

# Towards People-Centric Public Finance Management in Bangladesh

## Presentation on **State and Scope of Property Taxation in Bangladesh**

**Debapriya Bhattacharya**  
Distinguished Fellow  
Centre for Policy Dialogue (CPD)



Dhaka: Wednesday, 24 May 2023

# Study Team and Acknowledgement

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**Debapriya Bhattacharya**, Distinguished Fellow, CPD

**Towfiqul Islam Khan**, Senior Research Fellow, CPD

**Marfia Alam**, Research Associate, CPD

**Ifaz Kabir**, Programme Associate, CPD

**Shaifuddin Khaled**, Programme Associate, CPD

The study team would like to acknowledge their sincere gratitude to the participants of the EGM (held on 23 October 2022) and Key Informant Interviews (KIIs) (7 participants) and to other stakeholders and institutions for extending valuable support to the CPD team in the course of the study.

# Contents of the Presentation

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- ❑ Section 1: Introduction
- ❑ Section 2: Selected global practices of property tax
- ❑ Section 3: Current state of property taxes in Bangladesh
- ❑ Section 4: Implementation challenges of Bangladesh property taxes
- ❑ Section 5: Towards reforming property tax system in Bangladesh

# Section 1: Introduction - Context

- ❑ The low tax-GDP ratio of Bangladesh, registering around 8 per cent throughout the last decade (2013-2022), is emerging as a structural constraint for its development aspiration
- ❑ A higher tax-GDP ratio is important for financing expanded development/public expenditures, reducing the budget deficit and ensuring fiscal equity
- ❑ The primary reasons for the low tax-GDP ratio in Bangladesh include low tax base coverage, high leakage and pervasive tax evasion, institutional inefficiency and inadequate political commitment
- ❑ Reasons leading to rising demand for increasing tax revenue collection:
  - **Achieving the Sustainable Development Goals (SDGs)**
  - **Financing smooth LDC graduation**
  - **Enhanced post-COVID recovery**
  - **Improving competitiveness in the global market**
  - **IMF condition tied to fiscal support**

# Section 1: Introduction - Context

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## Classical Theory

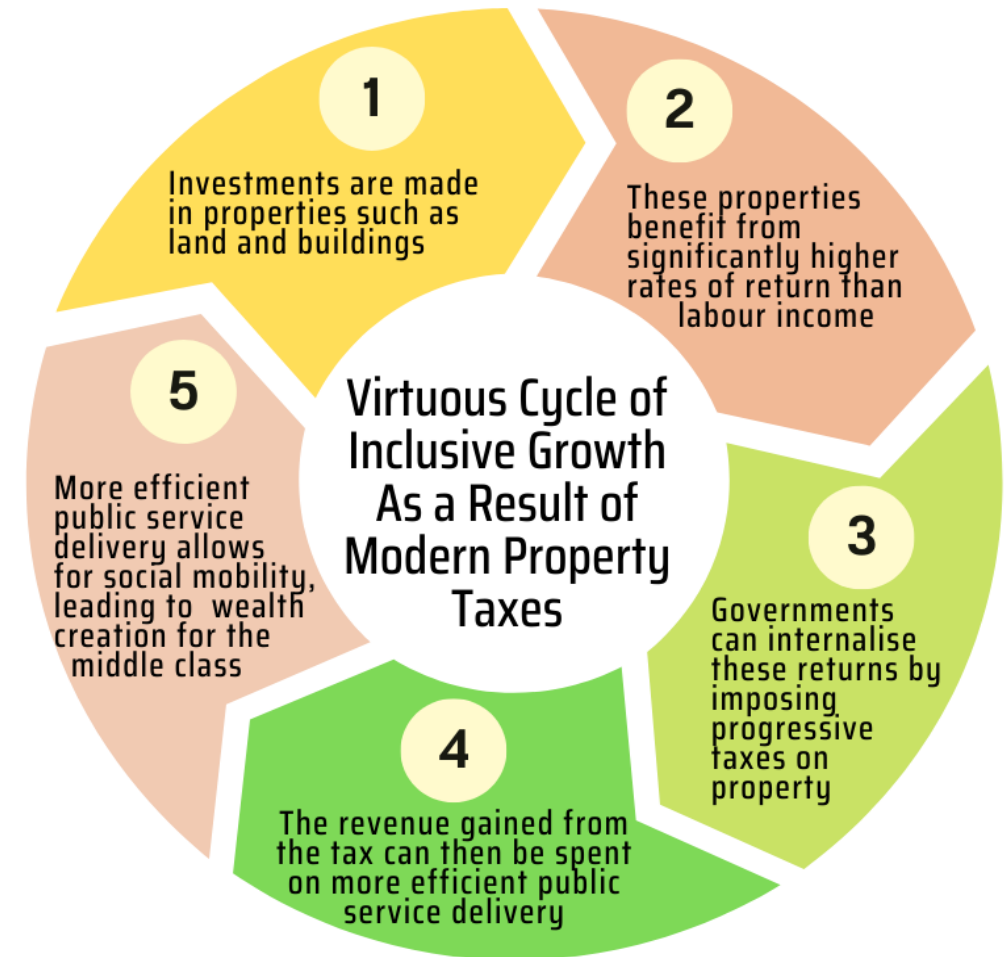
- **Adam Smith and Henry George** advocated for **land taxes**. According to **Smith** (1776) and **George** (1879), taxing land was seen as **less destabilising to market forces** than other taxes, such as income tax, which was perceived to disincentivise higher levels of productivity
- According to **George** (1879), Land taxes do not diminish productivity from land investments **as land productivity generally increases with respect to time, regardless of further investment**

## Alternative Theory

- According to **Marx** (1848; 1867), a radical economist, the fundamental cause of social instability and injustice lies in the discrepancy between the wealth generated by land investments and the income derived from labour

# Section 1: Introduction - Context

- ❑ **Modern economists**, such as Piketty (2014) emphasized that the rate of return from capital is greater than the growth of output (i.e., total income)
- ❑ **Untaxed investments in properties create a divergent force triggering wealth inequality.** These divergent forces lead to social and economic instability in the long run
- ❑ **Convergent forces**, such as increased quality of **education, healthcare, and social protection**, should be invested in, which lead to more **inclusive and sustainable growth**
- ❑ Thus, **Adam Smith, Henry George, Marx, and Piketty** advocated for a **tax on properties to finance public service delivery**, creating a **virtuous cycle**



Source: Authors' visualisation adapted from Piketty's conceptual framework

# Section 1: Introduction - Context

❑ Revenue collection in Bangladesh is largely **dependent on indirect taxes** (particularly VAT)

➤ This imposes a burden on marginalised people through **double taxation, deviates from tax justice**, and leads to **rising income inequality**

❑ More than **55% indirect tax revenue** comes from **domestic sources** (e.g., VAT)

❑ **Indirect tax revenue** obtained from trade dependent consumption sources will **diminish** due to the expected **trade loss** from **LDC graduation**

❑ The share of direct tax is **stagnant** around 33% for the last five fiscal years

❑ With the transition, **income level and wealth accumulation** will increase and so property tax has to be the potential source of revenue

Revenue Composition and Share in Bangladesh (%)

Components	FY2018	FY2019	FY2020	FY2021	FY2022
Total Revenue (%) (A+B)	100	100	100	100	100
A. Tax Revenue as Share of Total Revenue (%) (A1+A2)	90.33	89.70	83.48	82.10	89.30
A1. Indirect Tax as Share of Total Tax Revenue (%)	68.37	67.72	64.09	66.02	67.95
A2. Direct Tax as Share of Total Tax Revenue (%)	31.63	32.29	35.91	33.98	32.05
B. Non-tax Revenue as Share of Total Revenue (%)	9.67	10.30	16.52	17.90	10.70

Source: Authors' compilation based on MoF Monthly Reports (2018-2022)

\*\*\*FY stands for Fiscal Year which starts on July 1 of current year and ends on June 30 of the following year in Bangladesh

# Section 1: Introduction - Context

Direct Tax Composition and Share in Bangladesh (%)

Components	FY2018	FY2019	FY2020	FY2021	FY2022
<b>Total Direct Tax (Income/property/profit/wealth + Land Tax+ Stamp Duty + Surcharge) (%) (A+ B+C)</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>A. Income Tax (Income/property/profit/wealth) as Share of Direct Tax (%)</b>	<b>91.86</b>	<b>92.32</b>	<b>94.60</b>	<b>95.27</b>	<b>95.15</b>
<b>B. Property Tax as Share of Direct Tax (%) (B1+B2)</b>	<b>8.14</b>	<b>6.69</b>	<b>4.61</b>	<b>4.17</b>	<b>4.41</b>
B1. Land Development Tax as Share of Direct Tax (%)	2.58	0.91	0.84	1.00	0.89
B2. Stamp Duty Collection as Share of Direct Tax (%)	5.56	5.78	3.78	3.17	3.52
<b>C. Surcharge</b>	<b>0.00</b>	<b>0.99</b>	<b>0.78</b>	<b>0.56</b>	<b>0.44</b>

Source: Authors' compilation based on MoF Monthly Reports (2018-2022)

- ❑ Direct taxes are overwhelmingly based on income
- ❑ Property tax obtained from **land tax and stamp duty** has been constantly declining for the last five years and been **only about 5% of total direct tax** during this timeframe
- ❑ Strengthening collection from property taxes should be a critical part of ongoing domestic revenue mobilisation effort
- ❑ Need to explore new sources of direct tax, such as **inheritance tax**



