



Presentation on

Reform in Corporate Tax and VAT: A Justice Perspective for NBR

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1. Introduction

1. Background

- ❑ The **reform of the National Board of Revenue (NBR) and tax policies** of Bangladesh **has emerged as a priority**, particularly following the assumption of power by the interim government
- ❑ So far, the central objective of **these reform efforts appears to be focused on raising revenue to meet fiscal targets**
 - While revenue generation is undeniably important, it is not sufficient on its own
- ❑ For reforms to **be effective and sustainable**, greater emphasis must be placed on **tax justice**, ensuring that **tax burdens are distributed fairly** and equitably across all groups
 - Without such fairness, the ongoing **reforms risk becoming regressive and unsustainable**, failing to **reduce inequality, undermining social protection**, and **limiting broad-based economic participation**
- ❑ Ensuring tax justice is particularly important for Bangladesh, as over the years it has been alleged that **the strong influence of elites on policy-making has shaped tax benefits in their favour**, thereby depriving low-income groups
- ❑ On the other hand, as Bangladesh approaches graduation from **the Least Developed Country (LDC) category in 2026**, it will soon face **declining concessional loans**, trade preferences, and aid flows;
- ❑ In order to meet these challenges, **strengthening domestic resource mobilisation** will be vital
- ❑ After graduation, **Bangladesh will need a tax system that raises sufficient revenue while ensuring tax justice** to protect vulnerable groups, and supporting the country's post-LDC development agenda
- ❑ Recognising the significance of justice perspective, the **Centre for Policy Dialogue (CPD)**, in partnership with **Christian Aid (CA)**, has study targeting tax
- ❑ In this study tax justice refers to:
 - Tax justice in Corporate Income Tax
 - Tax justice in VAT

2. Objectives of the study

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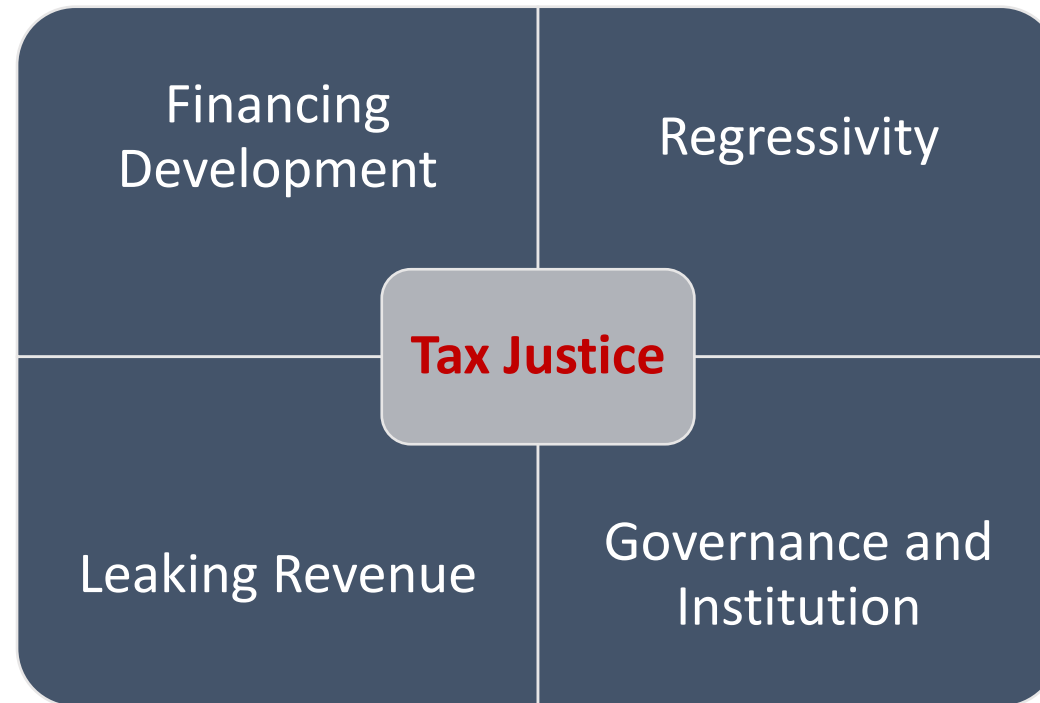
The following are the key objectives of the **study**:

- a) **Assessing the current corporate income tax and VAT 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 justice;
- b) Identifying the areas of **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

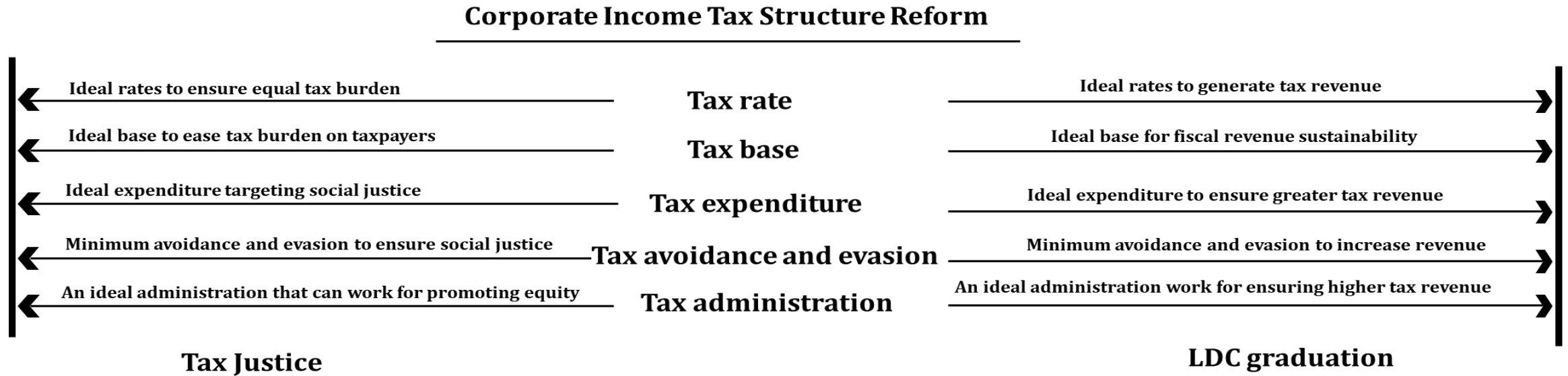
3. Conceptualisation and Analytical Framework

