Draft

Presentation on

Corporate Income Tax Reform for Graduating Bangladesh: The Justice Perspective

Date: 21 April 2025

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Acknowledgement

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- All the interviewed stakeholders

1. Introduction

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- The United Nations General Assembly has set Bangladesh's graduation from **the Least Developed Country (LDC) category, officially transitioning to a Developing Country in November 2026**
- While this graduation marks Bangladesh's economic development, the transition **may introduce new macroeconomic challenges**
- Since Bangladesh has the lowest tax revenue GDP ratio (8.50% of GPD in FY 24) in South Asia except Afghanistan, one of the most critical concerns in the post-LDC era could be **the mobilisation of domestic resources to meet rising financial demands, particularly as concessional finance diminishes and commercial financing from external sources increases**
- Addressing tax justice is always challenging for the policy makers. Tax authorities in developing countries face challenges in enforcing compliance, leading **to potential tax evasion and avoidance issues affecting the ability of SMEs and individual taxpayers to contribute equitably to tax revenues**
- The goal of tax reform in Bangladesh should be two-fold– (a**) influencing economic growth, income distribution, and social welfare and (b) ensuring fairness and effectiveness of the tax structures in achieving tax justice, is always challenging.**
- Evidently a major tax reform is needed for Bangladesh to ensure a smooth transition from LDC to post-LDC status. L
- Literature suggests several tax reform initiatives of **different countries brought meaningful successes**
- Against this backdrop, this study has been undertaken to identify the reform **agenda of the tax structure of Bangladesh in the post-LDC era**
- The scope of this particular study is limited to issues of **corporate income tax**

2. Objectives

2. Objectives

The following are the key objectives of the study:

a) **Assessing the current corporate tax structure of Bangladesh** along with incentives, exemptions, and associated challenges from the perspective of required revenue generation for a graduated LDC as well as from the perspective of growth and equity;

b) Identifying the areas of **tax reform and related challenges and opportunities** in achieving tax justice in the post-LDC graduation period;

c) Examining the existing tax policies and structures in other graduating LDCs and developing countries with a view to taking lessons on possible **areas of tax reforms,** their associated challenges and opportunities; and

d) Proposing several recommendations that would enable the country to **achieve the target of a 17% tax-to-GDP ratio by FY2030**

3. Conceptualisation and Analytical Framework

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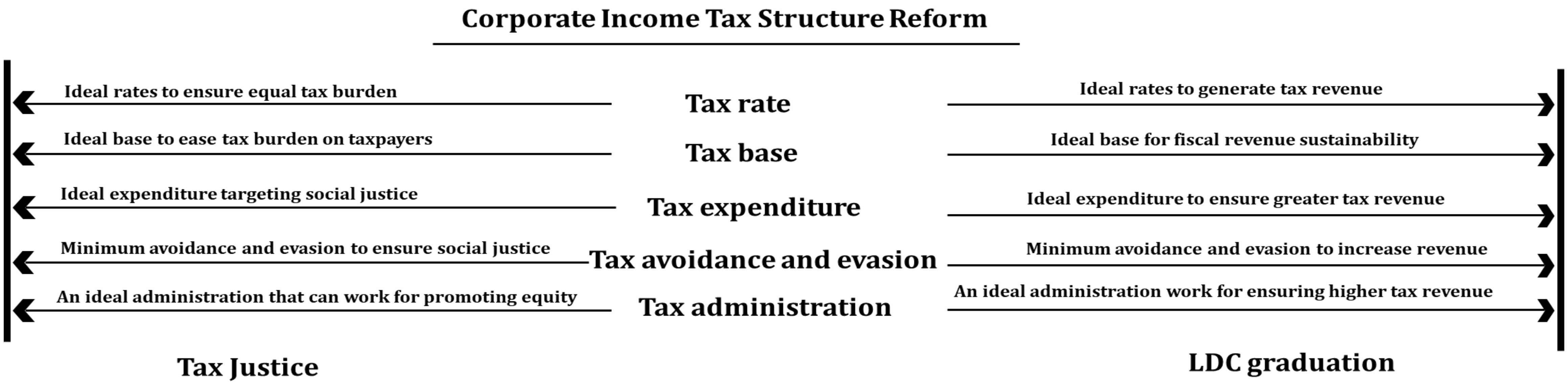

4. Methodology

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- This study has been conducted using both primary and secondary data
- Primary data for the study was collected through a survey administered **to 123 companies located** in **Dhaka and Chattogram.**
- The survey sample was structured to reflect the sectoral distribution of Bangladesh's capital market, ensuring the inclusion of a broad range of industries.
- The survey was conducted **during December 2024**
- In addition to the survey, Key Informant Interviews (KIIs) were conducted **with five industry leaders representing key sectors including garments, plastics, ICT, banking, and leather**
- To further enrich the analysis, the study also included interviews with **one academician and one tax expert, aimed at gaining** expert insights into the corporate tax landscape in Bangladesh.

Table : Sample distribution for the collected surveyed data N= 123

Category	% of Sample
Location wise	
Chittagong	17.1
Dhaka	82.9
Total	100.0
Sector wise	
Bank	8.9
Cement	2.4
Ceramics	2.4
Engineering	10.6
Financial Institutions	5.7
Food & Allied	4.9
Fuel & Power	6.5
Insurance	14.6
IT Sector	2.4
Jute	2.4
Paper & Printing	2.4
Pharmaceuticals & Chemicals	8.1
Services & Real Estate	2.4
Tannery Industries	2.4
Telecommunication	2.4
Textile	14.6
Travel & Leisure	2.4
Miscellaneous	4.1
Total	100

4. Methodology

- Furthermore, a **comprehensive literature review was carried out**, primarily to collect qualitative information relevant to the study
- Another key source of data for the analysis was the audit reports of companies listed on the capital market.
- The final sample comprises **103 companies, representing all sectors listed in the capital market**
- There was a **significant lack of required data for conducting the necessary analysis in this study**, such as sectoral corporate tax revenue, the number of corporate taxpayers by sector, and detailed company-level tax payment statistics
  - As a result, the study **had to largely rely on proxy data and secondary information**, which come with certain inherent limitations such as reduced accuracy, potential inconsistencies across data sources, and limited ability to capture firm-specific or sector-specific nuances
  - A major constraint is that a **substantial portion of the analysis was based on open-access** data from publicly listed companies
  - Firstly, the scale of these companies is relatively small compared to the overall size of the private industrial sector in Bangladesh. Secondly, there have been allegations of data distortion in the financial reports of some publicly listed firms, raising concerns about the reliability of this data
- Moreover, the **Currency Demand Approach (CDA) used** to estimate tax avoidance may yield inflated results, especially given the broader concerns regarding the accuracy of macroeconomic data reported in Bangladesh.
- In addition, the corporate survey **conducted as part of this study relied entirely on self-reported information** of companies' management, which could not be independently verified

4. Methodology

Table : Sample distribution for the collected secondary data N= 103

Industry	% of sample
Bank	16.5
Cement	3.9
Ceramics	2.9
Engineering	11.7
Financial Institutions	5.8
Food & Allied	6.8
Fuel & Power	5.8
Insurance	10.7
IT	2.9
Jute	0.8
Miscellaneous	1.9
Paper & Printing	1.9
Pharmaceuticals & Chemicals	10.7
Services & Real Estate	1.0
Tannery Industries	1.0
Telecommunication	1.9
Textile	14.6

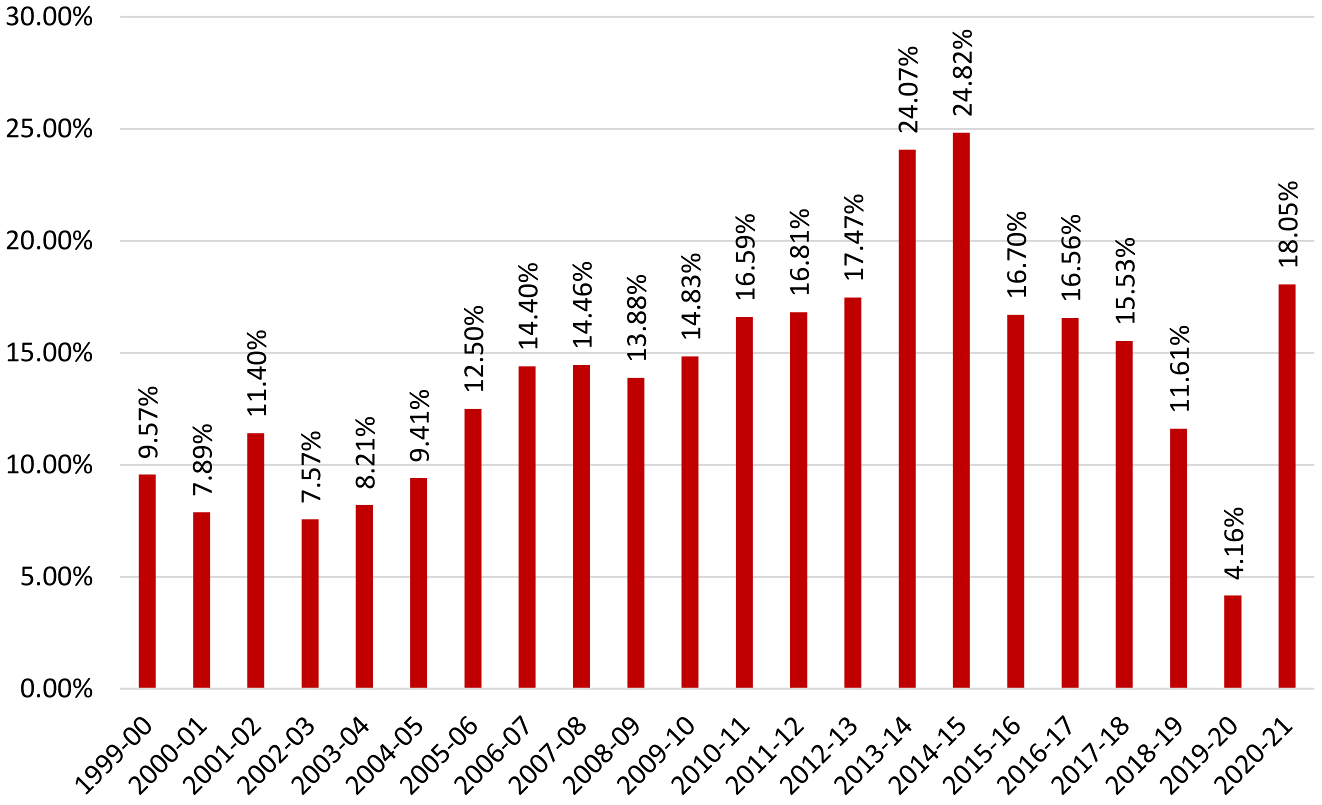
5. Tax Structure of Developing Countries and LDCs