# Section 1: Introduction - Objectives and Methodology of the study

Objectives	Evidence Required	Methodology	Output
To review cross-country examples and experiences regarding property taxes and draw lessons for Bangladesh	Selected global practices of property tax (i.e., holding tax, land development tax, inheritance tax)	<ul style="list-style-type: none"> <li>Literature review</li> </ul>	Identify the good practices
To review the current status of the property taxes in Bangladesh, identify the limitations and challenges in establishing a just, efficient and transparent property tax system	<p>Current status of major property taxes through the lens of - tax base, exemption, valuation, rate, and administration</p> <p>Policy variables related challenges and administrative challenges of existing property taxes</p>	<ul style="list-style-type: none"> <li>Secondary data analysis</li> <li>Key Informant Interviews (KIIs)</li> <li>Expert Group Meeting (EGM)</li> </ul>	Highlight the gaps and needed reforms
To propose the required reforms as regards property tax system in Bangladesh with a view to promoting social and economic justice as well as mobilising higher domestic revenue	Policy variables and administrative variables related of property tax	<ul style="list-style-type: none"> <li>Literature review</li> <li>Secondary data analysis</li> <li>Key Informant Interviews (KIIs)</li> <li>Expert Group Meeting (EGM)</li> </ul>	Put forward policy recommendations

# Section 1: Introduction- Analytical framework of the study

## What do We Understand by Just, Efficient and Transparent System?

### EFFICIENT

Collects maximum possible revenue at **the lowest possible cost** for both collector and taxpayer

Does not constrain **productive and efficient** use of labour, capital, and land

### JUST

**Internalises** the higher returns from capital comparative to labour

Boosts capacity to finance **public service delivery** to promote **inclusive growth**

### TRANSPARENT

Effectively communicates **rationale** to citizens

Provides explicit detail on **methodology for pricing and collection**

**Generate and disseminate** accessible timely and accurate **data**

Establishes effective **monitoring framework**

Achieves equity and efficiency but not transparency

Achieves equity and transparency but not efficiency

**Optimal conditions for a modern property tax system**

Achieves transparency and efficiency but not equity

# Section 1: Introduction-

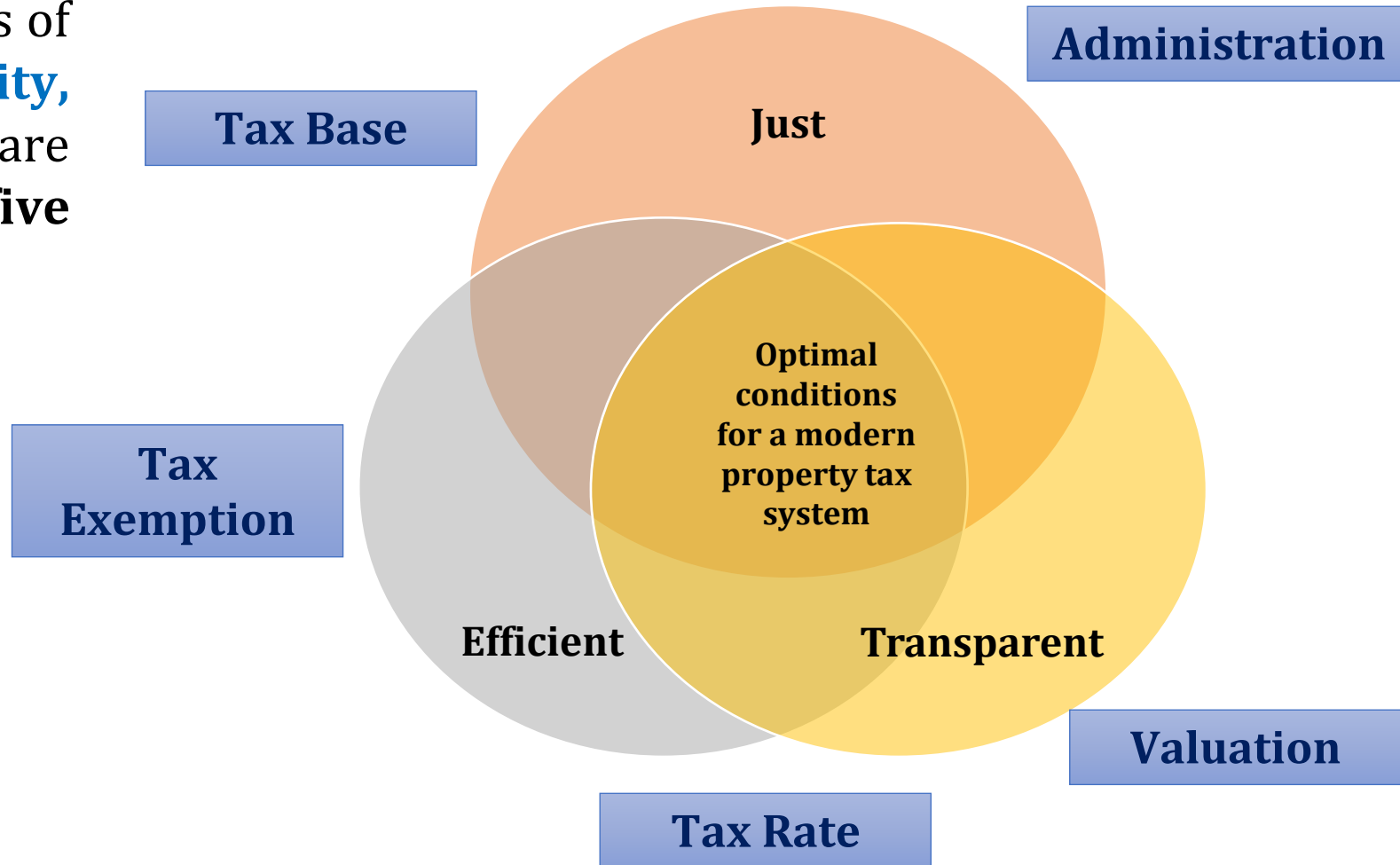
## Analytical framework of the study

### Outcomes of Just, Efficient and Transparent Property Tax System

Effect of 'Just' system	Effect of 'Efficient' system	Effect of 'Transparent' system
<p>Aids <b>convergence</b> in wealth distribution</p> <p>Enables creation of <b>virtuous cycle</b> of wealth creation and inclusive growth</p> <p>Contributes to <b>upward social mobility</b></p>	<p>Mitigates other possible <b>market distortions</b> pertaining to the use of land, labour, and capital</p> <p>Mobilises government revenue in a <b>cost-effective</b> manner</p>	<p>Enables taxpayers to <b>trust</b> the property tax system</p> <p>Encourages taxpayer <b>compliance</b></p> <p>Mobilises <b>broad-based political will</b> to enact property tax policy, for both citizens and policymakers</p>

# Section 1: Introduction- Analytical framework of the study

- ❖ The three fundamental principles of property taxation viz. **Equity, Efficiency, and Transparency** are achieved through the **five components /tools** –
- i. **tax base**
  - ii. **tax exemption**
  - iii. **tax rate**
  - iv. **valuation**
  - v. **administration**

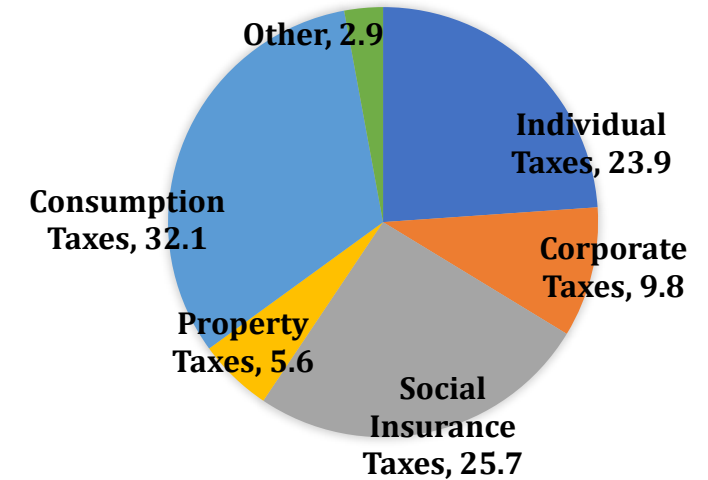


Source: Author's visualisation based on World Bank Framework (2022) and World Bank Property Tax Diagnostic Manual (2020)

## Section 2: Selected Global Practices of Property Tax

- ❑ **Property tax is an important source of tax revenue for OECD countries after income tax, VAT and excise taxes (mobilising 5.6% of the total tax revenue)**
- ❑ *Australia, Canada, the United Kingdom and the United States had more than 10% of total tax revenue as property tax revenue in 2021 compared to Bangladesh, where property tax accounted for only 0.24% of total tax revenue in 2021 - one of the weakest revenue collection sources.*

Tax revenue composition of average OECD countries, 2021  
(% of total tax revenue)

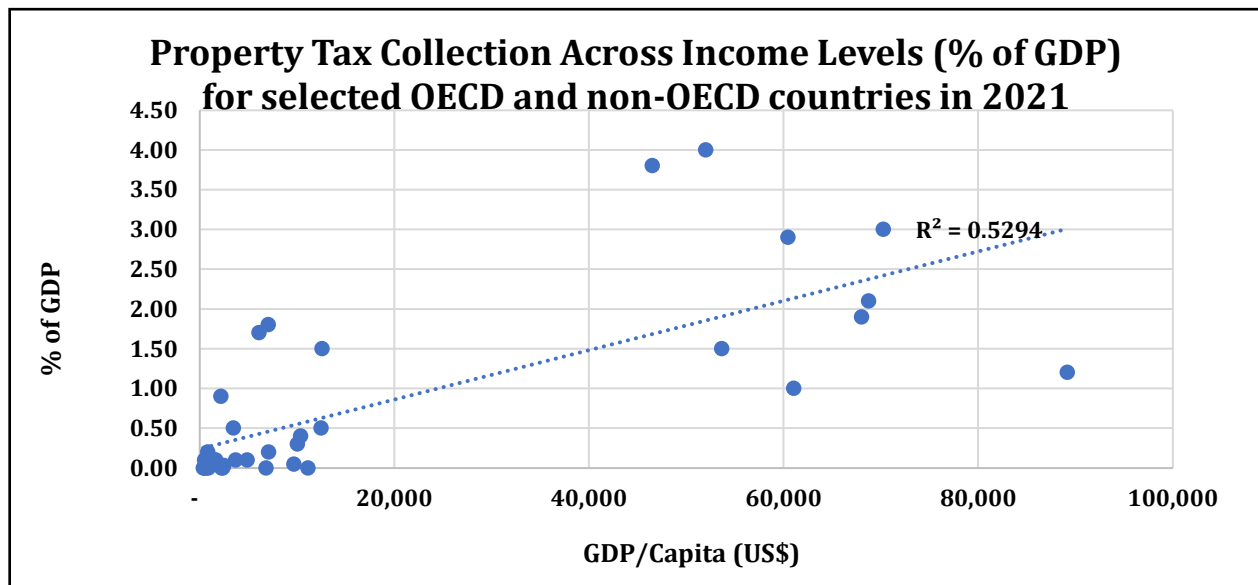


Source: OECD Revenue Statistics ( accessed in April 2023)