- ❑ **Tax Justice** is the pursuit of a tax system that **fairly finances development** by minimising **revenue leaking** and avoiding **regressivity**, all underpinned by principles of good **governance** and strong, transparent **institutions**

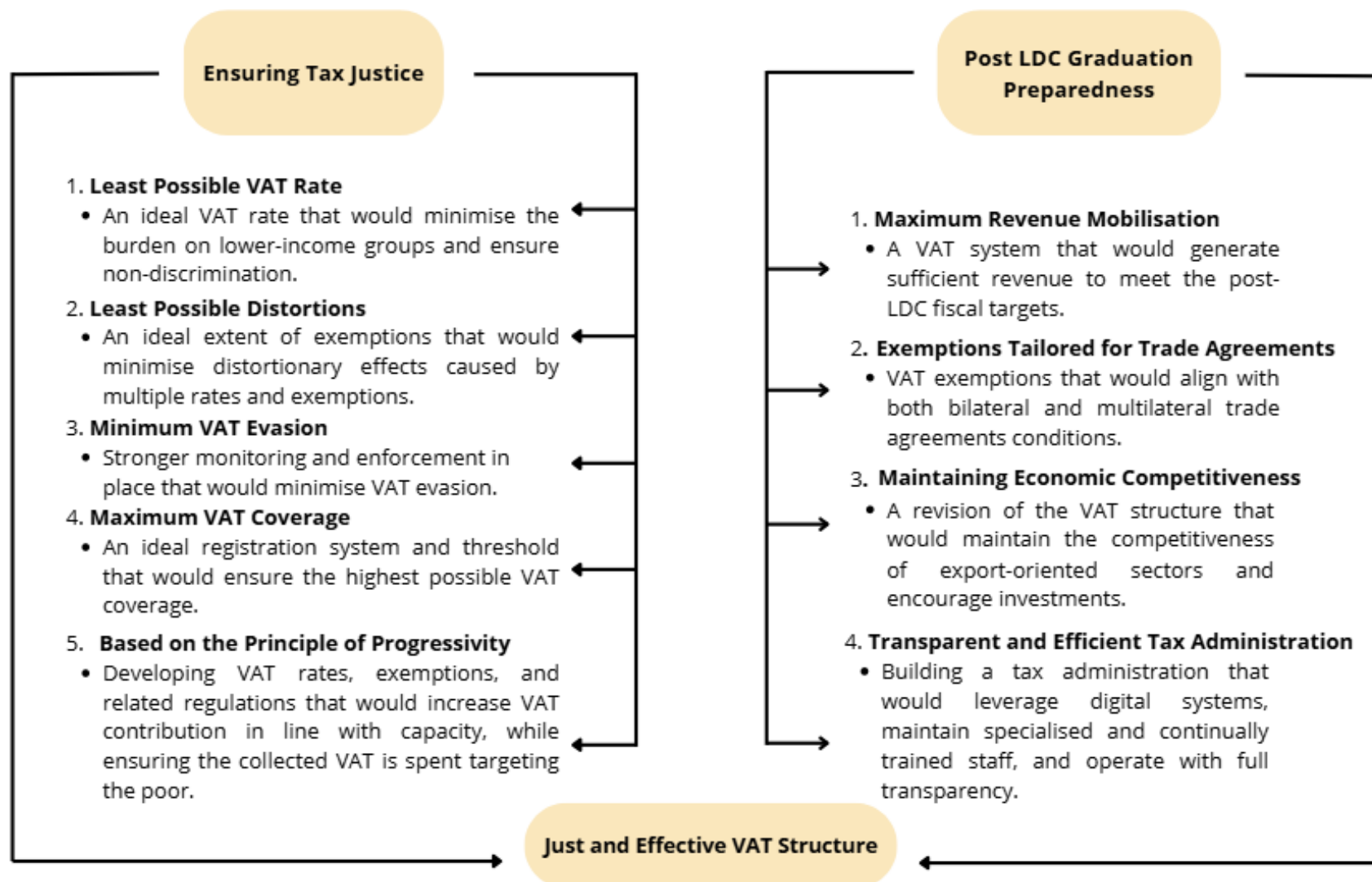


Source: Based on Besley & Persoon (2014), IMF (2024), Tax Justice Network (n.d)

3. Conceptualisation and Analytical Framework



3. Conceptualisation and Analytical Framework



4. Methodology

4. Methodology

- ❑ The study have been conducted using **primary and secondary data**
- ❑ Primary data for the CIT issues was collected through a survey administered to **123 companies located in Dhaka and Chattogram**
- ❑ Sample for this survey was structured to reflect the sectoral distribution of Bangladesh's **capital market**, ensuring the inclusion of a broad range of industries
- ❑ The survey for the VAT related issues was conducted based following the structure of World Bank enterprise survey
- ❑ A total sample of 389 business firms, **distributed across Dhaka City (104), Greater Dhaka (67), Chattogram (66), Rajshahi (38), Khulna (33), Sylhet (30), and Barishal (21)**
- ❑ In addition to the survey, **Key Informant Interviews (KIIs)** were conducted for both studies which provided qualitative insights that enriched the quantitative findings
- ❑ For CIT related issues, **interviews were conducted with five industry leaders** representing key sectors such as **garments, plastics, ICT, banking, and leather**, along with **one academician** and **one tax expert**, whereas the for the VAT related issues **interviews were conducted with three VAT experts, one academician**
- ❑ Furthermore, **a literature review has been carried out for both issues** to identify research gaps, develop their analytical frameworks and complement necessary findings

4. Methodology

Table : Sample distribution for the collected surveyed data for CIT issues 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

Source: CPD-CA Survey on CIT

Table : Sample distribution for the collected surveyed data for VAT issues N= 359