5. Tax Structure of Developing Countries and LDCs

5.1 Corporate Tax Revenue in Bangladesh

- The contribution of corporate tax to total tax revenue **has somewhat increased compared to earlier years**.
- Between FY2000 and FY2010, the share of Corporate Income Tax (CIT) remained below **15%**.
- It gradually rose, reaching a peak **of 24% and 25% in FY2014 and FY2015, respectively**.
- However, this upward trend reversed afterward, **with a sharp decline during the COVID-19 pandemic in FY2020**.
- According to the latest available data from the NBR, the CIT share **stood at 18% in FY2021**, while newspaper sources indicate it reached **20% in FY2024.**

Figure :Share of CIT in Bangladesh's total tax revenue



Source: NBR, BB

5. Tax Structure of Developing Countries and LDCs

5.2 Composition of tax revenue

- According to Okungbe & San-toro (2021) while the average tax revenue for the developed countries is around 20 per cent, the **same is only 11 per cent of GDP for the developing countries**
- This number is also below the number, **15 per cent that Sustainable Development Goals (SDGs) mentions as a required level of revenue to build a strong state** (Apeti & Edoh, 2023).
- Lower income countries historically have **been more inclined to collect large amounts of revenue from indirect tax** than direct tax.
- After the introduction and growth of Value Added Tax (VAT**), consumption tax has become one of the major sources of tax revenue f**or these countries.
- As such, Consumption taxes **represent approximately 62 per cent of all taxes in the lower income developing countries**..
- However, the dependence on indirect taxes decreases with the level of development, and as LIDCs have continued to develop, the tax mix continues to shift. The current 62 per cent consumption tax for **LIDC in fact was over 70 per cent during the 1990s.**
- More **importantly, an improvement can be observed for the LIDC in the area of Corporate Income Tax (CIT)** and Personal Income Tax (PIT).
- In last two decades (2000-20), PIT and CIT **of LIDC increased 1 and 0.8 percentage point of GDP respectively** – a higher growth than property tax and excises (Benitez, Mansour & Vellutini, 2023).

5. Tax Structure of Developing Countries and LDCs

- In case of CIT, the gap between all three country groups rather narrow. Interestingly, the share of CIT in **tax mix is highest for the EMEs than other two country groups**.
- For EMEs, the average share of revenue generated from CIT **for the period 2019 was 19.1 per cent of total tax and social security contribution revenue**.
- Whereas**, for AEs and LIDCs the amounts are 10.4 & 16.1 per cent of total tax and** social security contribution revenue respectively (Benedec, Benitez & Vellutini, 2022).
- Least Developed Countries (LDCs), on the other hand, as a group, **generate significantly less tax revenue compared to other country groups**.
- According to UNCTAD (2023), the median tax-to-GDP ratio in **LDCs was 11.6 per cent,** at the same year the **ratio was 16.3 per cent in other developing countries and 23.2 per cent in developed nations.**
- However, according to UNOHRLLS (2024) **the median tax-to-GDP ratio in LDCs decreased from 12.1 per cent in 2020 to 11.7 per cent in 2022,** Also, during 2020-2022, only 14 LDCs (out of 39 for which data is available) attained the DPoA target of a tax to GDP ratio of at least **15 per cent at least** once
- In OECD countries, personal tax revenues **are about 2.3 times higher than corporate tax** revenues, while in LDCs, corporate tax revenues are more important, with the ratio being 0.7:1 (Baker, 2018).
- This shows that **personal taxes are more significant in developed countries**, whereas **corporate taxes play a bigger role in less developed countries**, where corporate tax policy has become increasingly important

Table : Key statistics regarding global CIT share in total tax revenue

Country Group	CIT Share (%)	Notes
Emerging Market Economies (EMEs)	19.1	Highest among all, due to higher corporate activity
Low-Income Developing Countries (LIDCs)	16.1	Higher role of CIT compared to AEs
Advanced Economies (AEs)	10.4	Relatively less important compared to PIT
Least Developed Countries (LDCs)	CIT > PIT (Ratio 0.7:1)	CIT revenue > PIT revenue

5. Tax Structure of Developing Countries and LDCs

5.3 Rate of CIT

- The global trend in corporate income tax (CIT) has shown a decline in recent years, dropping **from 27.5 per cent in 2006 to about 23.6 per cent in 2016** (Pomerleau & Potosky, 2016).
- Many developing countries maintain **standard CIT rates of 25%, 30%, or higher; for instance, China has a CIT rate of 25%, Malaysia 24%, Indonesia 22%, Pakistan 29%, and Myanmar 22%** (PwC, 2024).
- However, some developing countries offer **significantly lower CIT rates, such as Oman and Uzbekistan at 15%, and Paraguay and Kyrgyzstan at 10%**

Table 4: CIT rates across different country groups

Country Group	CIT Rate
Global Trend (2006-2016)	27.5% (2006) to 23.6% (2016)
Developing Countries	22%-29%
Least Developed Countries (LDCs)	10%-35%
Graduated LDCs	21%-35%

- Additionally, certain countries have different tax rates for various types of corporate entities. In India, domestic companies face rates **of 25% or 30%, or 15% or 22% under specific conditions,** while foreign companies with a permanent establishment (PE) are taxed at 40 per cent, subject to surcharges and cess (PwC, 2024).
- In Nigeria, the corporate tax **rate is 30% for large companies, 20%, and 0% for small companies**.
- Algeria has corporate tax rates **of 19% for manufacturing, 23% for building, public** works, hydraulics, tourism, and thermal activities (excluding travel agencies), and 26 per cent for all other activities (PwC, 2024).
- Similar to developing countries, the statutory **CIT rate of LDCs has decreased over the period of 1980-2006** (Baker, 2018).
- The mean CIT rate for **LDCs fell from 41 to 29 per cent during the same period and it was found that smaller** LDCs (as measured by GDP) having a higher corporate tax rates and experienced a larger drop (Baker, 2018). Some of LDCs have different sectoral CIT rate.
- The CTI rates for **graduated LDCs are Botswana (22 per cent), Cabo Verde (21 per cent), Equatorial Guinea (35 per cent)**

5. Tax Structure of Developing Countries and LDCs

5.4 Tax incentives in developing and LDCs

- Stotsky (2024) compiled a comprehensive list of tax incentives commonly used around the world, including in developing countries.
- Among these are **tax holidays and reduced corporate income tax rates**, which provide **businesses with exemptions or lowered tax rates for a specified period,** often with **provisions to carry forward losses incurred** during this time.
- Accelerated depreciation is another incentive, **allowing certain investments to benefit from faster depreciation** of capital assets, thereby **improving the present value of returns without altering the nominal total tax liability**.
- Additionally, investment allowances offer **deductions from taxable income for a defined portion of an investment**, separate from standard depreciation benefits.
- Businesses may also benefit from an **investment tax credit, which directly** reduces their overall tax liability based on a percentage of the investment made.
- Other common incentives include **tax exemptions and favourable treatments, particularly concerning income tax, value-added tax (VAT), and excise duties**—sometimes extended through special drawback schemes for international trade taxes on imports.
- Furthermore, firms operating **within Special Economic Zones (SEZs) or Export Processing Zones (EPZs) often receive a combination of tax exemptions, favourable VAT and trade tax treatment, and reduced administrative requirements**.
- Lastly, components of the personal income tax system, **including payroll taxes, may also** be subject to preferential treatment, such as **reduced rates or withholding benefits on dividends and interest income**