- ❑ Additionally, compared to average OECD countries other direct tax sources are very weak in Bangladesh, such as individual income tax and corporate income tax
- ❑ **It transpires that higher collection of property taxes is directly proportional to per capita and advanced public finance management system**

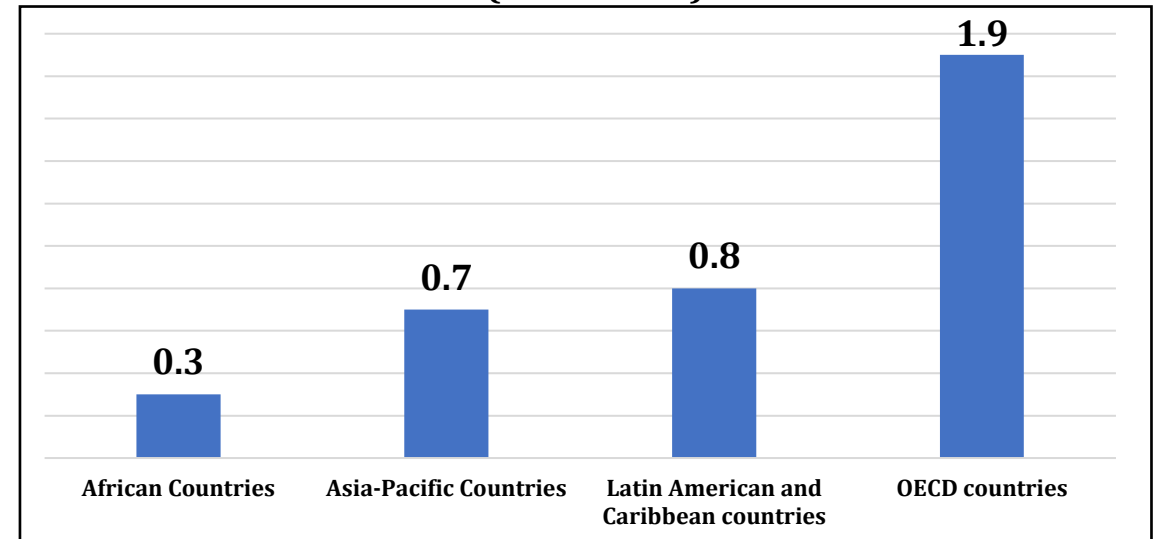
# Section 2: Selected Global Practices of Property Tax

- ❑ Evidently, cross-country variation in property tax collection increases sharply with income level
  - The panel regressions model conducted under this study (using a fixed effect model) estimated that if the GDP per capita (current USD) of a country increased by 1.00%, property tax (as % of GDP) increased by 0.47%



Source: OECD, IMF and WDI database ( accessed in April 2023)

Average Property Tax as Share of GDP (%) by Group of Countries (2011-2020)



Source: Global Revenue Statistics Database ( accessed in April 2023)

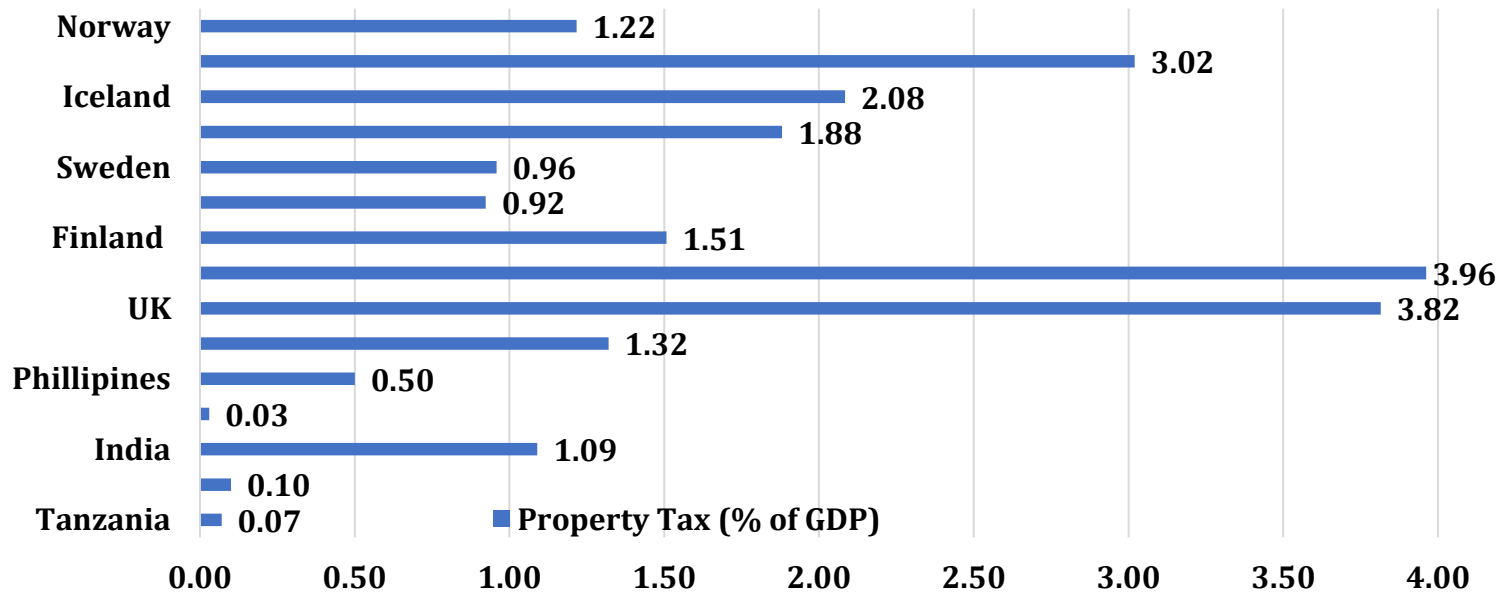
- ❑ The positive correlation between income level and property tax share of GDP is also evident for selected OECD, Asian and African countries

# Section 2: Selected Global Practices of Property Tax

Property tax as share of total tax revenue and GDP has been one of the lowest in Bangladesh among selected OECD, Asian and African countries over the last 5 years irrespective of the effect of COVID -19

**In Bangladesh, property tax is only about 0.27% of the GDP – close to the average African countries**

Property tax as share of GDP (%) for selected OECD and non-OECD countries



Property tax as share of total tax revenue (%)

Region	Country		FY2021
OECD	Australia	Local Governments	10.07 (2020*)
	Canada	Local Governments	11.92
	Denmark	Local Governments	4.01
	Finland	Local Governments	3.51
	Iceland	Local Governments	5.94
	Norway	Local Governments	2.88
	Sweden	General government	2.25
	UK	Local Governments	11.40
	USA	State Governments	11.36
Asia	China	Central Government	7.40 (2020*)
	India	State Governments	0.07 (2017*)
	Pakistan	Central Government	1.00 (2020*)
	Philippines	Budgetary Central Government	2.70 (2020*)
	Bangladesh	Budgetary Central Government	0.34
	Africa	Tanzania	Local Governments

# Section 2: Selected Global Practices of Property Tax

❑ **Property tax collection is split among central government, state government and local government in many countries**

➤ Large share of property tax revenue is collected by the local government for selected OECD countries (Australia, Canada, Denmark, Finland, Iceland, Norway, Sweden, UK, USA) and this is also true for average OECD countries

- **Around 46% of total local tax revenue comes from property tax for average OECD countries**
- For developing countries, large share of property tax revenue is collected by the central government, which is evident through selected developing countries (e.g., China, India, Pakistan, Philippines, Bangladesh, Tanzania), including Bangladesh.

**The share of local government receipts of property tax revenue should increase over time in Bangladesh**

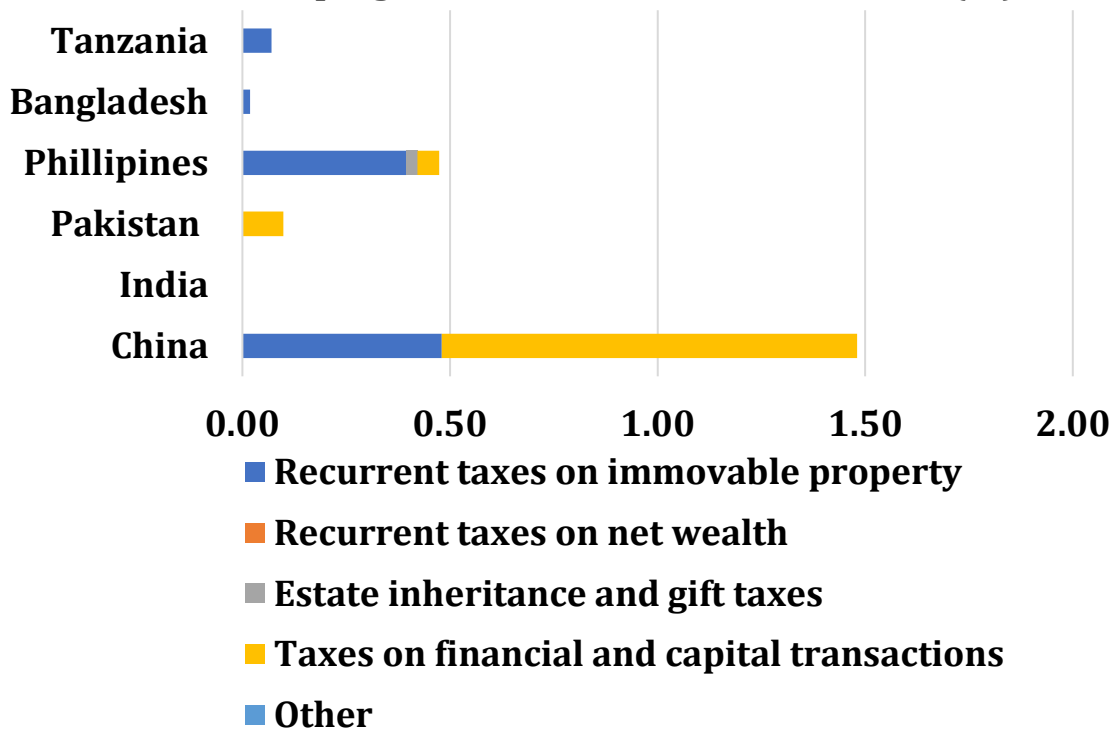
Property tax as share of total tax revenue (%) by level of government for average OECD countries, (2017-2021)			
Year	Federal/Central	State/Regional	Local Government
2017	3.1	14.9	46.8
2018	2.7	15.0	46.5
2019	2.7	14.9	46.3
2020	2.9	14.7	47.0
2021	3.1	14.1	44.9