Region	Large (100+)	Small (5–19)	Medium (20–99)	Total
Dhaka City	16	52	36	104
Greater Dhaka	16	27	24	67
Chattogram	15	22	29	66
Rajshahi	5	17	16	38
Khulna	8	9	16	33
Sylhet	4	8	18	30
Barishal	3	9	9	21
Total	67	144	148	359

Source: CPD-CA Survey on VAT

4. Methodology

- ❑ Although a **substantial use of secondary data** for several the analysis, there was a **significant lack of required data for conducting the necessary analysis for the studies**
 - **There was large reliance on proxy data and 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 of the CIT related issues was based on open-access** data from publicly listed companies which have certain limitations
 - 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 in the to estimate tax avoidance could yield inflated results, especially given the broader concerns regarding the accuracy of macroeconomic data reported in Bangladesh
- ❑ For both issues, **certain index, regression models were developed wherever needed**
- ❑ It is to be noted that both surveys **conducted as part of the 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 (for the corporate tax related issues)

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

Source: DSE

5. Financing Development

5. Financing Development

5.1 Corporate Tax Issues

- ❑ 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 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

5. Financing Development

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: Budget allocation if tax evasion could be eliminate

Sector	Additional allocation
Education Sector	3.36 times
Health Sector	6.39 times
Agriculture Sector	5.99 times

Source: Authors calculation based on MoF

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

5. Financing Development

5.2 Value Added Tax Issues

- ❑ Similar to the corporate tax revenue, there is no explicit mention of targeted VAT revenue for **FY 2030 in the Perspective Plan**
- ❑ However, if it is assumed that **the tax revenue composition of Bangladesh remains the same as the current structure**, a hypothetical target scenario can be developed for VAT revenue
- ❑ In that case, in order to fulfil the FY2030 target VAT revenue must grow at an average **annual compound rate of 24.2% between FY 2024 and FY 2030**
- ❑ However, it should be noted that if VAT's share in total tax revenue declines below 38%, the shortfall would have to be compensated by **higher collections from income and corporate taxes**
- ❑ This would reduce the immediate growth pressure on VAT itself but will need an overall revenue structure which will be more dependent on **direct taxation**

Table: Key current and future figures regarding the VAT 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)
VAT Revenue Share	38% of total tax revenue
Current VAT Revenue (FY 2024)	USD 12.6627 billion
Required VAT Revenue (FY 2030)	USD 46.46 billion
Additional VAT Revenue Needed	USD 33.80 billion
Annual Growth Rate Required	24.19% per year
Yearly Growth Multiple	1.242 times

Source: Authors calculations based on IMF and others

6. Regressivity in Taxes

6. Regressivity in Taxes

6.1 Corporate Tax Related Issues

Fairness and Distortions in Corporate Taxation

- ❑ 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 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**

6. Regressivity in Taxes

Revisiting Corporate Tax Rates for Export-Oriented Industries

- ❑ 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

Note: *with a few exemptions for SZs

6. Regressivity in Taxes

Profit Shifting, Global Minimum Tax, and Equity Concerns

- ❑ 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

6. Regressivity in Taxes

Effective Tax Rates and the Question of Fairness

- ❑ 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**
- ❑ 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**

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.

6. Regressivity in Taxes

Deduction Rules, Business Realities, and Tax Equity

- ❑ 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	Coefficien t	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

6. Regressivity in Taxes

Disparities in Relative Tax Burden

- ❑ 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
- ❑ 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**

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

6. Regressivity in Taxes

Perceived Progressivity and Desired Tax Rates

- ❑ 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%
- ❑ 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

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

6. Regressivity in Taxes

Corporate 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%

6. Regressivity in Taxes

6.2 VAT Issues

Revisiting multiple VAT Rates

- ❑ Although a **flat single VAT rate** simplifies administration, reduces compliance costs, and improves efficiency, the most common global practice generally involves **multiple VAT rates**, typically including reduced rates for essential goods to protect low-income households
- ❑ Following this, Bangladesh currently applies multiple VAT rates, with a **standard VAT rate of 15%** on most goods and services, and **reduced rates of 1.5%, 2%, 2.4%, 4.5%, 5%, 7.5%, and 10%** for selected goods and services (For some goods and services, VAT amount is fixed on quantity)
- ❑ In fact, the survey for this study also indicates that **most businesses (82.2%)** favored maintaining multiple VAT rates (Table)
- ❑ While having a multiple VAT rates can not be ignored , the **number of VAT slabs in Bangladesh (Currently 8) is drastically higher than in most of the comparable countries (Table),**
- ❑ VAT structure with too many slab risks **creates opportunities for lobbying, misclassification, tax avoidance**, increasing **enforcement complexity, audit costs, and administrative burdens** for tax authorities
- ❑ While **reduced rates for essential goods** are justified from a social equity perspective, **too many slabs are counterproductive**, compromising both efficiency and fiscal justice
- ❑ Moreover, although a reduction in the number of VAT rates may increase the regressive nature of VAT from a progressivity standpoint, literature suggest that **targeted subsidies and direct transfers** are **more effective** for protecting low-income households

Table : Countries with number of VAT slabs

Category	Number (out of 74 countries)
Countries with 1 VAT Slab	3
Countries with 2-3 VAT Slabs	54
Countries with 4-5 VAT Slabs	15
Countries with more than 5 VAT Slabs (including Bangladesh)	2

Source: VATCompliance (2025)

Table : Business’s perception on VAT slabs

Category	% of surveyed business preference
Flat VAT rate for all	17.8
Different VAT rates that currently existed	82.2

Source: CPD-CA VAT Survey

6. Regressivity in Taxes

- ❑ Minimising the **number of VAT slabs** is also necessary to reduce the **complexity of the VAT system**, which was identified as a major challenge by surveyed businesses
- ❑ According to the survey, **73.5% of respondents cited** the complexity of VAT laws as a key barrier
- ❑ Other challenges highlighted include unclear **VAT rules and guidelines**, **limited cooperation from tax officials**, **insufficient training and awareness**, difficulties in classifying goods and services, and high compliance costs
- ❑ Understandably, while **reducing the number of VAT slabs will significantly simplify the system**, other aspects of VAT regulations may still be perceived as complex by businesses

