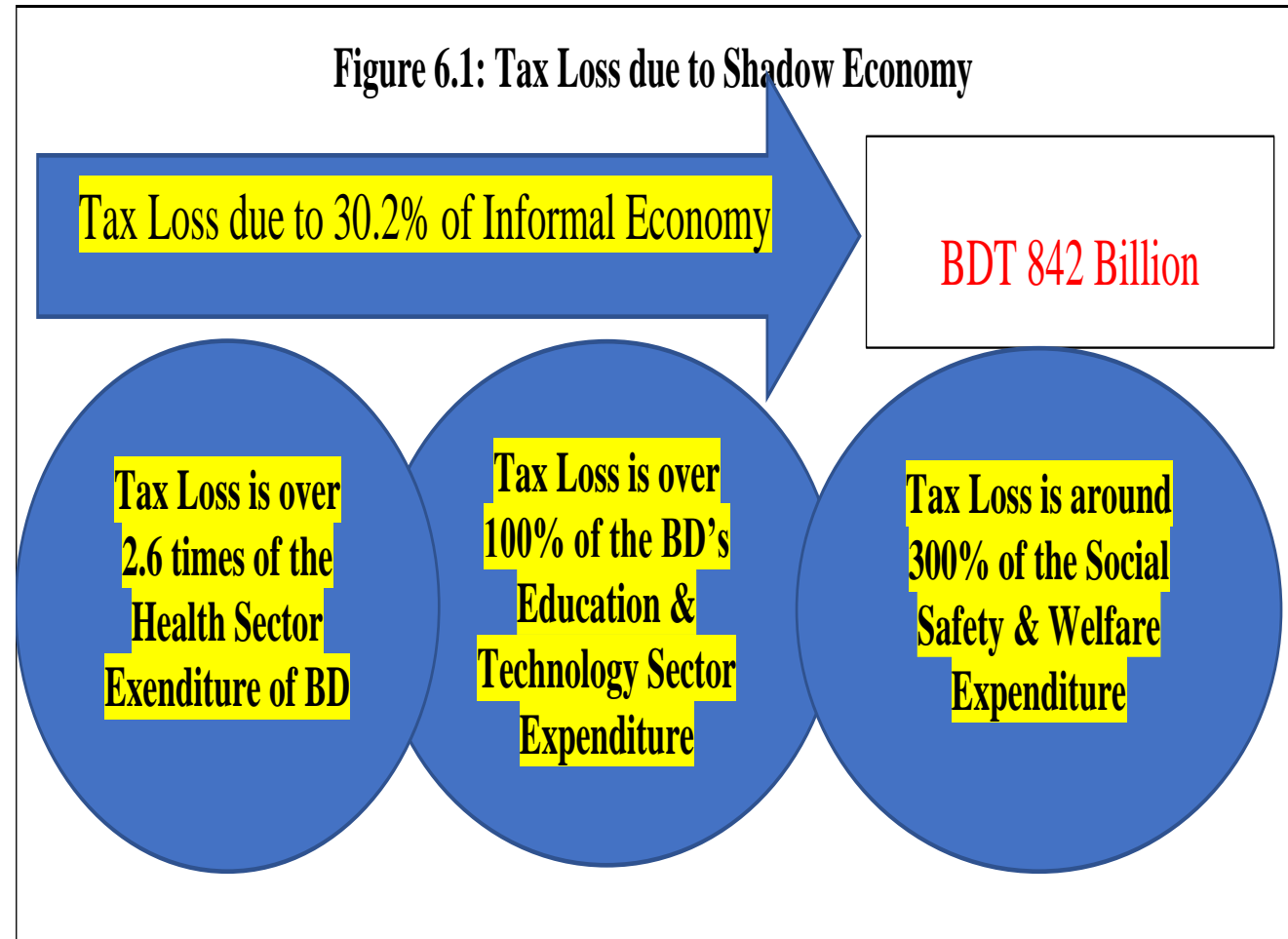


Source: Based on KII Responses

## **6. Estimated Volumes of Bangladesh's Tax Loss, Tax Evasion and Revenue Gap based on Selected Benchmark**

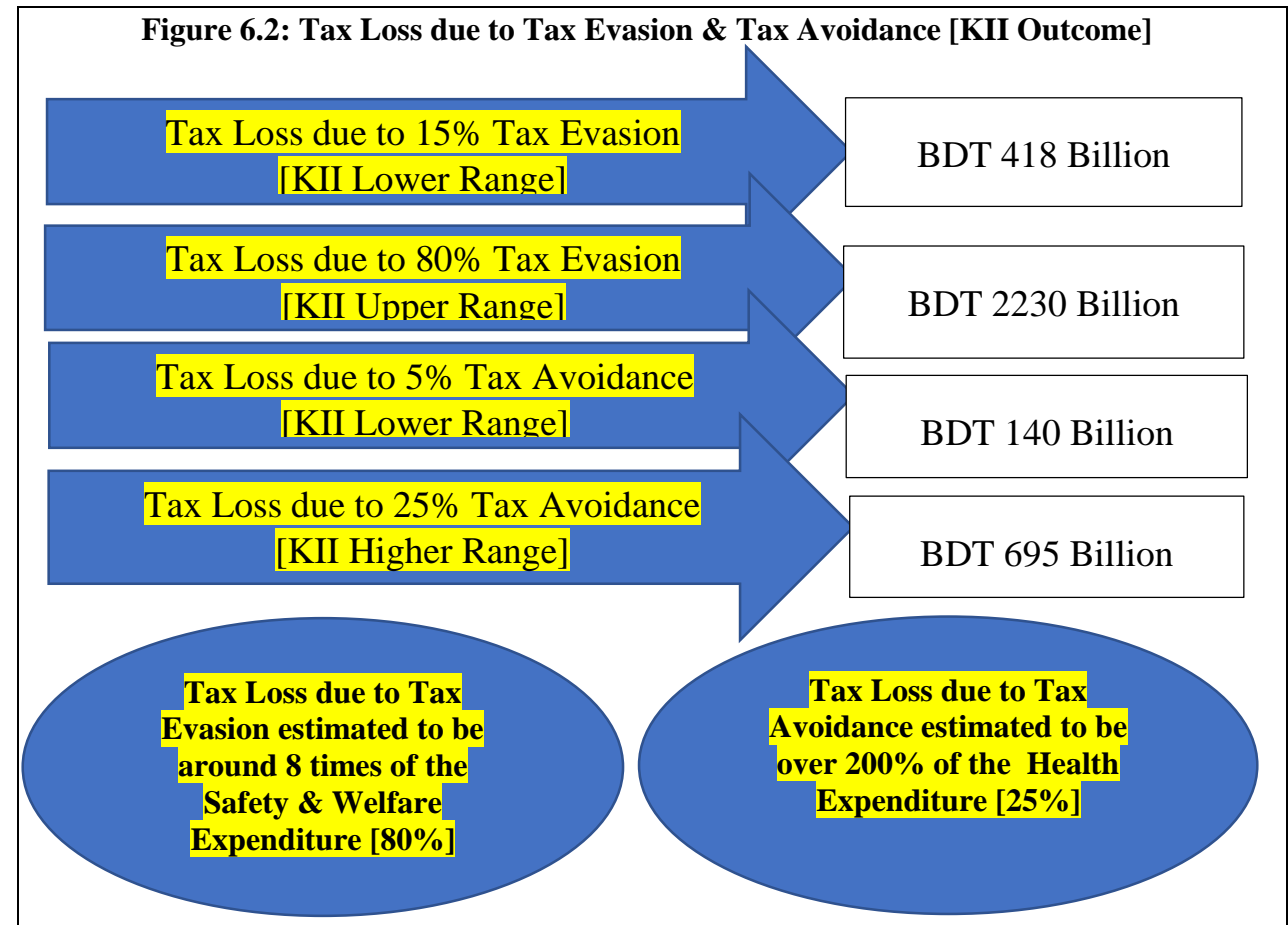
## 6. Estimated volumes of Bangladesh's Tax Loss, Tax Evasion and Revenue Gap based on Selected Benchmark

- Ultimate objective of the study is to **identify tax losses**, determine revenue gap, and fix targets for greater transparency and policy intervention.
- Size of the informal or shadow economy is one of the responsible factors for tax loss.
- In 2021, Bangladesh's **tax loss was BDT 842 billion due to the shadow economy** which was **30.2% of the total GDP** which means close to **one-third of the total tax revenue** collected in 2021
- Tax loss due to informal economy was close to **300% of the social safety** and welfare expenditure;
  - Over **60% of the collective budgeted expenditure** (BDT 1395 billion) on health, education & technology, and social safety & welfare sectors for the year 2021 (Table 6.1).