5. Tax Structure of Developing Countries and LDCs

5.5 Pre and Post LDCs graduation tax revenue scenario

- The key questions for Bangladesh would be what the ideal level of tax-GDP revenue ratio for Bangladesh economy is, how the revenue generation targets can be balanced while minimising economic **distortions, and what corporate tax targets Bangladesh should set to improve its overall tax-GDP ratio**
- Tax **revenue as a percentage of GDP declined following graduation in Botswana and Equatorial Guinea, whereas in countries like Maldives and Cabo Verde, revenue fluctuated but showed signs of recovery post-graduation**.
- **Samoa showed a relatively stable and even increasing trend in tax revenue after graduation**.
- This **variation suggests that LDC graduation might not have a uniform impact on tax revenue**.
- However, **one clear lesson for Bangladesh is that, except for Equatorial Guinea, all these countries maintained a significantly higher tax-to-GDP ratio in their post-graduation phase (15 to 23 % of GDP) than Bangladesh currently does (lower than 10%)**

Table 3: Share of Tax Revenue in GDP of five LDC Graduate Countries before and after LDC Graduation

Botswana (1994)				**Maldives (2011)**			
Pre-LDC Graduation		Post-LDC Graduation		Pre-LDC Graduation		Post-LDC Graduation	
1992	1993	1994	1995	2009	2010	2011	2012
27.85	23.69	19.92	**16.77**	9.1	8.85	12.08	**14.49**
Cabo Verde (2007)				**Samoa (2014)**			
Pre-LDC Graduation		Post-LDC Graduation		Pre-LDC Graduation		Post-LDC Graduation	
2005	2006	2007	2008	2012	2013	2014	2015
21.08	22.74	19.18	**19.42**	20.54	22.69	23.68	**22.54**

Equatorial Guinea (2017)			
Pre-LDC Graduation		Post-LDC Graduation	
2015	2016	2017	2018
11.46	6.38	5.98	6.17

Source: World Development Indicator (2024)

5. Tax Structure of Developing Countries and LDCs

5.6 Tax related good practices in developing countries

- Globally, developing countries have been implanting a number of policies which is yielding increased Tax revenue (as cited in Bachas et al 2021).
- Pomeranz (2015) found that in Chille when the firms were audited, they were forced to report **information about their suppliers in their Value Added Tax (VAT), more taxes were being paid**.
- Naritomi (2019) finds in Brazil that presenting lottery prizes to consumers for **submitting receipts increased targeted firms' reported sales by 21 per cent.**
- Balan et al. (2020) find that **the local elites implementing tax collection in urban Democratic Republic of the Congo are able to leverage information about their communities to collect 43 per cent more property taxes than provincial tax collectors**.
- A study of Krause (2020) **targeting Haiti suggests that when authorities increase enforcement efforts, such as auditing, inspections, or penalties, this can backfire if the underlying public goods are inadequate**
- According to the **study findings of Cohen (2020), SMS reminder messages to taxpayers increased tax payment by 6 per cent in Uganda**
- Also, De Neve et al (2020) estimated that **providing taxpayers with simplified information reduced delayed payments by 23 per cent in Belgium**

Table : Tax related good practices across different countries

Country	Intervention/Policy	Impact/Outcome
Chile	Firm audits requiring reporting of suppliers in VAT filings	Increased tax payments
Brazil	Lottery prizes to consumers for submitting receipts	Targeted firms' reported sales increased by 21%
Democratic Republic of Congo	Use of local elites for tax collection in urban areas	43% more property tax collected than by provincial tax collectors
Haiti	Increased enforcement (audits, inspections, penalties)	Risk of backfiring if public goods provision is inadequate
Multi-country (review)	Various interventions inducing formalisation of firms	Formalisation leads to higher tax revenue
Benin	In-person visits and training on formalisation	Firms more likely to formalise
Sri Lanka	Financial incentives to encourage registration	Boosted formalisation rates
Uganda	SMS reminders to taxpayers	Increased tax payment by 6%
Belgium	Simplified information for taxpayers	23% reduction in delayed payments

5. Tax Structure of Developing Countries and LDCs

5.7 Tax reform for developing countries and graduating LDCs

- Some of the common tax related challenges of developing countries include **narrow tax bases (resulting in fewer taxpayers), low revenues and low reported levels of tax morale** (OECD, 2021).
- In fact, the developing countries, on top their much **lower per capita national incomes, they can only convert a smaller portion of into tax revenue of this earning** (Hearson, 2017
- On the other hand, several Least Developed Countries (LDCs) share the common characteristic **of having a large informal sector. In 2018, the informal economy in LDCs accounted for an estimated 35–40 per cent of GDP, and during 2019–2021, it represented 86 per cent of total employmen**t (UNCTAD, 2023).
- UNCTAD (2018) **notes that a considerable proportion of informal entrepreneurs in LDCs express a willingness to register their businesses but face obstacles such as high administrative burdens, costs, and a lack of information**.
- Overall fiscal capacity of a LDC can be enhanced through : (a**) broadening the tax base by incorporating more sectors, particularly the informal economy; (b) combating illicit financial flows that drain resources; (c) ensuring strong and efficient tax administration systems; (d) reviewing tax exemptions and other fiscal incentives that often erode revenue; (e) avoiding race-to-the-bottom tax competition; (f) strengthening tax compliance mechanisms; (g) enhancing international tax cooperation to tackle cross-border tax avoidance; and (h) improving the management of natural resources, especially critical minerals linked to the global energy transition; i) more diversified tax components that is more progressive and wealth based; j) improving; k) simplification of tax structure (UNCTAD, 2023; UNESCAP 2020**).
- Additionally, the development of the financial sector can play a pivotal role in promoting domestic resource retention, which is vital for sustainable economic growth in LDCs (UNCTAD, 2023).

5. Tax Structure of Developing Countries and LDCs

5.8 Implications of tax reforms in Developing Countries and Graduating LDCs

- Gupta and Jalles (2022) found that changes to personal income tax or improvements in revenue administration can reduce the disposable Gini coefficient and increase the share of income for those at the bottom in developing countries.
- They also suggest that **implementing tax reforms during periods of slow economic growth can more effectively reduce inequality**
- According to Yohou (2020), the impact of tax reform on fiscal space is not straightforward and depends on how well corruption is controlled; tax reform improves fiscal space and tax revenue when corruption control is stronger
- Gnangnon (2019) found that tax reform is positively linked to trade openness of a country with LDCs experiencing a greater positive impact from tax reform on trade openness compared to more advanced developing countries
- Another empirical study of Gnangnon (2022) finds that **extensive tax reform can help reduce public debt**, with this negative effect being **stronger in countries that rely heavily on non-resource tax revenue**
- Judijanto, Husain & Syaiful (2024) **found that the proper tax reform can positively impact on a country's SME sector while fault tax reform can do the opposite**
- Gnangon (2023) it was found that **that tax reform can causes real exchange rate depreciation**
- Torgler and Schneider (2006) investigated the psychological factors influencing individual tax compliance. Their findings suggest that trust in the legal system, government, and parliament, as well as national pride and pro-democratic attitudes, play significant roles in fostering tax compliance among citizens
- Additional factors that may affect tax compliance behaviour include the complexity of the tax structure (Blaufus & Ortlieb, 2009), tax knowledge among individuals (Erickson & Fallan, 1996), age and marital status (Hudson, 2002; Andreoni et al., 1998), rewards for tax compliance (Feld et al., 2006), and the level of religiosity (Torgler & Schneider, 2006)

6. Setting Corporate Income Tax Target Framework for Bangladesh

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- There is no fixed benchmark in global literature that defines the ideal tax-to-GDP ratio required for a country to fully finance its development plans and achieve sustainable economic growth
- However, data indicate that high-income countries maintain an average tax-to-GDP ratio above 15%, while the global average is also close to this level
- This suggests that **Bangladesh should aim for a tax-to-GDP ratio of at least 15% to enhance its fiscal capacity and ensure greater financial stability in the post-LDC graduation phase**
- It is unrealistic for Bangladesh to significantly improve its tax-to-GDP ratio in the short term.
- The government has already developed several **long-term targets in regard to improving tax revenue scenario**
- However, due to changes in the recent political regime, many of these plans, such as the 9th Five-Year Plan, became outdated or invalid**. The Perspective Plan 2041, however, remains a valid and ongoing target for the country**
- This plan serves as a long-term strategy extending through 2041. As part of this plan, Bangladesh aims to **increase its tax-to-GDP ratio to 16.96% from FY 2020 to FY 2041(on average)**
- For the purpose of this study, the benchmark scenario has **been set for the fiscal year 2029-30.**

Table: Key current and future figures regarding the Corporate Tax Revenue of Bangladesh

Key Indicator	Value
Current GDP (FY 2024)	USD 451.47 billion
Current Tax Revenue (FY 2024)	USD 35.67 billion
Projected GDP (FY 2030)	USD 719.25 billion
Targeted Tax Revenue (FY 2030)	USD 122.27 billion
Corporate Tax Revenue Share	20% of total tax revenue
Current Corporate Tax Revenue (FY 2024)	USD 7.13 billion
Required Corporate Tax Revenue (FY 2030)	USD 24.45 billion
Additional Corporate Tax Revenue Needed	USD 17.32 billion
Annual Growth Rate Required	22.79% per year
Yearly Growth Multiple	1.23 times (1.2279)

Source: Authors calculations based on IMF and others

6. Setting Corporate Income Tax Target Framework for Bangladesh

Table : Average Tax Revenue as a Percentage of GDP by Country Income Group (for the year 2021)