Table: Main challenges of VAT

Challenge	% Respondents
1. Complex VAT laws and frequent regulatory changes	73.5
2. Lack of clarity in VAT rules and guidelines	50.0
3. Difficulty in classifying goods and services under correct VAT rates	35.3
4. Delays in VAT refund processing	8.8
5. Limited training and awareness on VAT compliance	44.1
6. Poor digital infrastructure for VAT e-filing and e-payment	14.7
7. High compliance costs (time, paperwork, consultancy fees)	26.5
8. Limited cooperation or guidance from tax officials	47.1
9. Resistance from businesses to adopt Electronic Fiscal Devices (EFD)	0
10. Low digital literacy among small and medium business owners	0

Source: Conducted survey on VAT issues

6. Regressivity in Taxes

Reassessing Bangladesh’s Standard VAT Rate

- ❑ The standard **15% VAT rate of Bangladesh** is higher than several comparable countries (Table)
- ❑ To identify comparable economies, this research **develops a composite index** that incorporates key macroeconomic, **social, and fiscal indicators**, including GDP, real GNI per capita, income inequality, unemployment rate, tax revenue, size of the informal economy, trade openness, and social protection coverage
- ❑ Based on the index, **Paraguay** (country-equivalent in similarity score with Bangladesh) has a standard VAT rate of 10%
- ❑ The NBR reform advisory committee proposed to reduce **the standard VAT rate to 10%**
- ❑ A reduced VAT rate may help **reduce informality, broaden the VAT base, promote justice by lowering the burden on low-income households, reduce business costs, encourage investment**, provide relief during periods of high inflation, **stimulate economic growth**
- ❑ The simulations indicate that, holding other factors constant, a reduction of the standard VAT **rate to 10% could** be sustained at the current revenue level if VAT evasion is **reduced by 8.5% (Table)**
- ❑ On the other hand, reduction to 12% would require only a **4.6% decline in evasion** to sustain the current revenue level

Table: VAT rate of some comparable countries

Fiscal Year	Standard VAT Rate
Cambodia	10%
Vietnam	10% (8%)*
Thailand	10%(7%)*
Paraguay	10%
Malaysia	10%

Source: PwC (2025)

Note: Recently decreased temporarily

Table : Simulation of VAT rate cute scenario

Parameter / Item	Outcome for 10% VAT rate	Outcome for 12% VAT rate
Old VAT Rate (t_0)	0.15	0.15
New VAT Rate (t_1)	0.10	0.12
VAT Base (B_0)	4,582,205,000,000	-0.026086957
Elasticity (ϵ)	-3.5	-3.5
Price Change ($\Delta P / P$)	-0.043478261	-0.026086957
Quantity Change ($\Delta Q / Q$)	0.152173913	0.091304348
New VAT Base (B_1)	5,279,497,000,000	5.000580E+12
Old Revenue (R_0)	687,331,000,000	6.87331E+11
New Revenue (R_1)	527,949,668,100	6.000695850E+11
Revenue needed to maintain current level (ΔR)	159,381,031,884	87,261,114,957
% of VAT gap/evasion need to curbed	8.5%	4.6%

Source: Authors calculation

6. Regressivity in Taxes

VAT Base

- ❑ Bangladesh’s current VAT base does not capture the full potential base **due to the large informal sector** and limited **enforcement capacity**
- ❑ This study attempted to **estimate the potential tax base using NBR official data**
- ❑ However, **data inconsistencies exist in NBR reports**, such as compliance rates above 100%, sudden declines in registered firms, and erratic **fluctuations in compliance rates**
- ❑ Using the latest data (FY2023), it can be observed **that 77% of registered entities submitted VAT returns**
- ❑ The Economic Census 2024 **identified 11.9 million economic units in Bangladesh**
- ❑ However, **it is to be noted that not all economic units are VAT-liable**
- ❑ Even if only permanent economic units (more than 6 million) are considered, it can be **found that mere 13% of VAT-able entities** are registered with NBR
- ❑ The heavy reliance on a limited number of large taxpayers, **with 109 LTUs generating 26% of total VAT**, highlights a structural vulnerability

Table : Statistics on VAT compliance

VAT Registered Firms												
Number of VAT-registered firms from FY18 to FY23					Number of registered, VAT filing firms from FY18-23				Compliance Rate (%)			
Fiscal Year	Manufacturing	Service	Traders	Total*	Manufacturing	Service	Traders	Total*	Manufacturing	Service	Traders	Total*
2017-18	112102	373782	298387	784271	11775	30483	14039	56297	11%	8%	5%	7%
2018-19	49492	291656	103130	444278	23601	43996	22334	89931	48%	15%	22%	20%
2019-20	23125	121316	43310	187751	17019	51743	23528	92290	74%	43%	54%	49%
2020-21	25318	147030	71752	244100	29516	111789	69115	210420	117%	76%	96%	86%
2021-22	25187	181510	147065	353762	27005	175617	135336	337958	107%	97%	92%	96%
2022-23	29593	205232	137021	371846	26682	152509	108603	287794	90%	74%	79%	77%

Source: NBR

Note: * Note: * In calculating the total number, three categories, manufacturing, service and traders have been considered

7. Leaking Revenue

7. Leaking Revenue

7.1 Corporate Tax Related issues

Phasing Out Preferential Treatment for Mature Industries

- ❑ 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 choices**.
- ❑ 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 textile** 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**

7. Leaking Revenue

Phasing Out Preferential Treatment for Mature Industries

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

7. Leaking Revenue

Incentives, Investment, and Post-LDC Compliance

- ❑ 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 revenue**
- ❑ 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**