## 6. Estimated volumes of Bangladesh's Tax Loss, Tax Evasion and Revenue Gap based on Selected Benchmark

- Tax loss due to tax evasion is estimated to be around **8 times of the social safety net & welfare expenditure**
- Tax loss due to tax avoidance is estimated to be around **over 200% of the health expenditure (25%)**





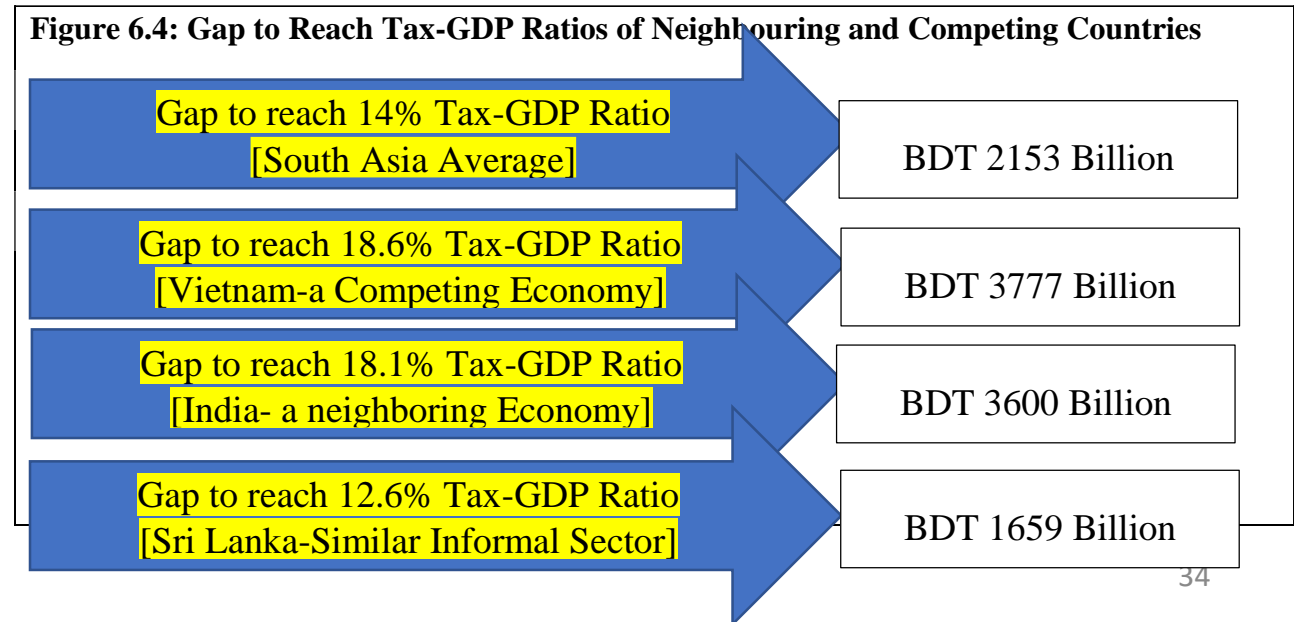
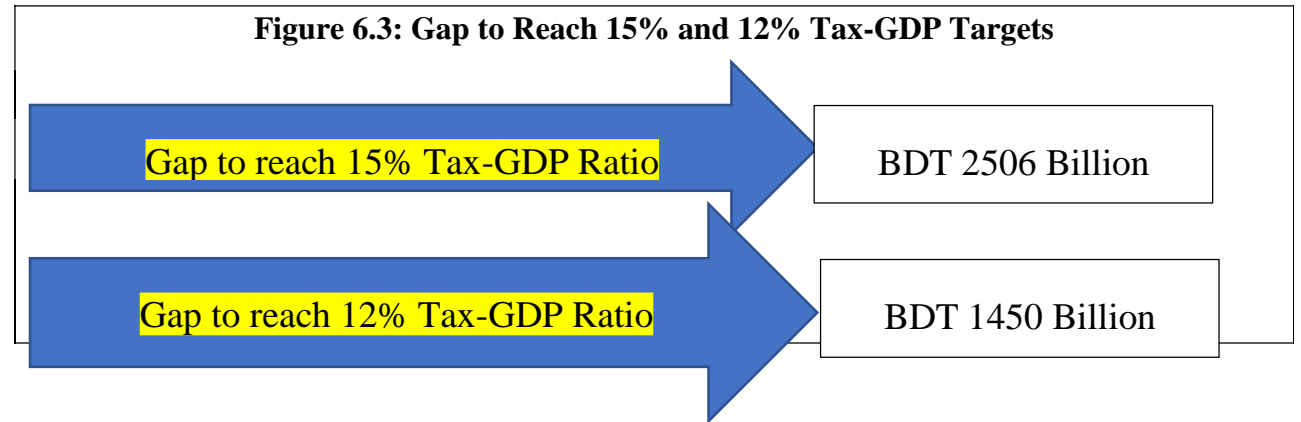
## 6. Estimated volumes of Bangladesh's Tax Loss, Tax Evasion and Revenue Gap based on Selected Benchmark