Country group	Tax Revenue Ratio
High Income	15.82
Low & middle income	10.78
World	14.26

Source: World Development Indicator (2024)

Table : Tax related target (% of GDP) for Bangladesh stated in Perspective Plan (FY21-FY41)

Year	Tax Revenue	NBR Tax Revenue	Non-NBR Tax Revenue	Non-Tax Revenue
FY 20	9.37	9.05	0.32	1.1
FY21	10.04	9.69	0.35	1.15
FY 22	10.3	9.9	0.4	1.3
FY 23	10.6	10.1	0.5	1.4
FY 24	11.26	10.66	0.6	1.6
FY 25	12.26	11.56	0.7	1.8
FY 30	16.96	16.01	0.95	2.1
FY 31	17.35	16.35	1	2.2
FY 35	19.15	17.75	1.4	2.2
FY 41	21.85	19.85	2	2.3
Average (21-41)	16.47	15.36	1.11	2.02

Source: Ministry of Planning, GoB

7. Review of Current Corporate Income Tax Scenario of Bangladesh

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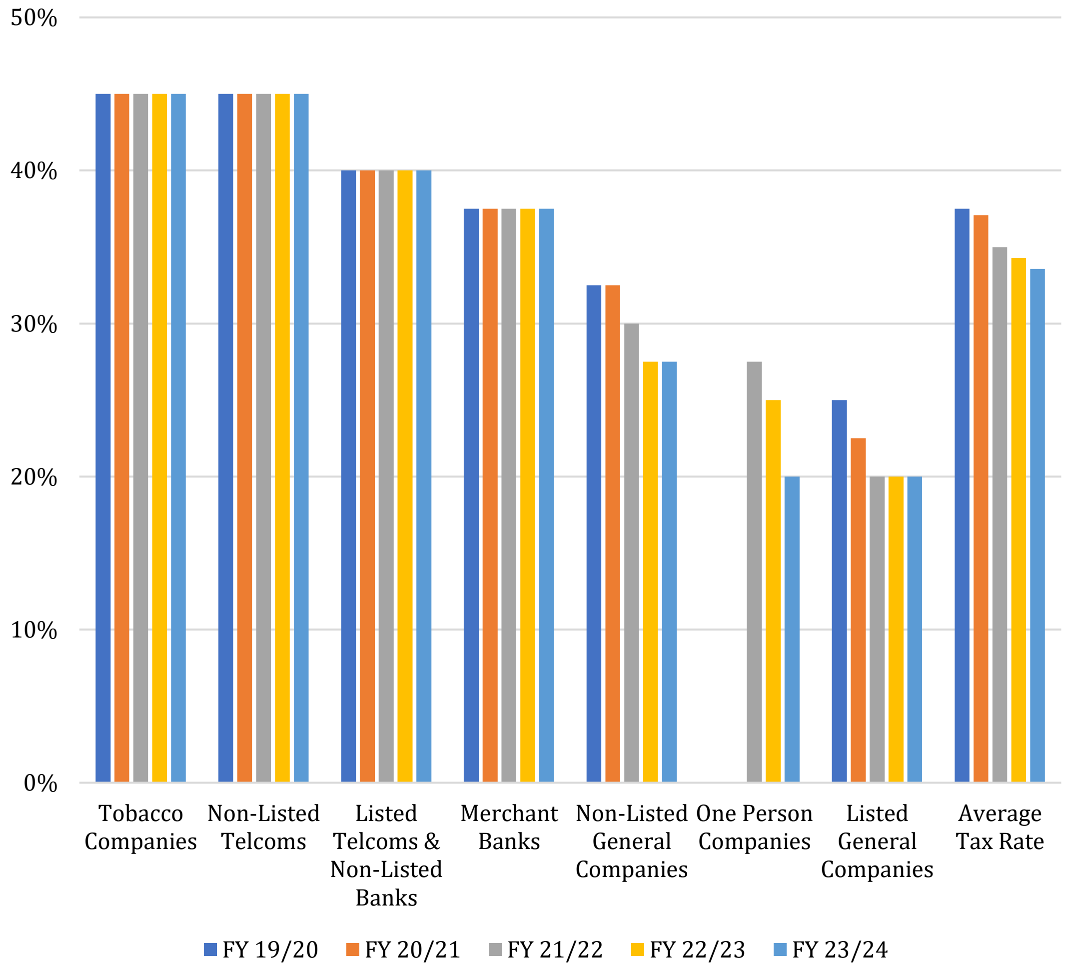
- Over the years, Bangladesh has maintained a few sector-specific rates.
- The highest CIT rate has consistently applied to companies that produce all types of tobacco products, including cigarettes, bidis, chewing tobacco and gul, with a rate of 45% plus a 2% surcharge.
- If the average corporate tax rate across all sectors, or the rate for unlisted private companies (which are the most common type of company) is examined, **a downward trend in the CIT rate over the years can be observed**
- The corporate tax rates for the latest fiscal year FY 2024-25 have largely similar to previous years.
- SMEs engaged in goods production are fully exempt from tax if their annual turnover does not exc**eed BDT 5 million, with a higher exemption threshold of BDT 7 million for women-owned SMEs.**
- A few selected industries, **including 19 ICT businesses and power and energy sector (under certain selections) continue to enjoy full tax exemptions under specific conditions**.

Figure : Corporate Income Tax Rate in Bangladesh over years



Source: Basedon KPMG (2024)

7. Review of Current Corporate Income Tax Scenario of Bangladesh

Table : The latest corporate Tax Rate for Bangladesh

Description	Tax Rate	Tax Rate in case comply with condition
Publicly traded company that transfer shares worth more than 10 percent of its paid-up capital through Initial Public Offering (IPO)	22.5%	20%a
Publicly traded company that transfer shares worth ten percent or less than ten percent of its paid-up capital through IPO	25%	22.5%a
Defined in Income Tax Act, 2023 as a company but non publicly traded company	27.5%	25%a
One Person Company (OPC)	22.5%	20%a
Publicly traded bank, insurance and financial institution (except merchant bank)	37.5%	37.5%
Non-publicly traded bank, insurance and financial institution	40%	40%
Merchant bank	37.5%	37.5%
Company producing all sorts of tobacco items including cigarette, bidi, chewing tobacco and gul	45% (+) 2.5 % Surcharge	45% (+) 2.5 % Surcharge
If a publicly traded mobile phone operator company (that holds at least 10% of its paid-up capital, out of which Pre-Initial Public Offering Placement cannot exceed 5%)	40%	40%
Non-publicly traded mobile operator company	45%	45%
Cooperative Society	20%	20%
Private educational institutions (profit making)	15%	15%
Association of persons (AOP)	27.5%	20%a
Specially exempted industries (selected ones only)		
Export oriented RMG	12%	10%b
Export oriented non-RMG	12%	10%b
Textile sector, including spinning, yarn dyeing, finishing, coning, fabric dyeing, and printing, benefits	15%	15%
Jute goods	10%	10%
Manufacturers of freezers and accessories, refrigerators, air conditioners, motorcycles, and compressors	Applicable CIT rate	10%c (announced to be annulled from FY 26)
Fully tax exempted industries		
19 ICT businesses (AI based solution development, Blockchain-based solution development, Robotics process outsourcing Software as a service, Security service, Data analytics and data science, Application development service, Development and customisation, Test lab service, Listing, website development and service, Assistance and software maintenance service, Information Service, Animation development, Graphics design, Data entry and processing, Platform and e-publication, Freelancing, Centre service Conversion, imaging and digital archiving.)	Applicable CIT rate	0%d
SMEs that involve in goods production	Applicable CIT rate	0%e
Power Sector	Applicable CIT rate	0%f

Conditions: [a]All types of income and receipts and all types of expenses and investments above 5 lakh Taka in each single transaction and above 36 lakh Taka in total annually must be done through bank transfer. [b]LEED certified industry; [c]Along with other fulfilments of conditions, the company must possess its own mold and die-making capacity, a polyurethane foaming plant, a powder coating plant, an active waste management plant. [d] Implementation of cashless transection [e] only for an annual turnover of up to BDT 5 million and BDT 7 million for women-owned SMEs [f] until 30th June 2036 only on income derived from power generation activities

8. Evaluation of Bangladesh’s CIT Structure for Tax Justice and LDC Graduation Perspective

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8.1 Tax Rate

- From a tax justice perspective, the current corporate income tax structure has **both positive and problematic elements**
- While the structure appears to **tax more profitable (such as Telecom, Bank industry) or socially harmful industries (such as Tobacco industry)** are at higher rates and transparent and socially beneficial businesses (such as incentive for green industry) are incentivised with lower tax rates or exemptions, it still **contains several regressive features that undermine the principle of fairness in taxation**
- One issue is **the preferential tax treatment for publicly traded companies**
- These companies benefit from lower **tax rates compared to non-public ones, with the stated goal of encouraging transparency and promoting stock market participation**.
- But it should be noted that, **tax incentives alone are not sufficient to encourage companies to list on the stock market** and as such the IPO landscape in the Bangladesh capital market has seen no significant improvement over the years despite such incentives being in place.
- Rather, this kind of **incentive creates a distortion in tax equity as companies of similar size and profitability end up paying different taxes** solely based on whether or not they are publicly listed, instead of on actual financial performance of the business.
- In fact, it is **most common global practice to incentivise capital market participation to offer lower capital gains taxes, tax deductions, or tax holidays for newly listed companies**.
- Additionally, some **countries offer tax credits for IPO-related costs or provide reduced tax audits and penalties**