Source: OECD Revenue Statistics ( accessed in April 2023)



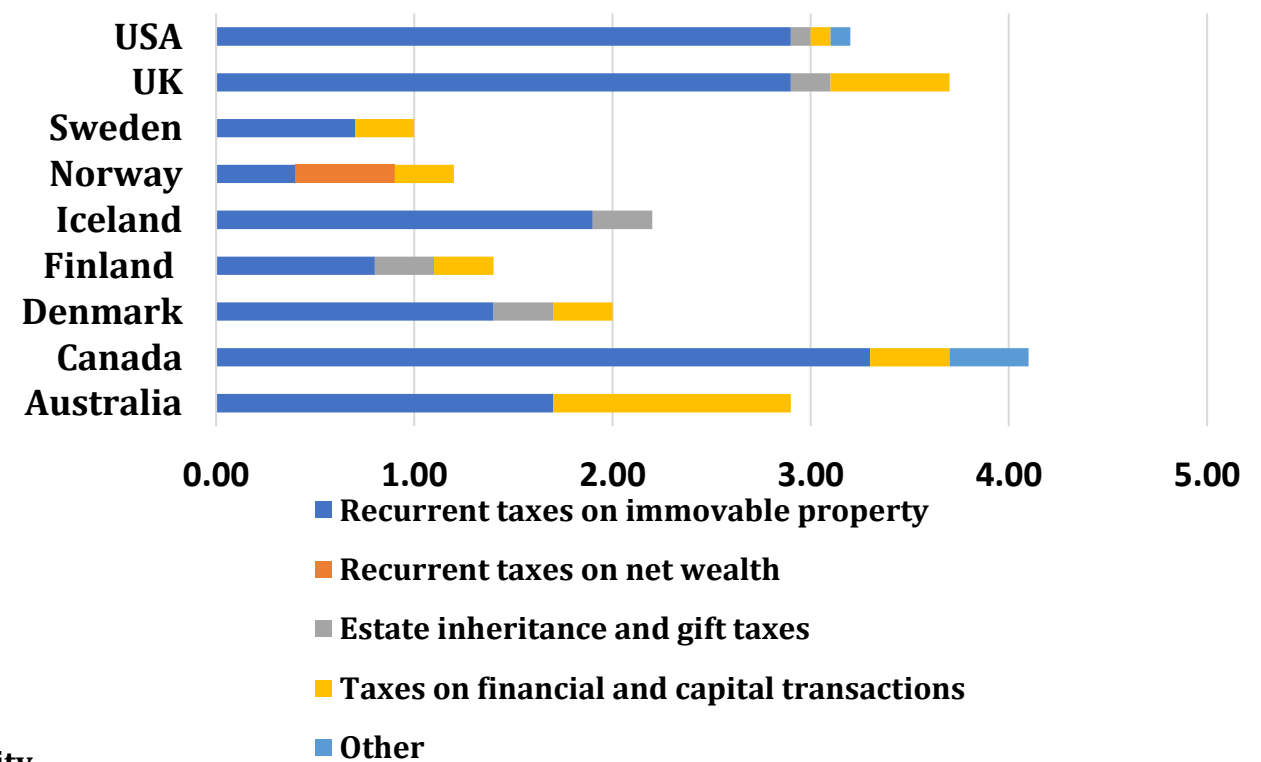
# Section 2: Selected Global Practices of Property Tax

Composition of Property Taxes for Selected Developing Countries in 2020, Share of GDP (%)



Source: IMF ( accessed on April 2023), OECD (2022) and Tanzania Revenue Authority data ( accessed in April 2023)

Composition of Property Taxes for Selected OECD Countries in 2020, Share of GDP (%)



Source: OECD (2022)

❖ In case of the Asian and African countries, share of different property taxes (as % of GDP) is either zero ( e.g., share of immovable property tax in India) due to extremely low collection or data is not available (e.g., share of immovable property tax in Pakistan) for the shares. Either way it reflects poor administration of those property taxes in those countries which also includes Bangladesh

# Section 2: Selected Global Practices of Property Tax

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- **Land Tax and Holding Tax** are the **highest** and **capital gains tax** is the **second highest** source of property tax revenue for both OECD and other countries of Asia and Africa, reflected through selected OECD, Asian and African countries
  - **A significant share of property tax revenue** comes from **Estate, Inheritance or Gift tax** in **high income OECD countries**, such as in **UK, USA, Iceland, Finland and Denmark** whereas estate, inheritance or Gift Tax revenue **is absent or near to zero** in low income Asian and African countries either due to **absence of such taxes or due to extremely low collection**, reflected through selected countries
- ❖ **The global experience indicates Land Tax and Holding Tax should be the major source of property tax revenue which is not the case for Bangladesh due to low collection - Land Tax and Holding Tax collection in Bangladesh has to be strengthened**
- ❖ **The experience of developed countries indicates that Inheritance Tax and Gift Tax can be a potential source of tax revenue – In Bangladesh, Inheritance Tax can be introduced, and Gift Tax collection should be improved**

# Section 2: Selected Global Practices of Property Tax

- ✓ Based on the importance in developed nations, **three specific property taxes** have been analysed in depth for **selected OECD, Asian and African countries** – with the aim to replicate their property tax structure and reforms in Bangladesh over the course of time

Types of Property Tax	Definition	Selected countries
Holding/ Municipal tax	Tax that is imposed on building, parcel of land and building, machinery and/or equipment and paid by the owners	UK, USA, Canada, Australia, Denmark, Sweden, Norway, Iceland, Finland, China, India, Pakistan, Philippines, Tanzania
Land development tax	Tax that is imposed on land (or land and its improvement) and paid by the owners	Australia, Denmark, China
Inheritance tax	Tax that is levied on the transfer of property and financial assets to heirs of deceased person and paid by the heirs or other beneficiaries.	USA, UK, Denmark, Iceland, Finland, Philippines

\*\*\* The three taxes have been named and categorised by their definition in terms of ‘tax base’ and category used in Bangladesh. But they are known in other names in other countries. For instance, in some countries the ‘holding tax’ is known as property tax (in USA, Canada, Norway, Iceland India, Pakistan, Tanzania), council tax (in UK), council rate (in Australia), property value tax (in Denmark), municipal and national property tax (in Sweden), real estate tax (in Finland and China) and real property tax (in Philippines)

- ✓ The three taxes have been analysed through the **lens of five major components/tools of property tax system – tax base, tax exemption, valuation/assessment, tax rate and administration**

# Section 2: Selected Global Practices of Property Tax

## Holding/Municipal Tax

Tax Base	<ul style="list-style-type: none"> <li><input type="checkbox"/> Both land and building [in USA (New York), Canada, Australia (South Australia), Denmark, Sweden, Norway, Finland, India, Pakistan (Punjab)]</li> <li><input type="checkbox"/> Only residential buildings ( in UK)</li> <li><input type="checkbox"/> Residential, industrial, and commercial buildings (in Iceland and Tanzania)</li> <li><input type="checkbox"/> Only residential buildings within cities, county towns, administrative towns, and industrial and mining districts ( in China)</li> <li><input type="checkbox"/> Residential, industrial and commercial buildings, land, machinery and equipment ( in Philippines)</li> </ul>
Tax Exemption	<ul style="list-style-type: none"> <li><input type="checkbox"/> Properties owned by the <b>government</b> or <b>local authority</b>, used for <b>religious</b> and <b>charitable organisations</b>, and <b>public utilities</b> are exempted in all the selected countries. Apart from these,</li> <li><input type="checkbox"/> Properties of <b>Diplomat, full-time student</b> ( in UK)</li> <li><input type="checkbox"/> Properties of <b>widows and widowers</b> ( in Denmark)</li> <li><input type="checkbox"/> Properties of <b>low-income households</b> and <b>senior citizens</b> ( in Canada, Iceland)</li> <li><input type="checkbox"/> <b>Agricultural lands and forests</b> ( in Norway, Sweden, Finland)</li> <li><input type="checkbox"/> Property used for <b>pollution control</b> ( in Philippines)</li> </ul>
Valuation	<ul style="list-style-type: none"> <li><input type="checkbox"/> Based on <b>capital value system</b> and the taxable value of property is determined by multiplying the assessment ratio [in USA (New York), UK, Canada, Australia (South Australia), Denmark, Sweden, Norway, Iceland, Finland, Philippines, Tanzania] <ul style="list-style-type: none"> <li>❖ <b>Assessment ratio</b> is the percentage (30%) that is imposed on the total value of property (1 lac) to find the taxable portion (70 thousand) of the property</li> </ul> </li> <li><input type="checkbox"/> Based on <b>rental value system</b> [in India, Pakistan (Punjab)]</li> <li><input type="checkbox"/> Based on <b>both capital and rental value</b> ( in China)</li> </ul>
Tax Rate	<ul style="list-style-type: none"> <li><input type="checkbox"/> <b>Classified rate</b> based on the type of building (<b>Residential, industrial, and commercial</b>) [in UK, USA (New York), Canada, Australia (South Australia), Sweden, Norway, Finland, India]</li> <li><input type="checkbox"/> <b>Flat rate</b> on assessed value of property [in China, Pakistan (Punjab), Philippines, and Tanzania]</li> <li><input type="checkbox"/> <b>Progressive rate</b> on assessed value of property (in Denmark)</li> </ul>
Administration	<ul style="list-style-type: none"> <li><input type="checkbox"/> <b>Assessment, tax collection, and expenditure of revenue</b> is administered by <b>local or provincial authority</b> [in UK, USA (New York), Canada, Australia (South Australia), Norway, Finland, India, Pakistan (Punjab), Philippines, and Tanzania]</li> <li><input type="checkbox"/> <b>Assessment, tax collection, rate determination</b> is administered by the <b>central tax agency</b>, revenue is <b>distributed among central and local government</b> by a certain percentage ( in Denmark, Sweden)</li> </ul>