7. Leaking Revenue

7.2 VAT Related issues

- ❑ Alongside direct tax expenditures, the NBR has **estimated indirect tax expenditures**, a positive step in line with global trends to reassess and rationalise the country's expenditure structures
- ❑ The estimation shows that total VAT expenditure in Bangladesh for the fiscal year **2022 was 3.26% of GDP**
- ❑ Compared to other countries, especially **lower- and lower-middle-income economies**, this level indicates a relatively high VAT expenditure
- ❑ From a justice perspective, certain VAT exemptions should be re-evaluated, particularly for goods and services that are not genuinely essential
- ❑ For example, subscriptions to membership organisations (e.g., clubs, associations) and **certain cultural activities (e.g., sports events, leisure activities) are VAT-exempt (for membership fee less than BDT 10, 000**
- ❑ While some cultural activities have social value, **exemptions for private entertaining clubs** may not align with tax justice principles

Table: Estimation of VAT expenditure by NBR

Indicator	2022	2021	2016
Net VAT Revenue (BDT, millions)	1,042,629.74	942,423.60	600,590.32
Net VAT Revenue (% GDP)	2.63	2.67	2.89
Nonstructural VATEs (BDT, millions)	1,148,299.00	1,282,718.00	720,855.24
Nonstructural VATEs (% GDP)	2.89	3.63	3.47
Structural VATEs (BDT, millions), Implied	147,402.38	274,603.93	154,320.44
Structural VATEs (% GDP), Implied	0.37	0.78	0.74
Structural VATEs (BDT, millions) + Noncompliance	235,391.88	438,594.36	246,478.91
Structural VATEs (% GDP) + Noncompliance	0.59	1.24	1.19
Total VATEs (BDT, millions)	1,295,701.35	1,557,322.40	875,175.68
Total VATEs (% GDP)	3.26	4.43	4.22

Source: NBR (2024)

7. Leaking Revenue

Revisiting VAT Expenditure

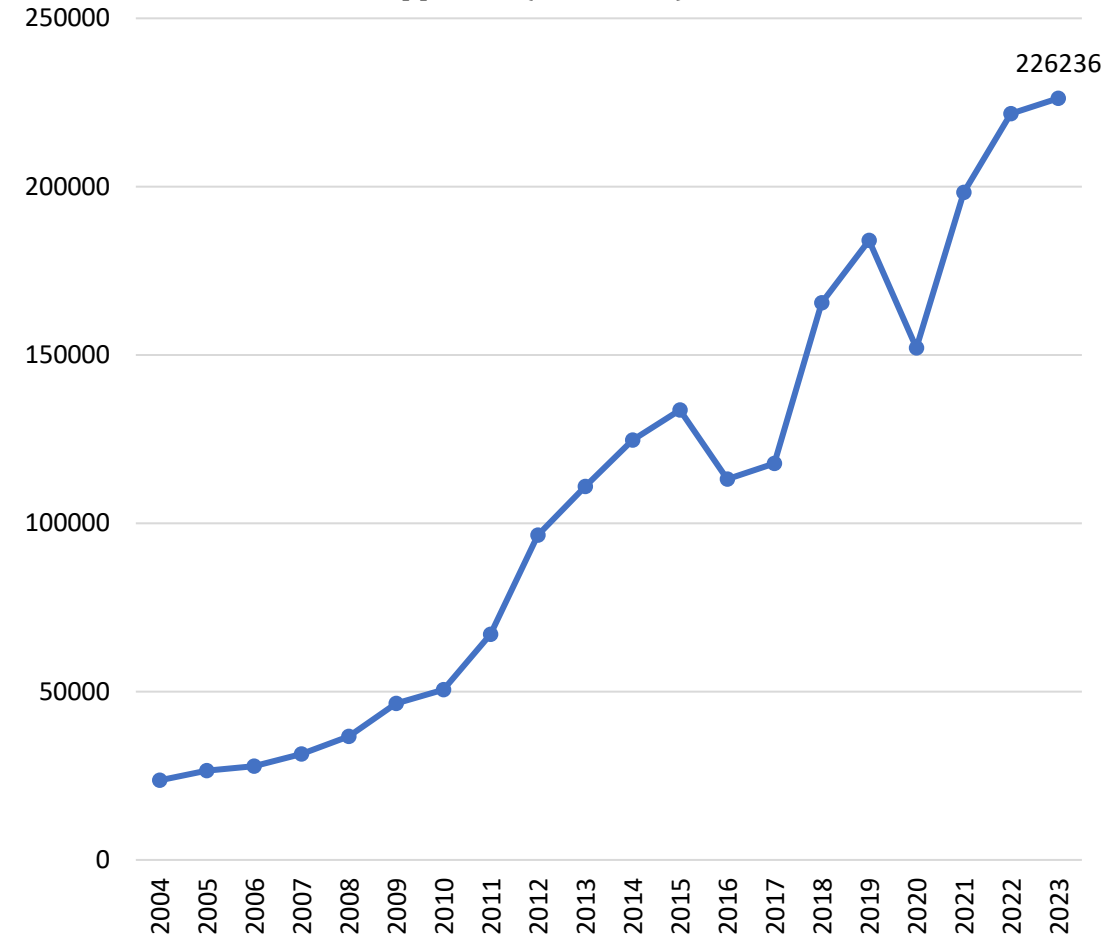
- ❑ From a justice point of view, **trading in stocks and securities is largely undertaken by corporations and higher-income individuals**, so granting exemptions here amounts to foregoing revenue from groups with a stronger capacity to contribute
- ❑ VAT on education (both public and private) and private medical services should be applied based on the **consumer's ability to pay**, ensuring that higher-income users contribute fairly rather than granting blanket exemptions
- ❑ Goods and services procured by the President's Secretariat for essential official functions, security, and maintenance of official residences exempted from VAT
- ❑ While the VAT exemption for official presidential expenditures can be justified on grounds of administrative efficiency and inter-governmental fiscal neutrality, from **a strict tax justice standpoint it is difficult to defend**, as it violates **the principle of horizontal equity by creating a legislated inequality** where the state, as a consumer, pays a different price than a private entity for an identical good or service, thereby undermining the perceived fairness and universality of the tax system
- ❑ The existing low government service charges, such as for guest houses, property leases, and recreational facilities, represent **a significant revenue loss for the government**
- ❑ Adjusting these charges to reflect market rates would **increase government revenue and** ensure that public resources are used efficiently **and fairly, in line with the principles of tax justice**