8. Evaluation of Bangladesh's CIT Structure for Tax Justice and LDC Graduation Perspective

- Currently, export-oriented sectors, **including the Ready-Made Garments (RMG) industry, benefit from significantly lower corporate income tax (CIT) rates compared to the standard rates applied to other**, particularly domestic-oriented, sectors.
- From a tax justice perspective, while **these significant reduced rates aim to enhance the global competitiveness of these industries,** they also contribute to **tax imbalances by unevenly distributing the tax** burden across sectors
- When comparing Bangladesh's CIT rates for its three major export-oriented industries with those of its key competitor countries, it is evident that the standard CIT **rates in those countries generally range between 20% and 30%.**
- This suggests that Bangladesh could reasonably raise the **CIT rate for its export-oriented sectors to as high as 19% and can still maintain a competitive edge** while at the same time promoting greater tax equity across all industries.
- In fact, tax rate incentives can be more **effectively tailored to the specific needs of selected companies within a sector which would minimally affect the tax justice perspective**.
- For example, in India, newly established domestic manufacturing companies are offered a **subsidised tax rate of 19%,** compared to the **standard corporate tax rate of 25-30%**

Table : CIT rate of three key industries in different competitor countries

RMG		Pharmaceutical		Leather	
Country	**Standard Tax Rate**	**Country**	**Standard Tax Rate**	**Country**	**Standard Tax Rate**
Vietnam	20	India	25-30	Vietnam	20
India	25-30	China	25	China	25
China	25	Egypt	22.5	India	25-30
Cambodia	20	Turkey	25	Italy	20-24

Source: Different web portals

8. Evaluation of Bangladesh's CIT Structure for Tax Justice and LDC Graduation Perspective

- Moreover, according to one interviewed tax **expert, a large tax cuts and tax holidays for certain industries, especially when applied unevenly across sectors, create higher opportunities for tax avoidance**.
- Businesses may engage in **strategies such as profit shifting, where** they move profits from higher-taxed sectors to lower-taxed ones in order to reduce their overall tax liabilities.
- It should also be noted that Bangladesh is a member of **the OECD/G20 Inclusive Framework on Base** Erosion and Profit Shifting (BEPS).
- Multinational **enterprises often shift profits to low- or no-tax jurisdictions to reduce their global tax burden**.
- The introduction of a global minimum tax aims to curb such tax avoidance by ensuring that large multinational enterprises pay a **minimum effective tax rate of 15% in every jurisdiction** where they operate.
- In line with this initiative, **Bangladesh has committed to supporting the implementation of the global minimum tax** and is currently assessing the steps required for its eventual adoption.
- From this point of view, the **current 10-12% tax rate are not consistent** of the initiative.
- Moreover, by providing substantial tax cuts to export-oriented industries**, the contributions of domestic-oriented industries are being undervalued, another issue of tax justice**
- The exemption of SMEs income from tax is the positive initiative from the point of tax justice.
- However, the range of an annual **turnover of up to BDT 5 million and BDT 7 million for women-owned SMEs appeared to relatively low, and businesses exceeding this limit likely to face steep jumps in tax rates**, which in turn can discourage their business expansion or reporting true turnover amount.

8. Evaluation of Bangladesh's CIT Structure for Tax Justice and LDC Graduation Perspective

- The tax structure of Bangladesh currently has provision for minimum corporate income tax, meaning that regardless of profit or loss, a firm has to pay certain taxes to the government in every fiscal year.
- Generally, the **rate is 0.6% of gross receipts, while for mobile phone operators and tobacco manufacturers the rate is 2%.**
- Banks, insurance firms, and financial institutions typically have a 0.6%–1% minimum tax, while export-oriented industries benefit from a lower rate of 0.5%.
- While this minimum tax provision ensures that all firms contribute to public revenue regardless of profitability, **it hampers the objective of tax justice**
- Given the minimum tax is on the revenue, firms with low profit margins may end **up paying a higher tax amount of tax than profitable firms**.
- The minimum tax structure rather should have **a tiered minimum tax system based on net profitability**

Table : Maximum Effective Tax Rate (ETR) (Current Tax Expense/Net Profit Before Tax) for certain sectors (for listed companies only

Sector	Maximum	Minimum
Bank	66%	13%
Cement	65%	27%
Ceramics	47%	12%
Engineering	73%	9%
Financial Institutions	59%	34%
Food & Allied	65%	9%
Fuel & Power	56%	6%
Paper and Printing	12%	6%
Pharmaceuticals & Chemicals	28%	3%
Telecommunication	65%	56%
Textile	61%	8%
Miscellaneous	24%	4%

Note: a) All these analysed firms are listed in capital market, hence already a subsidised corporate tax rate applied to this companies. b) The calculation is for only companies that reported profit in FY 2022-23. c) A total 103 companies' (that only made profit in that fiscal year) data have been considered for the calculations.

- Due to the presence of **advanced tax, minimum tax, incentives, exemptions, and deductions, differences in accounting and taxable profit, a firm's effective tax rate can differ from the stipulated corporate tax** rate.
- This differences in the effective tax rate can arise for several reasons.
- One reason could be, while firms **usually report their accounting profit in financial statements, taxes are assessed based on taxable profit, which is calculated differently.**
- The tax authority does not **allow all types of business expenses to be deducted and imposes caps on certain categories** of expenses

8. Evaluation of Bangladesh's CIT Structure for Tax Justice and LDC Graduation Perspective

- However, according to Key Informant Interview (KII) respondents, this approach often creates challenges for businesses.
- Tax officials, who typically do not have **business backgrounds, sometimes arbitrarily disallow legitimate expenses because they lack a nuanced understanding of business operations and the variability of costs across different stages** of the business cycle
- Furthermore, **the list of deductible items used to calculate taxable profit is not regularly updated and** not always reflect ongoing business realities
- The **differences between effective and statutory tax rates can also arise from variations in the sources of income** within a company. For instance, a listed textile company may generate revenue not only from its core business of textile production but also from other income sources such as interest on bank deposits, dividends from investments, or capital gains
- Based on data from 103 publicly listed profit-making firms for FY 2023, **the average overall effective tax rate across all sectors is found to be 31%**
- Although **Bangladesh's corporate tax policy does not feature explicitly progressive rates, the regression findings suggest a near-proportional relationship between profit and tax paid among listed firms**
- Despite coefficient for log profit before tax **suggests the presence of vertical equity to some extent for the listed companies, this may also result from Bangladesh's current higher sectoral tax rates in more profitable industries (such as Bank, Telecommunication) or perhaps due to stricter audits and adjustments applied to high-profit firms by the tax authority**

Table : Estimated value for regression model that measured vertical equity

Variable	Coefficient	Std. Error	p-value
Intercept	-2.033	0.638	0.002
Log (Profit Before Tax)	1.026	0.082	0.000 ***
Log (Revenue)	-0.002	0.110	0.987
Log (Size of Assets)	0.113	0.101	0.266
Adjusted R Square = 0.783			
F-Value = 122.82			

Source: Authors calculation

8. Evaluation of Bangladesh's CIT Structure for Tax Justice and LDC Graduation Perspective

- The telecommunication sector appears to have the highest relative tax burden with a ratio of **1.46, indicating it pays 46% more in tax relative to its profit share**
- Similarly, **financial institutions (1.11) and banks (1.09) also contribute disproportionately higher taxes, possibly due to stricter regulatory oversight or fewer available deductions**
- In contrast, sectors **like cement (0.93) show a near-proportional relationship between profit and tax, suggesting an equitable tax burden**
- However, several key sectors**, including textile (0.78), food and allied (0.74), engineering (0.73), and ceramics (0.73), contribute less to taxes relative to their share of profit**
- From a tax justice **perspective, the disparities in average relative tax burden across sectors suggest a lack of horizontal** equity, as firms with similar profit levels are not contributing proportionately to tax revenue

Table : Average Relative Tax Burden (Share of Total Current Tax / Share of Total Profit Before Tax)

Sector	Share of burden
Telecommunication	1.456966
Financial Institutions	1.114053
Bank	1.087455
Cement	0.925759
Textile	0.780602
Food & Allied	0.736394
Engineering	0.732824
Ceramics	0.726657
Fuel & Power	0.550289
Insurance	0.520493
Pharmaceuticals & Chemicals	0.41850
Paper & Printing	0.212637
IT	0.124421

Source: Authors calculation

- A similar situation can be **observed in the case of another proxy measures of horizontal equity as** well
- The value **found for Bangladesh is 0.34233**, indicates that firms within the same profit bracket are experiencing varying tax burdens, likely due to sector-specific tax rates and other distinguishing attributes
- While not extremely **high, this level of inequality suggests room for improvement in aligning tax obligations more closely with horizontal equity**

8. Evaluation of Bangladesh's CIT Structure for Tax Justice and LDC Graduation Perspective

- In fact, regarding **the progressiveness of Bangladesh's corporate tax structure, the conducted survey results align closely with the findings based on secondary data.**
- A significant **portion of the surveyed corporate respondents (43.1%) categorises the Bangladesh corporate tax system as "moderately progressive**."
- A smaller percentage (22.0%) consider the system "somewhat progressive," while 26.8% view it as **"not progressive at all." Only 8.1% of the respondents believe that the tax system is "significantly progressive" (7.3%) or "highest progressive" (0.8%)**
- Considering more favourable scenario in which Bangladesh reaches the **corporate profit levels typical of other developing countries (i.e., 15% of GDP by 2030), the required effective tax rate would be only 23%**.