# Section 2: Selected Global Practices of Property Tax

## Land Development Tax

<b>Tax Base</b>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Vacant land and land <b>used for residential or commercial purposes</b> [in <b>Australia (Queensland)</b>, Denmark]</li> <li><input type="checkbox"/> <b>Urban land suitable</b> for building houses or used for other non-agricultural construction purposes (in China)</li> </ul>
<b>Tax Exemption</b>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Land used by <b>Public utilities, government, charitable institutions</b> and for <b>aged care facilities</b> [in <b>Australia (Queensland)</b>, Denmark, China]</li> <li><input type="checkbox"/> <b>Agricultural</b> land (in China)</li> </ul>
<b>Valuation</b>	<ul style="list-style-type: none"> <li><input type="checkbox"/> <b>Market-informed valuation</b> [in <b>Australia (Queensland)</b>] <ul style="list-style-type: none"> <li>❖ <b>Market-informed valuation</b> is valuation based on the <b>size of land</b> adjected with <b>location, physical attributes</b> and <b>other factors of property</b>, such as <b>supply of basic utilities, distance from public transport station</b> etc. <ul style="list-style-type: none"> <li>➤ <b>A Valuer-General</b> undertakes <b>annual land valuation</b> in Australia (Queensland)</li> <li>➤ <b>Rural land</b> is usually valued based on '<b>unimproved value</b>' of land, that is the value of such lands that are likely to be sold without improvement</li> <li>➤ Non-rural land is valued based on 'site value' of land, that is the value of lands that are likely to be sold with some improvement</li> </ul> </li> </ul> </li> <li><input type="checkbox"/> <i>Public valuation of the land (in Denmark) – public valuation means taxpayers assess their own property based on market value of similar property and inform the value to local authority</i></li> <li><input type="checkbox"/> <b>Area-based valuation</b> – valuation based on <b>size of land</b> ( in China)</li> </ul>
<b>Tax Rate</b>	<ul style="list-style-type: none"> <li><input type="checkbox"/> <b>Progressive rate (1 cent to 2.25 cents for every USD 1)</b> [ <b>Australia (Queensland)</b>]</li> <li><input type="checkbox"/> <b>Flat rate determined by each municipality</b>, and the rate <b>varies progressively (1.6% and 3.4%)</b> across <b>different municipalities</b> (in Denmark)</li> <li><input type="checkbox"/> <b>Progressive and classified rate</b> is imposed on <b>each square meter of land</b> where the tax rate varies across different sizes/ type of cities (big, medium, small, county towns/ administrative towns/industrial districts/mining districts ( <b>in China</b>))</li> </ul>
<b>Administration</b>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Tax is <b>collected at state level</b> [in <b>Australia (Queensland)</b>]</li> <li><input type="checkbox"/> Tax is <b>collected</b> by the <b>local government</b> (Municipality, County etc.) (in <b>Denmark and China</b>)</li> </ul>

# Section 2: Selected Global Practices of Property Tax

## Inheritance Tax

<b>Tax Base</b>	<ul style="list-style-type: none"> <li><input type="checkbox"/> <b>Gross estate (all kinds of financial and non-financial assets) of a deceased person</b> [ known as 'Estate Tax' in USA (Federal and at state level), UK, Denmark, and Philippines]</li> <li><input type="checkbox"/> <b>Successors'/Beneficiaries' individual share of the inherited property</b> (known as 'Inheritance Tax' in USA ( in 5 states), Iceland, Finland)</li> </ul>
<b>Tax Exemption</b>	<ul style="list-style-type: none"> <li><input type="checkbox"/> <b>Liabilities and debt of deceased person, funeral expenses, estate administrative costs are exempted</b> in all the selected countries [in USA), UK, Denmark, Iceland, Finland, Philippines]</li> <li><input type="checkbox"/> Properties up to a <b>certain threshold value</b> is exempted in all the selected countries</li> <li><input type="checkbox"/> <b>Spouses</b> are exempted in all the selected countries <b>except Finland</b></li> </ul>
<b>Valuation</b>	<ul style="list-style-type: none"> <li><input type="checkbox"/> <b>Market-based capital valuation</b> is used in all the selected countries</li> </ul>
<b>Tax Rate</b>	<ul style="list-style-type: none"> <li><input type="checkbox"/> <b>Progressive rate</b> in USA (Federal) (18% to 40%) based on the value of the estate             <ul style="list-style-type: none"> <li>➤ In some other states of USA, <b>classified and/or progressive rate</b> is imposed <b>based on the relationship</b> between <b>deceased person and the decedents/beneficiaries</b> and/or <b>value of the property</b></li> <li>➤ <b>Classified and flat rate</b> is imposed in some other states of USA (e.g., Iowa, Kentucky, Maryland), on firm, corporation, charitable, educational, or religious organisation etc. where the tax rate varies depending on the purpose of the organisation</li> </ul> </li> <li><input type="checkbox"/> <b>Progressive rate</b> is imposed in Finland (7% to 33%)</li> <li><input type="checkbox"/> <b>Flat rate</b> in UK (40%), Iceland (10%) and Philippines (6%)</li> <li><input type="checkbox"/> <b>Classified rate</b> (15% and 36 %) in Denmark             <ul style="list-style-type: none"> <li>➤ <b>15%</b> is applied if the estate is passed on to <b>close relatives</b></li> <li>➤ <b>36%</b> is applied if the estate is transferred to persons <b>other than close relatives (15% + 25 % additional tax)</b></li> </ul> </li> </ul>
<b>Administration</b>	<ul style="list-style-type: none"> <li>➤ Tax assessment, collection and rate determination is conducted by the <b>central government</b> in all the selected countries</li> <li>➤ Tax assessment, collection and rate determination is <b>conducted</b> at state level in USA for both estate tax in some states (i.e. ) and inheritance tax in some other states (i.e. )</li> </ul>

# Section 2: Selected Global Practices of Property Tax

## What to learn from other countries' experience?

Tools of Property Tax	Holding/Municipal Tax	Land Development Tax	Inheritance Tax
<b>Tax Base</b>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Most of the selected developed countries have broad tax base (land/improvement/parcel of land and improvement) for holding tax                             <ul style="list-style-type: none"> <li>▪ Holding tax base should be expanded in Bangladesh by including untaxed properties and businesses following the example of the USA, Canada, Australia, and all the selected Scandinavian countries</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Most of the selected countries have broad tax base which includes agricultural, commercial, and residential land or land and improvement</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> All the selected developed countries have broad tax base which includes both financial and non-financial assets</li> </ul>
<b>Tax Exemption</b>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Most of the selected countries limit tax exemptions to essential services, such as properties used for hospitals, schools and other charitable purposes OR to encourage investment</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Exemptions should be as few as possible considering the economic neutrality and administrative efficiency as practiced in Australia and Denmark</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Imposing a modest exemption for small estates and avoiding excessive exemptions to restore revenue potential of the inheritance tax is a common practice in all the selected countries</li> </ul>
<b>Assessment Methodology</b>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Capital valuation (valuation based on current market selling price of similar property) of property is widely practiced in majority of the selected countries except India and Pakistan</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Regular and market-informed valuation of land is conducted as practiced in Australia</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Market-based capital valuation of property is practiced in all the selected countries</li> </ul>

# Section 2: Selected Global Practices of Property Tax

## What to learnt from other countries' experience?

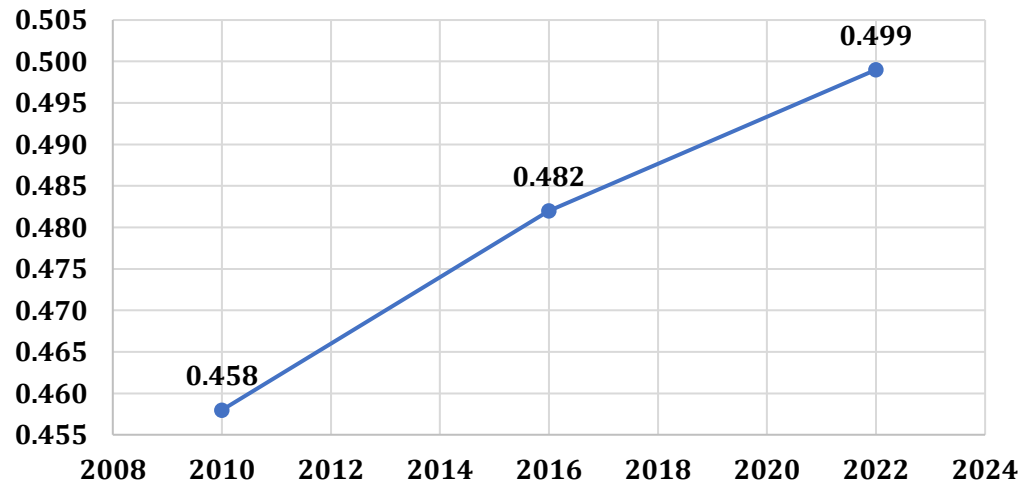
Tools of Property Tax	Holding/Municipal Tax	Land Development Tax	Inheritance Tax
<b>Tax Rate</b>	<ul style="list-style-type: none"> <li>❑ Majority of the selected countries adjust municipal tax rates based on local economic condition and demand, applying classified tax rates.                             <ul style="list-style-type: none"> <li>▪ Determining tax rate by estimating local demand of each municipality should be practiced in Bangladesh</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>❑ Progressive tax rate is commonly practiced in other countries</li> </ul>	<ul style="list-style-type: none"> <li>❑ Progressive rate based on estate value OR flat rate are most practiced in the selected countries                             <ul style="list-style-type: none"> <li>▪ Flat rate is commonly used to avoid excessive tax liability on individuals for encouraging entrepreneurship and investment</li> </ul> </li> </ul>
<b>Administration</b>	<ul style="list-style-type: none"> <li>❑ Holding tax should be collected by the local government authority for reducing administrative costs and better provision of services as practiced by most of the selected countries except Denmark and Sweden</li> </ul>	<ul style="list-style-type: none"> <li>❑ Land development tax should be administered by the local government as administered in Australia, Denmark, and China</li> </ul>	<ul style="list-style-type: none"> <li>❑ Centralised administrative system is practiced in all the selected countries with discretionary power of enforcement and overseeing implementation</li> </ul>