7. Leaking Revenue

Tax Gap Related Issue

- ❑ 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)



7. Leaking Revenue

Tax Gap Related Issue

- ❑ 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**

7. Leaking Revenue

VAT Gap Related issues

- ❑ The VAT gap measures the difference between the VAT revenue the government could **potentially collect**, and the **VAT actually collected**
- ❑ It captures both VAT evasion, such as **underreporting or illegal trade**, and **VAT exemptions**, which are legally granted for certain goods and services
- ❑ To calculate the gap, we collected data on **Private Final Consumption Expenditure (PFCE)** from BBS
- ❑ To focus on non-essential items, we subtracted **food expenditure using data from HIES 2022**
- ❑ The resulting consumption amount was then multiplied by the **standard VAT rate of 15% and effective rate of 11.73%**
- ❑ The results indicate that actual VAT revenue is significantly below its potential level, with the government collecting about **28–29%** of what could be achieved if **evasion and exemptions were fully addressed**
- ❑ This implies that, in each fiscal year, the government could have raised **three times the current VAT revenue**
- ❑ The VAT gap based on the effective VAT rate indicates that, even after accounting for existing exemptions, **an additional 188,081 crore BDT** in VAT revenue could have been collected in FY 2023

Table : Estimation of VAT Potential in Bangladesh at Standard Rate

Fiscal Year	Potential Theoretical VAT Revenue (Gross @15%, crore BDT)	Actual VAT Revenue (in crore BDT)	Additional Revenue Attainable (Times of Current VAT)
2020-21	314823.735	102058.55	3.08
2021-22	360660.135	116935.04	3.08
2022-23	409357.335	132036.89	3.10

Table : Estimation of VAT Potential in Bangladesh at Effective Rate

Fiscal Year	Potential Theoretical VAT Revenue (Gross @11.73%, crore BDT)	Actual VAT Revenue (in crore BDT)	VAT GAP (with exemption is in place)
2020-21	246192.1608	102058.55	144133.6108
2021-22	282036.2256	116935.04	165101.1856
2022-23	320117.436	132036.89	188080.546

8. Governance and Institution

8. Governance and Institution

8.1 Corporate Tax Related Issues

- ❑ **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 which 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

8. Governance and Institution

Barriers to Efficient Tax Administration

- ❑ 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**
- ❑ **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**

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

8. Governance and Institution

8.2 VAT Related Challenges

- ❑ The study finds that VAT compliance is strongly influenced by inspections by NBR
- ❑ Firms subject to more frequent inspections are more likely to file VAT returns, with each additional inspection increasing the probability by **approximately 3.4 percentage points**
- ❑ However, survey data indicate a lack of sufficient inspections, highlighting the need for targeted interventions to improve compliance
- ❑ According to the survey, **around 36% of surveyed businesses were never inspected for their VAT return submission**

Model

$$\begin{aligned} &Pr(vat_return_i = 1) \\ &= \log(\beta_0 + \beta_1 no_of_inspect_i + \beta_2 vat_compliance_cost_i + \beta_3 law_awareness_i + \beta_4 days_to_prep_return_i + \beta_5 no_of_ppl_prep_i \\ &+ \beta_6 days_to_get_bin_i + \beta_7 rating_dispute_fairness_i + \beta_8 govt_incentive_i + \beta_9 bribe_bin_i + \beta_{10} diff_preferred_actual_i \\ &+ \beta_{11} rating_support_i + \beta_{12} rating_audit_transparency_i) \end{aligned}$$

Where:

$Pr(vat_return_i = 1)$ is the probability that firm i files a VAT return.
 $\beta_1, \dots, \beta_{12}$ = coefficients for each explanatory variable as listed in the table

Table: VAT Inspection Frequency Among Surveyed Firms

Number of Inspections	Number of Firms	Percentage (%)
0	129	35.9
1–2	114	31.8
More than 2	116	32.3
Total	359	100

Sources for all tables: Survey conducted by CPD and CA for VAT related issues

8. Governance and Institution

- ❑ Conducted survey shows that acquiring VAT-related documents **remains a significant challenge for many businesses**
- ❑ Trade License is the most difficult document to obtain, **with 25.1% of respondents reporting it as difficult or very difficult**
- ❑ BIN registration also poses notable challenges, **with 16.1% of respondents finding it difficult or very difficult**
- ❑ TIN registration and updating are moderately difficult, **with 14.5% and 12.5% of respondents reporting difficulties, respectively**
- ❑ Updating BIN is slightly easier than initial registration, but still challenging **for 15.3% of respondents**
- ❑ Overall, the **results indicate that VAT compliance is hindered more by the initial acquisition** of key documents than by their updates
- ❑ These difficulties can **delay VAT registration and compliance**, potentially contributing to **lower VAT collection and increasing the VAT gap**

Table : Difficulty in Acquiring Official Documents

Document	Very Easy	Easy	Neutral	Difficult	Very Difficult	Not Applicable	Total
BIN	5.0% (18)	32.9% (118)	22.8% (82)	11.1% (40)	5.0% (18)	23.1% (83)	100% (359)
BIN Updating	8.9% (32)	32.9% (118)	16.7% (60)	6.1% (22)	4.2% (15)	31.2% (112)	100% (359)
TIN	11.7% (42)	32.3% (116)	32.6% (117)	9.2% (33)	5.3% (19)	8.9% (32)	100% (359)
TIN Updating	14.8% (53)	42.1% (151)	22.3% (80)	7.8% (28)	4.7% (17)	8.4% (30)	100% (359)
Tax Acknowledgement	7.8% (28)	37.6% (135)	18.9% (68)	5.6% (20)	4.2% (15)	25.9% (93)	100% (359)
Trade Licence	16.4% (59)	35.9% (129)	20.6% (74)	14.5% (52)	10.6% (38)	2.0% (7)	100% (359)
Trade Licence Updating	24.8% (89)	44.6% (160)	14.5% (52)	9.5% (34)	4.2% (15)	2.5% (9)	100% (359)
VAT Payment Receipt	18.9% (68)	29.8% (107)	10.3% (37)	4.5% (16)	5.3% (19)	31.2% (112)	100% (359)
Import Certificate	0.6% (2)	3.9% (14)	2.8% (10)	4.7% (17)	2.0% (7)	86.1% (309)	100% (359)
Association Membership	7.8% (28)	21.5% (77)	9.2% (33)	3.3% (12)	4.2% (15)	54.0% (194)	100% (359)