Table: Perception of Corporate Entities on the Progressiveness of the Tax System

Category	% of corporate respondent
Not progressive at all	26.8
Somewhat progressive	22.0
Moderately progressive	43.1
Significantly Progressive	7.3
Highest progressive	0.8
Total	100

Source: CPD-CA Survey

Table : Preferred Corporate Tax System for Bangladesh by Respondent Companies

Type of tax system	% of corporate advocates
Flat rate for all sectors	7.3
Sector-specific rates	92.7

Source: CPD-CA Survey

- The survey findings also indicate that, on average, businesses expect a corporate **tax rate of 17.6%, which is lower than the current corporate tax rate.**
- When disaggregated by sector, it can be observed that all **sectors seek a reduction in their corporate tax rates**, with industries like tannery and **paper & printing requesting the lowest possible tax rate (8.6%**).
- While this is the preference of businesses**, tax authorities should continue to explore** opportunities to reduce tax rates for companies.
- **be only 23%.**

8. Evaluation of Bangladesh's CIT Structure for Tax Justice and LDC Graduation Perspective

Table : Expected CIT rate of the surveyed respondent

Category	Preferred tax rate by businesses (mean)
Overall	17.6
Sectoral	
Bank	28.1
Cement	14.0
Ceramics	12.7
Engineering	17.3
Financial Institutions	26.4
Food & Allied	14.3
Fuel & Power	15.6
Insurance	25.3
IT Sector	12.7
Jute	11.0
Paper & Printing	8.3
Pharmaceuticals & Chemicals	15.3
Services & Real Estate	18.7
Tannery Industries	8.3
Telecommunication	20.0
Textile	10.3
Travel & Leisure	18.8
Miscellaneous	14.0

Source: Conducted survey by CPD and CA

8. Evaluation of Bangladesh’s CIT Structure for Tax Justice and LDC Graduation Perspective

8.2 Tax Base

- for FY 2023–24, the return submission rate declined even further to **only 9% of registered companies, indicating widespread non-compliance or ineffective enforcement**
- Over the years, the tax burden on **individual companies has nearly doubled, rising from BDT 1.09 crore in FY 2016-17 to BDT 2.09 crore in FY 2020-21 and BDT 1.94 crore in FY 2021-22.**
- According to estimates, **if the tax authority aimed to collect the same amount of total corporate tax revenue from all eligible corporate taxpayers, the per-company tax burden could be reduced by as much as 75%**
- Given that the current total number of registered companies **is 288,000, this would mean that about 59% of the registered companies would need to comply with tax filing to achieve the revenue goal for 2030**.

Table : Corporate tax base related different indicators

Fiscal Year	Number of corporate tax return submission	Number of Corporate Taxpayers	Return Submission as % of Tax Payer	Taxpayer as % of Registered companies
2016-17	29215	75144	39	-
2017-18	27286	79870	34	-
2018-19	27680	84435	33	-
2019-20	25250	75452	34	-
2020-21	28980	114025	26	11
2021-22	30042	-	-	11
2022-23	-	-	-	-
2023-24	24381*	-		9*

Note: *This particular data was found at The Business Standard
Source: NBR Annual Reports

Table : Estimation of needed tax expansion to meet 2030 target

Fiscal Year	Current per taxpayer corporate tax burden (in Crore BDT)	Tax burden if all the taxpayers submit returns
2016-17	1.09	0.42 (-61% less burden)
2017-18	1.32	0.45 (-66% less burden)
2018-19	1.21	0.40 (-67% less burden)
2019-20	1.47	0.49 (-67% less burden)
2020-21	2.09	0.53 (-75% less burden)
2021-22	1.94	-

Table : Estimation of needed tax expansion to meet 2030 target

Category	Value
Average (for last six years) the individual tax burden	BDT 1.505 crore
Number of Taxpayers needed at current trend to achieve 2030 target (targeted revenue divided by the individual tax burden)	170,582
Share of registered companies* needed to pay tax to achieve 2030 target (best case scenario)	59%
Share of registered companies* needed to pay tax to achieve 2030 target (worst case scenario)	94%

8. Evaluation of Bangladesh’s CIT Structure for Tax Justice and LDC Graduation Perspective

8.3 Tax Expenditure

- The substantial tax expenditure directed toward **the power and energy sector is difficult to justify**, particularly when a large **share benefits fossil fuel-based power producers**, who contribute heavily to carbon emissions. Phasing out tax incentives specifically for these high-emission producers could free up valuable fiscal space to support more socially beneficial sectors such as education, poultry, and fisheries, which currently receive minimal support
- Moreover, several Key Informant Interview (KII) respondents **questioned the continued tax breaks for the Ready-Made Garments (RMG) and textile sector**. **While this industry has been a cornerstone of Bangladesh’s economy, many argue it is now mature enough to operate under standard tax rates**.
- Preferential rates**, they suggest, should instead be targeted at high-potential but emerging industries and SME businesses that genuinely require fiscal support to grow. This support must not be provided long-term; the duration of these benefits needs to be limited to a specific number of years.**
- A dedicated, **measurable framework must be established to identify which sectors qualify for these benefits, rather than selecting industries based on arbitrary choice**s.
- Interestingly, **interviewed industry representatives from the RMG sector acknowledged their readiness to pay higher taxes**, **provided that they receive timely refunds of any advance or source tax adjustments and subject to no harassment from the tax officials**
- Proponents of **preferential tax rates for the RMG and te**xtile sectors often argue that such incentives increase their investable resources, thereby encouraging greater investment.
- However, the findings of the survey regarding this issue does not provide any conclusive scenario**. The majority of the surveyed businesses (57%) who receive tax incentive from the** government believe that investment decisions depend on a range of factors **beyond tax benefits**

8. Evaluation of Bangladesh's CIT Structure for Tax Justice and LDC Graduation Perspective

Table : Perception of business entities regarding tax incentive and investment
Source: Survey conducted by CPD-CA

Category	% of surveyed businesses
Tax incentive alone can encourage investment	42.7
Tax incentive alone can not encourage investment	57.3

Table : Investment behaviour of surveyed businesses by tax rebate status

Category	Received tax rebate	Did not receive tax rebate
Made new investment	23.6%	65.9%
Did not make new investment	0.0%	10.6%

Source: Survey conducted by CPD-CA

Table : Size of Corporate Tax Expenditure in Bangladesh for FY 2021-22

Category	Value
Estimated tax expenditure for CIT by NBR	BDT 71,394 crore
In terms of GDP	1.8%
In terms of total tax revenue	22%
Share of total corporate tax revenue	123%
Sectoral tax expenditure (in BDT crore)	
Share Capital Gain	11,246 (16%)
Microcredit/Social Welfare	11,134 (16%)
Power and Energy	7,611 (11%)
Garments/Textiles/Accessories	4,646 (7%)
Economic Zones and Hi-Tech	4,022 (6%)
Dividend	2,414 (3%)
Exports other than Garments	1,910 (3%)
Exports Cash Incentive	1,537 (2%)
IT/Software	1,008 (1%)
Education	284 (>1%)
Poultry/Fisheries	168 (>1%)
Other	25,414 (36%)