### Scope for Possible Incremental Expenditure

Components	Amount (BDT)
Per Capita Expenditure in Health Sector in the National Budget (FY21)	1,862
Per Capita Expenditure in Education Sector in the National Budget (FY21)	4,656
<b>Scope for possible incremental expenditure</b>	
Estimated per capita expenditure in the health sector if tax loss is avoided	6,844
Estimated per capita expenditure in the education sector if tax loss is avoided	9,638
Estimated per capita expenditure in the health sector if tax loss for 15% tax evasion (KII lower range) is avoided	4,336
Estimated per capita expenditure in the education sector if tax loss for 15% tax evasion (KII lower Range) is avoided	7,129
Estimated per capita expenditure in the health sector if tax loss for 80% tax evasion (KII upper range) is avoided	15,057
Estimated per capita expenditure in the education sector if tax loss for 80% tax evasion (KII upper Range) is avoided	17,851

## 6. Estimated volumes of Bangladesh's Tax Loss, Tax Evasion and Revenue Gap based on Selected Benchmark

- Bangladesh needs over **BDT 2500 billion** additional tax revenue to reach to the target of 15% as prescribed by the World Bank.
  - By reaching 12% tax-GDP ratio, Bangladesh will add **BDT 1450 billion** tax revenue
- This means the country will be able to increase collective budgeted expenditure (**BDT 1395 billion**) on health, education & technology, and social safety & welfare sectors by over 100% (Figure 6.3).
- Bangladesh is far behind from its major competing country (Vietnam) and major neighboring countries (India and Sri Lanka) in terms of tax collection



## **7. Current Practices of Tax Avoidance and Evasion and Government Measures to Tackle Tax Avoidance and Evasion**

# 7. Current Practices of Tax Avoidance and Evasion and Government Measures to Tackle Tax Avoidance and Evasion

## 7.1 Current Practices of Tax Avoidance and Tax Evasion

- There are several means of tax avoidance and evasion in Bangladesh:
  - a) Reserve and Provision:** This is the main way of tax evasion and avoidance
  - b) Showing Less Income:** This help individuals to pay less taxes with the help of their legal advisors
  - c) Help of Legal Advisor and Tax Practitioners:** advisor work on behalf of their benefits and calculate less tax by the aid of tax ordinance. This is the second most common way to evade and avoid taxes
  - d)Showing More Investment Allowances:** This is another major way of tax evasion and avoidance. This provides an opportunity to get more tax rebate
  - e)Individual Intention:** Individuals for their own benefits show less income in financial statements
  - f)High Informal Transactions or Cash based Transactions:** It is easy to hide cash-based transactions from the tax authority

# 7. Current Practices of Tax Avoidance and Evasion and Government Measures to Tackle Tax Avoidance and Evasion

## 7.1 Current Practices of Tax Avoidance and Tax Evasion

- **Special Package for Whitening Black Money:** The GoB has offered a special package in FY22 and that **allowed investment of untaxed money** in the manufacturing industry on the condition of paying only a 10% tax.
  - Investment of such money is allowed in the **stock market** subject to paying a 25% regular tax plus a 5% penalty.
  - The undisclosed money can also be parked as **cash, bank deposits, and savings** instruments on similar conditions, according to the Finance Act.
  - The black money owners have to pay **Taka 200 to Taka 6,000** per square meter in order to legalise investments in apartments and land.