# Section 3: Current State of Property Taxes in Bangladesh - Learning from the Evidence

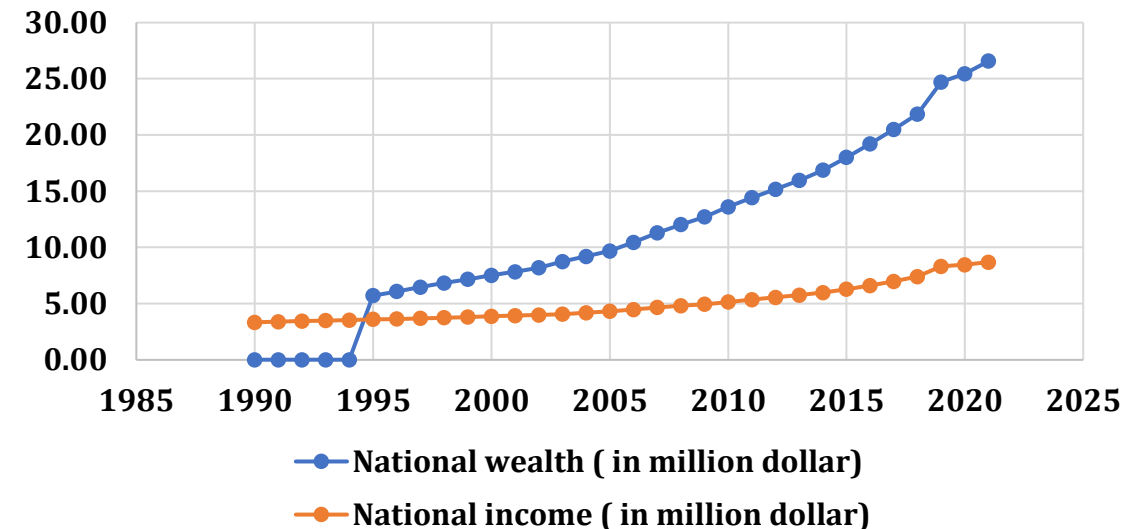
- ❑ Wealth accumulation per adult increased by 3.66 times between 1995 and 2021 compared to the 1.41 times increase in income between the timeframe - wealth accumulation is more than two times faster compared to income
  - This justifies the need to focus on wealth taxation more than income taxation
- ❑ Income inequality is constantly on the rise over the decades
- ❑ This indicates higher potential for wealth tax collection in comparison to income tax

**Income Gini Coefficient**



Source: World Inequality Database (accessed on April 2023)

**Per Adult National Income and Per Adult National Wealth in million dollar**



\*\*\*National income = Net domestic product + Net foreign income  
National wealth = National non-financial assets + Net foreign assets

# Section 3: Current State of Property Taxes in Bangladesh

## - Learning from the Evidence

- Wealth inequality is also significantly higher in Bangladesh
  - According to **World Inequality Database**, in 2021, the bottom 50% population owned only 4.80% of total wealth in Bangladesh compared to the top 10% population, who owned 58.45 % of total wealth
- ❖ **Higher wealth accumulation, rising income and wealth inequality all exhibit the need to tax wealth to correct income and wealth inequality** by redistributing resources among the most vulnerable and marginalised population through enhanced public service delivery and by reducing wealth concentration among a certain portion of the population
- ❖ As wealth includes both financial and non-financial assets/movable and immovable assets which comprise property, **strengthening the existing property tax system is pragmatic given the current economic context of Bangladesh**

# Section 3: Current State of Property Taxes in Bangladesh

## - Learning from the Evidence

There are six major property taxes in Bangladesh that have been legislated at different times –

- Land Development Tax
- Wealth Surcharge
- Holding tax
- Capital Gains Tax
- Stamp Duty
- Gift Tax

➤ The classification of property taxes in Bangladesh is aligned with global property tax composition as per OECD and IMF reports

- Land tax which is the most important property tax across the globe, contributes to very small share of total tax revenue in Bangladesh** – below 0.50 % on an average over the years
- The contribution of wealth surcharge is also very low and **gift tax is negligible**
- The **share of capital gains tax is inflated** as it is combined with the income tax estimation and **data is not available** for only capital gains share
- Holding tax is collected by local government and spent on local budgetary expenditure. Hence, holding tax is not component of total tax revenue** accounted by the central government of Bangladesh

Property Taxes as Share of Total Tax Revenue in Bangladesh (%)

Type of Property Taxes	2017-18	2018-19	2019-20	2020-21	2021-22
Land Development Tax as Share of Tax Revenue (%)	0.82	0.29	0.30	0.34	0.29
Wealth Surcharge as Share of Tax Revenue (%)	0.22	0.23	0.27	0.19	0.18
Stamp Duty Collection as Share of Tax Revenue (%)	1.76	1.87	1.36	1.08	1.13
Capital Gains Tax (+ Income) as Share of Tax Revenue (%)	N/A	29.76	33.98	32.37	25.50
Gift Tax as Share of Tax Revenue (%)	0.0001	0.0001	0.0001	0.0001	0.0001

Source: Authors' compilation based on MoF monthly reports (2018-2022) LRGD yearly reports (accessed on April 2023), NBR Annual report (accessed on April 2023)

# Section 3: Current State of Property Taxes in Bangladesh

## - Learning from the Evidence

- ❑ The **share of Stamp Duty is relatively higher** (around 1.4 % over the years) compared to other taxes despite its nature of being non-recurrent and having relatively lower rate than other taxes
  - The properties are subject to stamp taxes are **also subject to recurrent land development tax and wealth surcharge** which have lower share compared to stamp duty – **indicates towards the gap in collection of these taxes.**

### Two Observations

- ❖ **Land Development Tax and Wealth Surcharge system need to be enhanced in Bangladesh on immediate basis or at least in the short term given their importance in global property tax composition** – Hence, the study has particularly focused on Land Development Tax, Wealth Surcharge besides Holding Tax which is the second most important global Property Tax
- ❖ **Gift Tax system may be revived, modified or replaced with a new property tax system** – Hence, the study has analysed the potential of introducing Inheritance Tax in Bangladesh

# Section 3: Current State of Property Taxes in Bangladesh

## - Learning from the Evidence

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### *(i) Exemption*

- ❑ Exemptions are not clearly defined by law, inarticulate, inconsistent (changed every 2/3years) and not known to general public.
  - **It should be consistent with minimal distortions for several years, preferably at least five years**
- ❑ Large tax exemptions on government's own works and projects contributes to a low tax-to-GDP ratio and these exemptions do not officially appear on record
  - **Government should pay tax for its own projects maintaining required procedures and calculation to ensure a fair tax system**
- ❑ Tax exemptions provided to capital assets held in bonded warehouses and administered by back-to-back LCs are not managed well

# Section 3: Current State of Property Taxes in Bangladesh

## - Learning from the Evidence

### *(ii) Base*

- ❑ Among all the existing property taxes, base of land development tax and holding tax do not require any immediate reform
- ❑ Gift tax has the *weakest base with a large degree of exemption*
  - **The tax exemption can be held up to a certain threshold value of the property but the current exemption on “gifts through will” to non-resident, child or a dependent member should not be continued in an absolute manner without any condition**
- ❑ In the case of Capital Gains Tax, tax bases are not weak, and the exemption of capital gains entirely used for the company’s equity of a start-up business is good for encouraging new investment
  - **Here, the exemption of *movable property solely used for personal use* can be changed by exempting up to a certain level**
    - ✓ The personal property might be gold measured in market price, machinery valued in the cost approach

# Section 3: Current State of Property Taxes in Bangladesh

## - Learning from the Evidence

### *(iii) Valuation*

- ❑ Under **land development tax, capital gains tax and wealth surcharge**, property is assessed based on **acquisition value or deed value of property** instead of the real value at current market price – **it creates significant social and income inequality**
  - Deed value is often very small compared to current market price for the properties bought 30 years before
  - In case of **land development tax, mouza rate** is often used for taxation where there is large discrepancy between mouza rate and actual market price of property. In few cases, especially in rural or peripheral area, mouza rate is higher than current market price
  - In case of **capital gains tax**, fair market price is used in the absence of actual purchasing price
- ❖ **The under-reported property value does not allow to calculate the actual tax assessment liability amount**
- **The valuation basis needs to be corrected and the discrimination between the value of property bought 30 years before and property bought in recent years needs to be resolved through adjustment with current market price**

# Section 3: Current State of Property Taxes in Bangladesh

## - Learning from the Evidence

### *(iii) Valuation – Discrepancy between Mouza Rate and Actual Market Price of Land in Dhaka City*

Comparison between Mouza Rate and Actual Market Price of land in Dhaka, 2023

Location of the Plot	Name of Mouza	Mouza Rate (per Kattah, million TK)	Market Price of Land (per Kattah, million TK)	Mouza Rate as Share of Market Price (%)
Bosila, Muhammadpur	Katashur (Inside the Beri Bhad)	1.88	3.30	57.00
Faydabad, Uttara	Faydabad	2.15	4.00	54.00
Uzampur, Uttar Khan	Uzampur	0.40	0.90	45.00
Faydabad, Uttara	Faydabad	2.18	6.20	35.00
Dhanmondi, Road 15	Dhanmondi	12.33	36.95	33.00
Hazaribag, Dhaka	Kalunagar	0.96	4.66	21.00
Jigatola, Hazaribag, Dhaka	Kulal Mahal	1.07	15.58	7.00
Lalmatia, Dhaka	Katashur (Outside the Beri Bhad)	1.98	35.00	6.00
Dhanmondi, Road 31	Dhanmondi	2.24	45.00	5.00

Source: Mouza rate: Dolil.com, Land price: Bproperty and Bikroy.com (Accessed on April 2023)

- The actual market price of land per Kattah is higher than the government-determined Mouza rate for each of the selected areas of Dhaka city
- On average, Mouza rate is only 29 % of the actual market price of land in selected areas of Dhaka city
- Traditional areas are enjoying tax rebate in comparison to new residential areas – Reflection of power structure?