Source: NBR (2024), and NBR Annual Report

8. Evaluation of Bangladesh's CIT Structure for Tax Justice and LDC Graduation Perspective

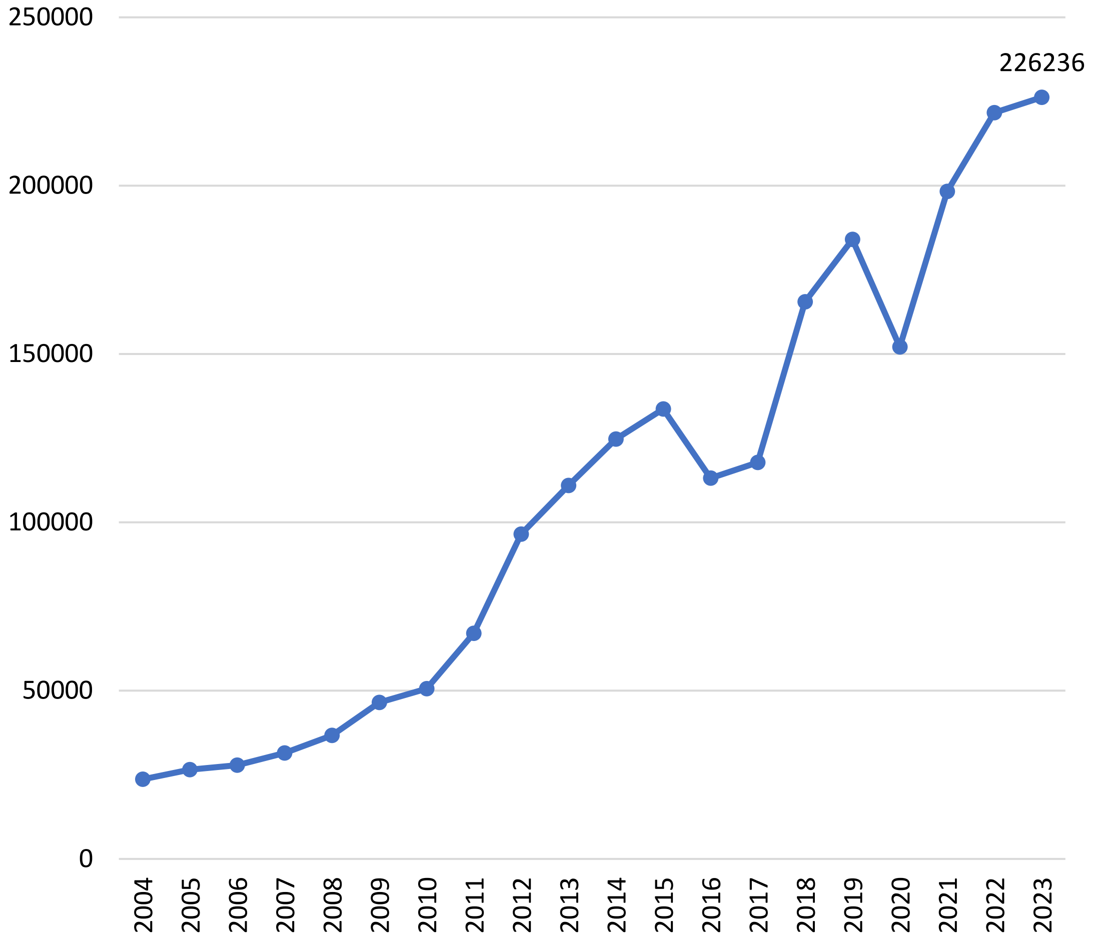
- A cross-tabulation of the survey data presents a mixed picture: **while companies that received tax rebates all made investments, a large majority of companies that did not receive rebates also invested**
- This suggests **that tax rebates may be positively associated with investment, but they are not the sole determining factor, as many firms invest even without them**
- Bangladesh can **consider adjusting the tax incentive for power & energy, and garments, and textile sector**
- Even a partial reduction **of these incentive could substantially increase the amount of corporate tax reven**ue
- It should be noted that **Bangladesh will not be able to continue export-related cash incentives (including for RMG and Non RMG sector) after its graduation from Least Developed Country (LDC) status**
- According to World Trade **Organization (WTO) rules, direct cash incentives for export-oriented sectors are generally not permitted for countries that are no longer classified as LDCs**
- Rather, Bangladesh **can restructure some portion of its incentives in the form of tax exemptions, duty drawbacks, or investment credits to continue supporting its export sectors while complying with international trade regulations**

8. Evaluation of Bangladesh's CIT Structure for Tax Justice and LDC Graduation Perspective

8.4 Tax Evasion and avoidance

- Moazzem et al. (2022), using a qualitative approach, estimated the total amount of tax evasion in Bangladesh to range from BDT **418 billion to BDT 2,230 billion**.
- This study, however, adopts a quantitative approach to predict the extent of tax evasion in Bangladesh. While all methods for estimating tax evasion come with inherent limitations.
- Among these methods, **the Currency Demand Approach (CDA) has been employed to predict tax evasion, despite its own set of limitations including its narrow focus on physical currency, failure to account for financial innovations**, and disregard for behavioural and institutional factors.
- The estimated **results suggest that tax evasion in Bangladesh reached approximately BDT 226,236 crore in 2023**.
- A notable rise began in 2011, with tax evasion estimates climbing significantly, reaching **BDT 96,503 crore in 2012 and more than doubling to BDT 133,673 crore by 2015**
- Assuming 50% of this figure corresponds to corporate tax evasion (reflecting the corporate tax share in total tax revenue), the estimated corporate tax evasion in 2023 would amount to roughly **BDT 113,118 crore.**

Figure : Estimation of tax evasion in Bangladesh using Currency Demand Approach (BDT Crore)



8. Evaluation of Bangladesh’s CIT Structure for Tax Justice and LDC Graduation Perspective

- Tax evasion in Bangladesh is **caused by high tax rates, weak enforcement, complex laws, and widespread corruption within the tax system.**
- These issues, combined with a large informal economy and **low taxpayer trust, undermine compliance and encourage evasion practices** (Ahmed, 2018)
- From a tax justice perspective, **high levels of tax evasion undermine compliance by discouraging honest taxpayers and increasing the burden on those who follow the law**
- It also disrupts the **goal of equitable wealth redistribution across society**
- On the other hand, in the context of LDC graduation, **the rising trend of tax evasion signals the need for enhanced preparedness of the tax authorities, as graduation may attract more investment especially from multinational companies, potentially widening the scope for tax avoidance and evasion**
- For the post-graduation period, along **institutional strengthening, digital infrastructure upgrades, and reforms in tax policy Bangladesh must actively look forward to aligning with global agreements and** extending mutual cooperation with other countries

9. Evaluation of the Tax Administration of Bangladesh

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9.1 Structural Challenges

- **Notably, 82% of surveyed businesses believe that the current tax rates imposed on them are unfair, identifying this as one of their major challenges**
- In addition, a lack of accountability among tax officials, widespread corruption, and **the absence of a fully digital tax submission system were reported as key concerns by 79%, 72%, and 70% of respondents, respectively**
- Furthermore, **65% of businesses reported persistent disputes with tax officials regarding the calculation of** their payable tax amounts
- This issue **was echoed by many interviewed business leaders, who claimed that tax officials often impose arbitrary tax assessments without proper justification or prior communication**.
- Such practices, **they argue, create an intangible burden that often outweighs the tax itself,** making the overall tax practice unfair.
- Moreover, there is a prevailing **sense of distrust among the surveyed business entities regarding the extent to w**hich their paid taxes will be utilised in ways that benefit their businesses

Table : Key tax related challenges perceived by the surveyed businesses

Category	% of surveyed respondents
Corruption among tax officials	72.4
Manual processes in tax filing	69.9
Lack of accountability among tax officials	78.9
Trust issues between companies and tax officials regarding tax estimation	65.0
Unfair imposition of corporate tax rates	82.1

Table : Trust of having benefit against paid taxes

Category	% of surveyed respondents
No trust	35.0
Somewhat trust	38.2
Moderately trust	18.7
Significantly trust	6.5
Full trust	1.6

Source: Survey conducted by CPD and CA

9. Evaluation of the Tax Administration of Bangladesh

9.2 Process Related Challenges

- ❑ if the cost of collecting taxes becomes disproportionately high relative to the revenue generated, it can be seen as inefficient and a potential waste of resources
- ❑ According to the conducted survey data, on average, a company in Bangladesh has to **spend 5.27% of its total tax paid to prepare tax** return-related materials and complete the submission process.
- ❑ In terms of time, the survey finds that it **takes an average of 34.2 days for** a company to prepare the necessary tax-related documents.
- ❑ However, maximum number of days for a company is found as **high as 180 days, supporting the statement of interviewed stakeholders that the** higher complexity of tax structure as well as of the tax preparation process
- ❑ The survey also reveals that resolving a tax dispute in Bangladesh takes an average of **93.2 days, with some cases being resolved in as little as 3 days and others taking up to 600 days**

Table : Tax file preparation related indicators

Category	Value	Minimum	Maximum
Cost of preparing for tax submission	5.27% of tax paid on average	0.0%	62.61
Days take to complete take related documents	34.2 Days (on average)	2 Days	180 Days
Number of days needed to solve tax dispute	93.2 Days (on average)	3 Days	600 Days

Source: Survey conducted by CPD and CA

Table : Tax adjustment related issues faced by surveyed companies

Category	Value
% of the surveyed companies face problem while adjusting tax refund	40%
% of surveyed companies was asked for bribe by tax official	45%

Source: Survey conducted by CPD and CA

- ❑ **40% of the surveyed companies reported facing problems while adjusting their tax refunds**, indicating inefficiencies and delays in the refund process
- ❑ Additionally, **45% of the surveyed companies stated that they were asked for a bribe by tax officials (in FY 23), indicating lack of transparency and corruption within the tax administration.**

9. Evaluation of the Tax Administration of Bangladesh

9.3 Digitalisation of tax submission procedure

- The reduction **of** complexity and increase of accountability of tax processing could be ensured if the entire submission process were fully digitalised
- According to the **conducted survey, only 25% of the surveyed companies submit their full tax returns digitally.**
- Moreover, the survey **also 44% of the companies reported having no option to submit their tax returns digitally at all, likely due to the absence of a fully functional digital tax system of tax** authority, limited motivation, awareness or access to the necessary digital infrastructure of the taxpayer companies.