8. Governance and Institution

❑ According to the survey, during BIN registration or **updating**, **17% of respondents reported** being asked for a bribe, while the majority, **82.7%, did not face any bribe demands**

❑ This indicates that corruption is present in the VAT registration process but affects a minority of businesses

❑ The survey also shows that that during VAT return **submission process 20.3% of respondents reported** bribe demands, slightly higher than during BIN registration

❑ Awareness regarding VAT laws and regulation has still scope of improving as the conducted survey finds that the **around 41% of the respondent possess slight to no awareness regarding this**

❑ The lack of awareness **regarding VAT laws could be attributed** to lack of training they claimed to have received

❑ According to findings of the study, **participation in VAT training programmes significantly increases compliance, both in terms of filing and broader compliance behavior**. Propensity score matching estimates show that trained firms improve their compliance composite index by 0.535 standard deviations, while OLS results indicate an increase of 0.643 standard deviations, both statistically significant

Table : Bribe Demands during BIN Registration/Updating

Response	Frequency	Percent
No	297	82.7%
Yes	61	17.0%
Not want to mention	1	0.3%
Total	359	100%

Table : Bribe Demands during VAT Return Submission

Response	Frequency	Percent
No	229	79.0%
Yes	59	20.3%
Not want to mention	2	0.7%
Total	290	100%

Table : VAT related training

Response	Percent (Freq.)
No	78.6 (282)
Yes	21.5 (77)
Total	100.0 (359)

Table : VAT Law and Regulation Awareness by Firm size

Awareness Level	Large (100+) % (n)	Small (5–19) % (n)	Medium (20–99) % (n)	All Firms % (n)
No Awareness	4.48% (3)	29.17% (42)	10.14% (15)	16.71% (60)
Slight Awareness	8.96% (6)	27.08% (39)	27.70% (41)	23.96% (86)
Moderate Awareness	46.27% (31)	34.03% (49)	47.30% (70)	41.78% (150)
High Awareness	28.36% (19)	5.56% (8)	8.78% (13)	11.14% (40)
Full Awareness	11.94% (8)	4.17% (6)	6.08% (9)	6.41% (23)
Total	100% (67)	100% (144)	100% (148)	100% (359)

8. Governance and Institution

8.3 Digitalisation of tax and VAT 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.**

- ❑ 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**

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

8. Governance and Institution

- ❑ The use of **online platforms for VAT return** submission is higher than for Corporate Tax Returns
- ❑ Survey results **indicate that 85% of surveyed** businesses submitted their VAT returns online
- ❑ Despite this widespread adoption of IVAS, several challenges persist
- ❑ The most common issue reported by enterprises is **poor internet connectivity**
- ❑ Additionally, the **VAT system servers often slow down** as submission deadlines approach, creating risks of delayed filings
- ❑ Regarding the Electronic Fiscal Device (EFD), although it was introduced for gradual implementation, **progress has been slow**, and in some cases, has even regressed
- ❑ Survey findings show that **some businesses that previously used EFDs no longer do so**, and a significant portion of respondents remain unaware of the system
- ❑ Without **proper incentive and monitoring**, the EFD may not be entirely implemented

Table : Online VAT return Filing by Firm Size

Response	Large (100+)	Medium (20–99)	Small (5–19)	Overall
No	6.4 (3)	15.6 (12)	22.9 (11)	15.1 (26)
Yes	93.6 (44)	84.4 (65)	77.1 (37)	84.9 (146)
Total	100.0 (47)	100.0 (77)	100.0 (48)	100.0 (172)

Table : Challenges of using Digital VAT system

Challenge	(%)
1. Lack of training on digital VAT systems	30.0
2. Technical issues with software or devices	30.0
3. Complexity of the digital submission process	35.0
4. Insufficient support or guidance from tax authorities	25.0
5. High cost of digital tools or compliance	10.0
6. Poor internet connectivity or access	70.0
7. Difficulty in understanding legal requirements	5.0

Table : EFD Use status

EFD Status	Large (100+)	Medium (20–99)	Small (5–19)	Overall
Never used EFD	32.8 (22)	33.1 (49)	35.4 (51)	34.0 (122)
Used in the past, not now	4.5 (3)	3.4 (5)	5.6 (8)	4.5 (16)
Currently using EFD	13.4 (9)	7.4 (11)	4.9 (7)	7.5 (27)
Not aware of EFD	49.3 (33)	56.1 (83)	54.2 (78)	54.0 (194)
Total	100.0 (67)	100.0 (148)	100.0 (144)	100.0 (359)

8. Governance and Institution

❑ Although VAT returns are predominantly submitted through digital systems, dispute settlements still rely mostly **on physical meetings**

❑ Efforts should be made on making promoting for digital systems grievance expression as it is **more efficient and transparent**

❑ In terms of frequency, the survey shows that most firms across all sizes submit VAT returns **monthly, with 75.9% of all respondents reporting monthly filings**

❑ Smaller proportions of firms file **quarterly (5.9%) or annually (16.1%)**, while very few use other arrangements (1.6%)

❑ Annual VAT return submission is noticeably higher among small and medium-sized businesses compared to large firms.