# Section 4: Implementation Challenges of Bangladesh Property Taxes

## - Gap Analysis

- ❑ Implementation challenges of property tax have been analysed through the lens of **'Policy Variables'** and **'Administrative variables'**
- ❖ **Policy variables of property tax – tax base, exemption, rate, assessment basis, and legal framework**
  - **Related to policy decisions and equity concerns of policymakers**
- ❖ **Administrative variables of property tax - tax base coverage, tax assessment, and collection**
  - **Related to administrative capacity, efficiency and transparency**
  - ✓ **For a given level of property tax policy in place, the only way to improve the system might be to improve the effectiveness of the administrative factors**, such as by expanding tax base coverage, improving property assessment, strengthening tax collection etc.
  - ✓ **If the tax administration is performing at its full capacity on administrative factors, then it may be required for major policy review to improve the performance of the property tax system**, such as to redefine the tax base, reduce unjustified tax exemption or legislating a new law
- ❑ Implementation challenges have been also analysed through **other cross-cutting issues, such as political economy, corruption and data issue**

# Section 4: Implementation Challenges of Bangladesh Property Taxes

## - Gap Analysis

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- ❑ The **policy and administrative variables** are the **instruments** through which a property tax system can be **operated, modified and reformed** – **challenges are interconnected**
- ❑ The **challenges** associated to the variables have been linked to the **three fundamental principles** of this study - **equity, efficiency and transparency**
  - This is useful to understand which challenges need to be resolved to ensure equity, which for efficiency, and which for transparency - **prioritisation**
  - This is also useful to understand **whether/which policy issues or administrative issues** need **immediate or initial reform** based on the **understanding** that **which of the three principles is most absent** in the existing property tax system – **sequencing and pacing**

# Section 4: Implementation Challenges of Bangladesh Property Taxes - Gap Analysis

## Policy Variables Related Challenges of Property Tax

Tools of Property Tax	Challenges
Tax base	<ul style="list-style-type: none"> <li>❑ <b>Multiple property taxes share the same bases – creates double/triple taxation issue</b> <ul style="list-style-type: none"> <li>▪ Taxpayers liable to pay wealth surcharge are also subject to pay holding tax along with income tax on income earned from building ownership                             <ul style="list-style-type: none"> <li>➤ The triple tax burden issue needs to be resolved, and one of the tax burdens should be removed on a conditional basis</li> <li>➤ Here, taxpayers’ liability for three types of taxes can be traced through NID based interoperable database and conditions can be applied as an incentive mechanism to avoid triple taxation</li> </ul> </li> </ul> </li> <li>❑ <b>Tax base of wealth surcharge is controversial – shall surcharge be imposed on current assets (stock) rather than income (the flow)??</b> <ul style="list-style-type: none"> <li>▪ Individuals with significant wealth but no income cannot pay taxes without selling assets, it affects taxpayers’ ability to pay taxes and hinders tax collection                             <ul style="list-style-type: none"> <li>➤ In view of this, holding income as the tax base is pragmatic for a wealth surcharge.</li> </ul> </li> </ul> </li> </ul>
Tax exemption	<ul style="list-style-type: none"> <li>❑ <b>Tax exemptions are too high in Bangladesh, particularly in terms of threshold of property tax value and gift tax – it makes the tax base narrow</b> <ul style="list-style-type: none"> <li>▪ It undermines public morality regarding tax evasion</li> <li>▪ It also requires imposition of higher tax rates to compensate the forgone revenue</li> </ul> </li> </ul>



# Section 4: Implementation Challenges of Bangladesh Property Taxes

## - Gap Analysis

### Policy Variables Related Challenges of Property Tax

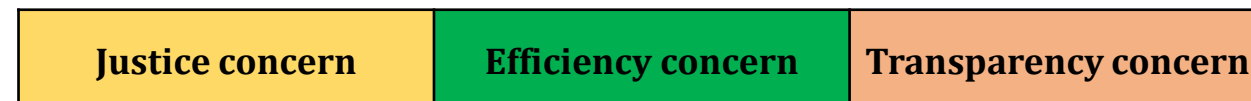
Tools of Property Tax	Challenges
Tax rate	<ul style="list-style-type: none"> <li>❑ <b>High tax rates of wealth surcharge discourage taxpayers from paying tax</b> <ul style="list-style-type: none"> <li>▪ A survey findings suggest that the country's average tax rate of 35% is considered high and is a significant factor behind tax evasion – a <b>35% wealth surcharge is applied in case of net assets above 50 crore</b> <ul style="list-style-type: none"> <li>✓ Such wealthy people are unlikely to disclose their actual amount of total wealth during filing tax returns in an attempt to pay a lower level of surcharge</li> </ul> </li> </ul> </li> <li>❑ <b>Burden of land development taxes is not equally distributed</b> <ul style="list-style-type: none"> <li>▪ Land tax on agricultural land is a major source of revenue in rural areas where the tax rate is flat for everyone, income tax is the major tax in urban areas which is imposed at a progressive rate</li> <li>▪ Lack of access to land records and databases exacerbates the tax burden</li> </ul> </li> </ul>



# Section 4: Implementation Challenges of Bangladesh Property Taxes - Gap Analysis

## Policy Variables Related Challenges of Property Tax

Tools of Property Tax	Challenges
Assessment basis	<ul style="list-style-type: none"> <li>❑ Acquisition value, annual rental value or capital value - all valuation bases are subject to various generalisations and conducted in a notional approach instead of a market-informed approach               <ul style="list-style-type: none"> <li>▪ This is due to the unavailability of data to conduct a market-informed valuation</li> </ul> </li> </ul>
Legal framework	<ul style="list-style-type: none"> <li>❑ Reforming laws periodically has not been carried out for the existing property taxes               <ul style="list-style-type: none"> <li>▪ There have been some changes in property tax collection over the years, such as in the case of land tax, the tax collection process is being automated</li> <li>▪ There have been other amendments regarding rates, but the laws are old</li> </ul> </li> <li>❑ Inconsistent record-keeping affects the management of land records               <ul style="list-style-type: none"> <li>▪ The land records are governed by more than 100 acts, ordinances and regulations, with three types of records maintained by three different offices - Upazila Land Office, Upazila Settlement Office and Sub-Registry Office</li> <li>▪ The multiple land records cause difficulties in land transactions, dispute resolution and taxation</li> </ul> </li> </ul>



# Section 4: Implementation Challenges of Bangladesh Property Taxes - Gap Analysis

## Administrative Variables Related Challenges

Tools of Property Tax	Challenges																					
Tax base coverage	<ul style="list-style-type: none"> <li><input type="checkbox"/> Registration cost of land/flat is very high with all the taxes and fees requirements imposed during the registration process</li> <li>▪ This <b>discourages property registration</b> which in turn affects <b>tax base coverage</b>, tax liability assessment and corresponding tax collection</li> </ul> <div style="text-align: center; margin-top: 10px;"> <p><b>Taxes and fees upon transfer of property in Bangladesh</b></p> <table border="1" style="margin: auto; border-collapse: collapse; text-align: center;"> <thead> <tr> <th style="width: 33%;">Taxes and Fees</th> <th style="width: 33%;">Rates on Land</th> <th style="width: 33%;">Rates on Apartments</th> </tr> </thead> <tbody> <tr> <td>Stamp duty</td> <td>1.5%</td> <td>1.5%</td> </tr> <tr> <td>Registration fee</td> <td>1.0%</td> <td>1.0%</td> </tr> <tr> <td>Capital Gains Tax</td> <td>Max 4.0%</td> <td>Max 4.0%</td> </tr> <tr> <td>Local Government Tax</td> <td>Max 3.0%</td> <td>Max 3.0%</td> </tr> <tr> <td>Value Added Tax (VAT)</td> <td>Max 3.0%</td> <td>Max 4.5%</td> </tr> <tr> <td><b>Total registration fee</b></td> <td><b>12.50%</b></td> <td><b>14%</b></td> </tr> </tbody> </table> </div>	Taxes and Fees	Rates on Land	Rates on Apartments	Stamp duty	1.5%	1.5%	Registration fee	1.0%	1.0%	Capital Gains Tax	Max 4.0%	Max 4.0%	Local Government Tax	Max 3.0%	Max 3.0%	Value Added Tax (VAT)	Max 3.0%	Max 4.5%	<b>Total registration fee</b>	<b>12.50%</b>	<b>14%</b>
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Value Added Tax (VAT)	Max 3.0%	Max 4.5%																				
<b>Total registration fee</b>	<b>12.50%</b>	<b>14%</b>																				