# 7. Current Practices of Tax Avoidance and Evasion and Government Measures to Tackle Tax Avoidance and Evasion

## 7.2 Government Measures to tackle Tax Avoidance and Evasion

- a) **The Financial Act 2011:** It is an example of an action that has been taken by GoB to combat tax evasion. This has **incorporated alternative dispute resolution provisions** to help resolve income tax, VAT and tax reforms. It is expected that through this tax payers will get more help from NBR.
- b) **Document Verification System: ICAB and NBR have signed** a memorandum and signed a document called Document Verification System to hunt down the tax evaders. This is a software that prevents unruly firms to falsify or submit multiple audited financial statements to NBR. This will also help to verify whether the report submitted to NBR is authentic or not.
- c) **Penalties for Non-Submission of a Tax Return:** There is a **penalty of 10 percent** in the existing law for non submission of tax return on a taxpayers last assessed income. This is subject to a minimum income of 10000 taka and in case of continuing default, a further penalty of BDT 50 taka will be levied . There are also penalties for using **false Tax Identification Number**.
- d) **Setting up Central Intelligence Cell (CIC):** All income tax zone set up the cell in order to intensify **unearthing tax evasion, to investigate the cases and take actions** under the purview of law. They are in charge to investigate the money laundering issues related to tax.

## **8. Improving Tax Transparency in Bangladesh: Recommendations**

## 8. Improving Tax Transparency in Bangladesh: Recommendations

- The government is losing a huge amount of potential revenue due to tax avoidance and evasion
  - The amount could be as low as **BDT55,800 crore** (lower bound) to as high as **BDT292,500** (upper bound)
- The amount of tax evasion is estimated to be **8 times** of social safety net and welfare expenditure
  - The amount of tax avoidance is **200%** of health expenditure
- The government could rise the tax-GDP ratio at a significant level by reducing appropriate measures against tax evasion and tax avoidance
- It is important to **take measures against different types of** tax avoidance and evasion currently in place
  - This is happened through multiple ways – reserve and provision, showing less income, unethical support from tax practitioners, showing more investment allowances, individual intention to show less income, high informal transaction/cash based transactions
- Bangladesh needs to work intensively to **improve the tax net**
  - While big section of businesses remained out of tax net
  - For the accomplishment of the goal - **year specific target** should be identified and declared
    - With the targeted volume of **additional tax revenue and associated strategies**



## 8. Improving Tax Transparency in Bangladesh: Recommendations

- **Tax exemptions** and related incentives should be **for a limited time** and must be purposive
  - There must be a **declared specific period** of tax exemptions/incentives
  - With purpose and mechanism to **assess the effectiveness** of exemptions
- **Integrated financial transaction system** needs to be established
- **Cashless transaction** should be promoted, and **digitalisation** should take place under the integrated financial transaction system
  - Cashless transactions are **more transparent** and cannot be hidden from tax authority
  - Digitalization will **improve the efficiency** of tax administrators
- **Mandatory sustainability reporting** is said to be a useful tool for greater disclosure and transparency
  - **GRI 207**, introduced in 2019 facilitates the reporting of tax through inclusion in the sustainability report
  - Several developing countries introduced mandatory sustainability reporting such as Argentina, Brazil and India
  - Bangladesh needs initiative on this front
- **Disclosure of information** regarding tax evasion and associated penalties might prove to be an important incentive
  - In this context, **practices of Brazil**, Argentina, Malaysia, Kenya might be good examples

## 8. Improving Tax Transparency in Bangladesh: Recommendations

- Tax officials **needs to be trained** for improving tax efficiency
  - As **corruption of tax officials** is claimed to be the major cause of tax evasion in the country - this needs to be addressed
- Bangladesh **needs to improve** in terms of secrecy index
  - It needs to assign immediate attention to improve in terms of secrecy index such as
    - Avoids **promoting tax evasion**
    - Using legal entity identifier
    - In this context, performing countries' models might be replicated for better outcomes
- Government should **concentrating on reforming the tax structure** and this will help
  - To achieve their targeted goal of **17 percent tax-GDP ratio** by 2030
  - To achieve the targeted goal mentioned by IMF and that is 9.5 percent by FY26

## 8. Improving Tax Transparency in Bangladesh: Recommendations

- In the national budget for FY2023-24, the finance minister should announce specific budgetary measures in order to reduce tax avoidance and tax evasion and thereby improve tax transparency in the country
  - **Set an annual target** of reducing the tax avoidance through gradual phase out of tax incentives, tax breaks and other concessions for established sectors
  - **Tax exemptions** should also be withdrawn from various sectors to boost revenue
  - **Set annual target** of collection of revenue by **recovering money from tax evasion**- such target could be placed to different NBR tax circle.
  - **Set strategies for formalisation** of all types of economic transactions through digitalisation of the transaction system
  - Take initiatives for **establishing an integrated** financial transaction system
  - A long term target should be set for **gradual rise of banking/MFS/online/digital** transaction
  - The national budget should **withdraw all kinds on non-transparent tax** related provision including provision for whitening black money which contradicts tax transparency efforts

**Thank You**