Table : Status of digital return submission in FY 23
Source: Conducted survey by CPD and CPD

Category	Value
% of the surveyed companies submit their tax 100% digitally	25%
% of surveyed companies submit their tax 100% manually	44%
Overall % of the process of tax submitted digitally	39%

Source: Survey conducted by CPD and CA

- According to interviewed stakeholders, there is a certain degree of reluctance among some businesses to use digital platforms for tax submissions and **some and NBR officials also discourage it, as these systems reduce opportunities for tax avoidance and limit the potential for bribery.**
- According to conducted, **KII businesses are facing additional challenges due to stern tax regulations that increase their tax burden to a higher extent.**
- These **challenges include minimum tax on gross receipts even during losses, limitations on allowable expenses, advance tax requirements for appeals, and excessive powers exercise of tax officials**

10. Recommendations

10. Recommendations

10.1 Tax Rate

1. The corporate income tax (CIT) structure should **be gradually reformed to ensure that the statutory tax rate for both** export-oriented and non-export sectors is **not lower than 15%, aligning with the global minimum tax commitment under** the OECD/G20 Inclusive Framework while still preserving Bangladesh's competitive advantage.

    1.1 In the **forthcoming FY 2025–26 budget**, the government should consider raising the current corporate income tax (CIT) rate for export-oriented industries, including the ready-made garments (RMG) sector, from **12% to 15%.**

2. The current flat reduced corporate tax rate for all listed companies should be **reformed with performance-based or conditional incentives, such as tax benefits linked to capital investment, export growth, or employment generation**. Globally practiced alternatives such as tax credits for IPO-related costs, temporary tax holidays for newly listed firms, or reduced audit scrutiny, can offer more targeted and equitable support

2.1 In the forthcoming FY 2025–26 budget, the government can consider minimising the **tax cut solely based on listed on the market. Rather, the government can reform the structure with performance-based or conditional incentives, such as tax benefits linked to capital investment, export growth, or employment generation or introduce alternatives tools such as tax credits for IPO-related costs, temporary tax holidays for newly listed firms**.

10. Recommendations

3. While sector-specific minimum tax rates exist, they fail to account for variations in profit margins across businesses of different sizes and turnover levels. To address this, **the system should be redesigned into a progressive structure specially for the SMEs where the minimum tax rate increases with turnover**.

4. NBR should establish **an expert committee comprising** tax **professionals, chartered accountants, and business representatives to regularly review and update the list of allowable deductions**, expenditure caps, and definitions related to taxable income, ensuring they reflect current business realities.

5. In addition, NBR should also **form a dedicated oversight committee, including representatives from the business community**, cha**rtered accountants, and NBR officials, to review and resolve disputes related to disallowed business expenditu**res in a transparent and consistent manner

6. The government should **target raising corporate profits as a share of GDP from the current 6% to 15% by 2030 by enabling a more ease business environment.** In parallel, the effective corporate **tax rate should be gradually reduced from the existing 31–33% to around 23%.**

10. Recommendations

10.2 Tax Base

1. NBR should aim to increase the current tax **base to at least 59% of registered companies**. In this regard, **Office of the Registrar of Joint Stock Companies and Firm should start reviewing and eliminating inactive businesses from the registry, ensuring that the data for registered companies is up to date. To encourage gre**ater tax compliance, NBR and Registrar of Joint Stock Companies and Firm **should make the tax submission status related data of all the registered entities publicly accessible through a dedicated database**

2. To encourage tax compliance, repeated failure to submit tax returns for multiple years should be **made a criminal offense by law.**

3. The Ministry of Education should **introduce mandatory dedicated classes in schools, colleges, and universities to educate students about the process of tax return submission**

4. NBR should make it **mandatory for all businesses to submit tax returns digitally, eliminating manual submission**. Additionally, there should be tax-paying services at **local Upazila Digital Centres (UDCs) to ensure that small and local businesses can easily access the tools and resources needed to file their returns electronically**.

5. The government should **consider expanding the tax base by bringing more sectors under tax coverage, including the gig economy, the entertainment industry, and non-governmental organisations** (NGOs).

10. Recommendations

10.3 Tax Incentive

1. MoF should eliminate the current tax cut **incentives for power producers, especially those relying on fossil fuels. These incentives disproportionately benefit high-emission producers and contribute to environmental degradation**.

2. Instead of providing **sector-specific tax incentives, the government should consider offering time-bound tax cuts exclusively for newly formed companies for certain years, regardless of their sector**. This approach would support entrepreneurship and business start-ups to stabilise and grow in their initial years.

3. The government should establish a **clear, measurable framework which can be used to identify sectors qualified for incentives. Additionally, the framework should include provisions for regular reviews to assess the impact of these incentives**, ensuring that they continue to serve their intended purpose. Based on the **review, the government should make informed decisions regarding the continuation, modification, or termination of the incentives**

4.. Incentives should be granted for a fixed period with built-in sunset **clauses, after which industries must transition to standard tax rate**

5. The direct **export cash incentive should be gradually withdrawn from FY 26 as part of Bangladesh's preparation for LDC graduation**. Instead, the government should restructure support measures **in line with WTO rules by offering permissible alternatives such as duty drawbacks, and investment credits**

6. The government should make the **details of tax expenditures more transparent and accessible to the public and include them in the budget document as wel**l. A comprehensive and **regularly updated database should be created, listing all tax expenditures, the sectors receiving them, and the expected outcomes**

10. Recommendations

10.4 Tax Expenditure

1. Government should prioritise the prompt **recovery of money laundered over the past decade by strengthening its legal**, investigative, and diplomatic efforts.

2.. Government should **conduct tax gap measurement (difference between potential and actual collections) on a regular basis to track trends and effectiveness of policies**

3. Rather than relying solely on human resources, the government should set a **clear goal of building an integrated ecosystem where tax-related information is increasingly audited and monitored using data analytics and artificial intelligence**.

4. The government should actively seek to sign agreements with global tax evasion **prevention initiatives and align its laws with international standards, such as the OECD's BEPS (Base Erosion and Profit Shifting) framework, to combat tax evasion and ensure compliance with global tax regulation**

10.5 Tax Administration

1. NBR should establish a **dedicated digital tax dispute resolution system to handle tax disagreements swiftly**. This system should be equipped with trained professionals to resolve disputes in a reasonable timeframe, ideally within 30-45 days

2. Installing CCTV cameras in all rooms of tax officials at the NBR building can enhance transparency, accountability, and help prevent corruption by acting as a deterrent against illegal transactions. However, this measure must be implemented with strict data security protocols, ensuring that only authorised personnel have access to footage

10. Recommendations

3. The decision to separate tax policy making from **tax collection within the NBR should be implemented and maintained in the coming years to ensure greater efficiency, transparency, and accountability**

4. The current **inefficiencies and delays in the tax refund process should be addressed.** The government **should consider establishing a dedicated entity solely responsible for managing the tax refund process, separate from the NBR's role, to ensure more focused and efficient handling of refunds**

5. The current state of data reporting **at the NBR is highly problematic, with significant inconsistencies and a lack of required data. This hampers the accurate assessment of the country's tax situation and undermines** transparency and accountability. To address this issue, the **government must prioritise improving data collection, standardization, and reporting practices within the NBR.** A clear, consistent, and comprehensive data **reporting system must be established to ensure that the true scope of tax compliance, revenue generation, and challenges can be accurately understood and addressed**.

6. The government should **actively seek to sign agreements with global tax evasion prevention initiatives and align its laws with international standards, such as the OECD's BEPS (Base Erosion and Profit Shifting) framework, to combat tax evasion and ensure compliance with** global tax regulations

10. Recommendations

10.6 Legal Reforms

1. Export-focused businesses and startups **often incur higher travel expenses to secure clients, explore new markets, and expand their networks. Given the significant costs involved**, **the government should consider raising the allowable travel expense limit for the startup for certain years**

2. To align tax practices with global accounting **standards and to promote fairness, the government should consider allowing businesses to deduct interest and profit on an accrual basis, t**hus reflecting a more accurate financial position in the tax assessment process.

3. the government should establish **proper checks and balances, such as independent oversight, regular audits, and clear reporting mechanisms, to ensure that tax enforcement is conducted equitably, without corruption** or abuse of authority

4. The government should consider removing **unconditional indemnity and replace it with** a more conditional form of protection based on actions that align with the public interest, ensuring accountability and reducing the likelihood of misconduct

5. The government should consider removing this **advance payment requirement for small businesses, allowing businesses to have fair access to the judicial process without being financially pressured into settling unjust** tax disputes

6. The government should consider **removing or reducing this payment requirement to ensure that businesses are not coerced into unjust settlements due to the financial burden** of upfront tax payments

7. The government should require **Chartered Accountant (CA) firms to audit and submit** verified reports for projects receiving tax breaks.

10. Recommendations

10.7 Scenario Building

Scenario 1: Focus on Reducing Tax Evasion While Continuing Current Incentives

- Bangladesh continues offering the current level of tax incentives.
- To meet the target, the country would need to reduce corporate tax evasion by 80%, without making changes to existing tax expenditures.

Scenario 2: Eliminate Tax Incentives Without Tackling Tax Evasion

- Bangladesh eliminates 100% of corporate tax expenditure.
- Despite this, the country would still fall 21% short of the required revenue to meet the 2030 target, indicating that cutting incentives alone is not sufficient.

Scenario 3: A Balanced Approach—Reduce Both Tax Evasion and Incentives

- Tax evasion is reduced by 40%, resulting in an additional corporate tax revenue of approximately BDT 56,559 crore.
- To bridge the remaining gap, Bangladesh would need to reduce corporate tax expenditure by 48%.

Thank You