# Section 4: Implementation Challenges of Bangladesh Property Taxes - Gap Analysis

## Administrative Variables Related Challenges

Tools of Property Tax	Challenges
Tax base assessment	<ul style="list-style-type: none"> <li>❑ <b>A significant portion of the property market in Bangladesh is informal</b> <ul style="list-style-type: none"> <li>▪ It makes it difficult to accurately assess property values and to collect taxes from property owners</li> </ul> </li>   <li>❑ <b>The manipulation of property valuation through under/over-reporting may occur due to political interference</b> <ul style="list-style-type: none"> <li>▪ Public representatives may pressure tax officials to undervalue or overvalue certain properties for personal gain or for political gains by aiding notable supporters, leading to inaccurate tax assessment and further eroding public trust in the system</li> </ul> </li>   <li>❑ <b>The problem of determining the annual rental value of property arises from difficulties in identifying ownership, irregular assessment and lack of assessors</b> <ul style="list-style-type: none"> <li>▪ Joint ownership, absentee landowners and non-income groups create significant complexities with tax payment</li> <li>▪ Record keeping during reassessment is inconsistent, making it difficult to identify liable parties</li> <li>▪ The political economy of reforms, like re-election of reforming public servants and resources mobilisation, further hinder the regular reassessment of property</li> <li>▪ Politicians may interfere the selection and appointment of tax officials leading to an absence of qualified personnel - <b>this can result in delays in tax assessment and collection</b></li> </ul> </li> </ul>

Justice concern	Efficiency concern	Transparency concern
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# Section 4: Implementation Challenges of Bangladesh Property Taxes - Gap Analysis

## Administrative Variables Related Challenges

Tools of Property Tax	Challenges
Collection and enforcement	<ul style="list-style-type: none"> <li>❑ <b>There is a lack of public education and outreach among people regarding the obligations to pay property taxes</b> <ul style="list-style-type: none"> <li>▪ A study found that 89% of respondents believe that the NBR should improve their public outreach efforts by providing more information on how to file tax returns and make payments properly</li> <li>▪ 80% of respondents believe that there should be increased public awareness of tax-paying responsibilities through regular publicity, seminars and educational campaigns</li> </ul> </li>   <li>❑ <b>Tax amnesty programmes in Bangladesh create a sense of unfairness among law-abiding taxpayers who pay their taxes on time</b> <ul style="list-style-type: none"> <li>▪ When tax evaders are allowed to avoid penalties and interest on their overdue taxes, it creates a perception that those who pay their taxes on time are being penalised unfairly - this leads to a decline in voluntary tax compliance and overall tax collection as more taxpayers may be inclined to evade taxes in the hope of receiving amnesty in future</li> </ul> </li> </ul>





# Section 4: Implementation Challenges of Bangladesh Property Taxes - Gap Analysis

## Administrative Variables Related Challenges

Tools of Property Tax	Challenges
<b>Collection and enforcement</b>	<ul style="list-style-type: none"> <li>❑ <b>Tax collection is hindered by the lack of adequate administrative capacity</b> <ul style="list-style-type: none"> <li>▪ The lack of penalties and enforcement action makes it easier for people to evade taxes without fear of consequences</li> <li>▪ NBR's ability to detect tax evaders, ease of completing revenue paper forms and proper implementation of online systems are absent in Bangladesh, which are positively correlated to detrimental tax compliance behaviour of taxpayers</li> <li>▪ There have been no changes in the tax collection authorities over the years in the case of property tax. The collection authorities do not have any coordination mechanism, nor do they have adequate infrastructure and manpower to enhance the tax collection with the existing set-up – <b>coordination can be maintained through an intra-operable data system</b></li> </ul> </li>   <li>❑ <b>There is a huge gap in case of actual tax collection and expected tax collection, as evident through the case of holding tax in Narayanganj City Corporation</b> <ul style="list-style-type: none"> <li>▪ Actual holding tax collection in Narayanganj City Corporation is <b>less than 50%</b> of the estimated holding tax collection for the last five years ( FY2019 – FY 2022)</li> </ul> </li> </ul>



# Section 4: Implementation Challenges of Bangladesh Property Taxes

## - Gap Analysis

### Cross-cutting Issues

Tools of Property Tax	Challenges
<b>Political Economy And corruption</b>	<ul style="list-style-type: none"> <li>❑ <b>The institutional culture of the existing property tax administration is dominated by corruption and bureaucracy, particularly for land development tax</b></li>   <li>❑ <b>The issue of land development taxes is often politicised, with politicians interfering in the administration of taxes for their own vested interest</b> <ul style="list-style-type: none"> <li>▪ It leads to unequal application of taxes and undermines public trust in the tax system</li> <li>▪ One of the vital ways political interferences occur is through granting of exemptions or reductions in property taxes to certain individuals or groups based on political considerations rather than objective criteria</li> </ul> </li>   <li>❑ <b>Distressing experiences of taxpayers with official representatives of the tax authorities is a common phenomenon</b> <ul style="list-style-type: none"> <li>▪ Citizens are often left unsatisfied with the services of the AC Land Office – they face challenges due to syndicates created by political leaders, brokers and corrupt officials who charge people for simple services                             <ul style="list-style-type: none"> <li>✓ These syndicates maintain a network with local politicians, making it challenging to resolve the conundrum</li> </ul> </li> </ul> </li> </ul>

Justice concern

Efficiency concern

Transparency concern

# Section 4: Implementation Challenges of Bangladesh Property Taxes - Gap Analysis

## Cross-cutting Issues

Tools of Property Tax	Challenges
Data issue	<input type="checkbox"/> Property tax assessments are often based on outdated or incomplete property information making it difficult to ensure accuracy
	<input type="checkbox"/> Absence of interoperable and intra-operable data system hinders the efficiency of existing property system in view of identification of eligible tax base and estimating optimum tax base coverage, valuation of property and calculating tax assessment liability, and tracking tax evasion
	<input type="checkbox"/> Absence of interoperable and intra-operable data system also affects equity by not allowing to control multiple taxation and to protect taxpayers from multiple tax burden – tracking of tax liability through robust data system can help this issue
	<input type="checkbox"/> The Digital Land Management System (DLMS) has been introduced to update land records but infrastructure and knowledge gaps hinder its effective implementation

Justice concern	Efficiency concern	Transparency concern
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## Section 5: Towards Reforming Property Tax System in Bangladesh

- ❑ Property tax system is already in place in Bangladesh, but it is **underperforming in terms of equity, efficiency, and transparency**– there is a need for reform!
- ❑ The **existing property tax system** provides the **comparative advantage** of having **basic infrastructure**, what it lacks is the right mix of remedial policy and administrative reforms
- ❑ The reform context of Bangladesh property tax system would be -
  1. Addressing **various bottlenecks and opportunities** and proposing **remedial intervention** or **Strategic Implementation Plan** for **improving existing property tax collection**
  2. **Introducing new property tax system**, such as inheritance tax **as a new source of direct tax revenue**

# Section 5: Towards Reforming Property Tax System in Bangladesh

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## How to read the recommendations?

1. **Changes** required in the **existing property tax system**
2. Introducing **new changes** required - coping with **new context**
3. **Pacing** of reform may vary – **immediate term, short term, medium term**
4. **Inter-linkages** among the property taxes, tools of the property tax system, sectors, agencies and recommendations to be realised

# Section 5: Towards Reforming Property Tax System in Bangladesh

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## The reforms required

- ❑ Curb tax evasion - ensure the property holders are paying the due tax
- ❑ Ensure the valuations are based on market values – this is true for land development (e.g., land buying/selling price), holding tax (e.g., return/income from the asset), wealth surcharge (e.g., the current market price of assets), capital gains and stamp duty
- ❑ Gradually rationalise the tax rates – various tax rates on land/house/apartment registration combinedly are found to be a high burden which also discourages the citizens from disclosing the market value
  - However, without other reforms being implemented, such steps may not be advised

# Section 5: Towards Reforming Property Tax System in Bangladesh

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## The reforms required

- ❑ Strengthen tax administration – not only NBR but also other agencies, including local government and land ministry, with a view to improving professional capacity
- ❑ Digitisation and MIS process needs to be prioritised, which should also consider the use of data for analysis and better enforcement
- ❑ Improve the information dissemination system with the introduction and strengthening of the use of social media (e.g., Facebook), websites and hotlines
- ❑ Introduce Alternate Dispute Resolution (ADR) systems for land tax and municipal tax
- ❑ Reform the existing provisions of gift tax – base, rate and, most importantly, exemptions
  - Bring the ‘heba’ system under gift tax until a new, modern inheritance tax is introduced

# Section 5: Towards Reforming Property Tax System in Bangladesh

## Introducing a new, modern property tax – Inheritance Tax

- ❑ The Inheritance Tax may replace the existing Gift Tax
- ❑ Land and any other form of non-financial and financial wealth can be the base for inheritance tax
- ❑ There should be an exemption threshold
  - Properties up to a limit inherited by the spouse, parents or underaged children, and donations to religious and charitable institutions may be exempted
- ❑ A progressive tax rates may be applied with a relatively lower rate to begin with (e.g., 2-3%)
- ❑ Properties should be valued based on the market value
- ❑ Tax may be imposed at the time of transfer of ownership and issuance of a succession certificate



# Section 5: Towards Reforming Property Tax System in Bangladesh

## Interoperability of data

- ❑ At present, different authorities/agencies collect data without opportunities to cross-refer, analyses and interoperability
- ❑ A comprehensive data system needs to be developed
- ❑ This should include NID, TIN, BIN, BO account, bank account and asset register (including land, hold and capital market)
- ❑ NID should provide the reference point to merge all these different sources of information
- ❑ All involved agencies should be able to cross-check and validate any information from these sources
- ❑ New relevant data-related initiatives (e.g., digitisation of land ownership information) should be seen as an opportunity
- ❑ A privacy policy should be in place along with this initiative

# Section 5: Towards Reforming Property Tax System in Bangladesh

## Ensuring the political buy-in

- ❑ Reforming the property tax system is often not a popular choice
- ❑ It essentially disfavours the more affluent and essentially the more powerful segment of the population in a country
- ❑ The public administration may remain comfortable with the status quo
- ❑ Political actors may also shy away considering the possible fall-outs
- ❑ However, more public resources and more equity will provide governments (both at the national and local levels) the freedom to extend better public services
- ❑ Indeed, these reform agenda will require broader discussion with all stakeholders and information dissemination to build consensus
- ❑ One of the ways to put forward such a reform agenda is during the run-up to a national election through election manifestoes of the political parties in a democratic setting—2023 may be an opportune time!

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# Thank You