❑ Given their lower turnover, they should be allowed maintaining **this flexibility (of submitting VAT return on quarterly or monthly basis) as this could help promote VAT compliance**

Table : VAT related Grievance expression method

Medium	Yes (Freq, %)	No (Freq, %)
Online/Email	11 (3.06%)	348 (96.94%)
Telephone	51 (14.21%)	308 (85.79%)
Letter Submission	23 (6.41%)	336 (93.59%)
Physical Meeting with Officials	70 (19.50%)	289 (80.50%)
None of the Above	257 (71.59%)	102 (28.41%)

Table : VAT Return Submission Frequency by Firm Size

VAT Payment Frequency	Small (5–19)	Medium (20–99)	Large (100+)	All Firms
Monthly	74.5% (60)	71.1% (84)	88.5% (50)	75.9% (194)
Quarterly	2.5% (2)	8.5% (10)	5.3% (3)	5.9% (15)
Annually	21.1% (17)	14.4% (17)	6.2% (7)	16.1% (41)
Other	1.4% (1)	2.5% (3)	0.0% (0)	1.6% (4)
Total (N)	80	118	60	256

Sources for all tables: Survey conducted by CPD and CA for VAT related issues

10. Recommendations

10. Recommendations

10.1 Financing Development

Corporate Tax Related

1. The corporate income tax (CIT) structure should be **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
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

10. Recommendations

10.2 Regressivity in taxes

Corporate Tax Related

1. 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**
2. 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
3. In addition, NBR should also **form a dedicated oversight committee, including representatives from the business community, chartered accountants, and NBR officials, to review and resolve disputes related to disallowed business expenditures** in a transparent and consistent manner
4. 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

5. NBR should aim to increase the current corporate 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 greater 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**
6. To encourage tax compliance, repeated failure to submit tax returns for multiple years should be **made a criminal offense by law**
7. The Ministry of Education should **introduce mandatory dedicated classes in schools, colleges, and universities to educate students about the process of tax return submission**
8. 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**
9. 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

VAT Related

1. The National Board of Revenue (NBR) should **consolidate the current eight VAT slabs into a simplified three-tier structure** (e.g., Standard, Reduced, and Zero rates), with the long-term goal of transitioning toward a two-tier system (Standard and Zero Rates).
2. A reduced rate should apply only to **a narrow, clearly defined set of essential goods and services** to preserve social equity while minimising administrative complexity
3. Revenue generated from the streamlined VAT system should be used to **fund direct transfer programs or subsidies for low-income households**, a more effective and equitable approach than generalized reduced VAT rates
4. VAT collected from sensitive sectors such **as private health and education should be reserved specifically to support access to those same services for poor households**, ensuring that revenue supports the sectors from which it is derived
5. NBR should consider lowering the **standard VAT rate from 15% to a more competitive level to 10%** only alongside concrete **measures to broaden the tax base and strengthen enforcement** (around 8.5% availing of the potential VAT revenue could compensate for the loss of revenue forgone for reducing standard rate)

10. Recommendations

6. Develop and implement a simplified, tiered VAT registration framework specifically designed to integrate the permanent economic units identified in the Economic Census 2024 into the formal tax net

7. Enhance data integrity and transparency by modernizing the NBR's data management systems to eliminate reporting inconsistencies and ensure the regular, reliable publication of tax statistics

8. Introduce a package of compliance incentives for new and small taxpayers, including a voluntary registration window with simplified filing procedures, quarterly return options, and access to free digital tools (e.g., accounting software or mobile apps) to facilitate accurate record-keeping

10. Recommendations

10.3 Leaking Revenue

Corporate Tax Related

1. MoF must the 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 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 well.** A comprehensive and **regularly updated database should be created, listing all tax expenditures, the sectors receiving them, and the expected outcomes**

10. Recommendations

7. Government should prioritise the prompt **recovery of money laundered over the past decade by strengthening its legal, investigative, and diplomatic efforts.**
8. Government should **conduct corporate tax gap measurement (difference between potential and actual collections) on a regular basis to track trends and effectiveness of policies**
9. 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.**
10. 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**
11. **There should be a mandate on a secure, bidirectional data-exchange framework** between the NBR, Bangladesh Bank, and commercial financial institutions. This would allow for the automated cross-referencing of declared income with bank transaction data to swiftly identify discrepancies and non-compliant taxpayers
12. **NBR should remove problematic exemptions** for non-essential services provided by entities such as exclusive clubs and stock market agencies to broaden the tax base and improve horizontal equity
13. By applying VAT to all **commercial and non-sovereign activities of the President's Office, setting a higher standard of fairness for all public institutions**
14. NBR should **intensify the use of mobile courts in sectors prone to cash-based transactions** and evasion, using data analytics to target operations for maximum impact on revenue recovery
15. **Mandate the nationwide use of Electronic Fiscal Devices (EFDs) and digital VAT submission** for all eligible businesses to ensure real-time, transparent recording of transactions and minimise underreporting with necessary incentive provided for this

10. Recommendations

VAT Related

1. **NBR should remove problematic exemptions** for non-essential services provided by entities such as exclusive clubs and stock market agencies to broaden the tax base and improve horizontal equity
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10. Recommendations

10.4 Governance and institution

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
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.

10. Recommendations

6. 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**
7. 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**, thus reflecting a more accurate financial position in the tax assessment process.
8. 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**
9. 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
10. 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
11. 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
12. The government should require **Chartered Accountant (CA) firms to audit and submit** verified reports for projects receiving tax breaks

10. Recommendations

13. 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
14. The government should enact legislation granting the **NBR the legal authority to directly access bank account information** and, subject **to judicial oversight, temporarily freeze accounts** in cases of suspected large-scale evasion, bringing its capabilities in line with modern tax administration needs
15. To significantly enhance compliance and deter obstruction, the government should introduce and enforce strict penalties for **failing to cooperate with the NBR during audits, investigations, and data requests**
16. NBR should prioritise the development and implementation of **a fully integrated tax system** built around a common, universal Unique Taxpayer Identification Number (TIN)
17. NBR must reform its recruitment policy to attract and retain highly specialised audit and data analysis professionals
18. The NBR should reform its governing structure **to streamline the appointment process and broaden the scope for including independent directors** on its highest policymaking board

10. Recommendations

10.5 Scenario Building for Corporate Tax

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%.

10. Recommendations

10.6 Scenario Building for VAT

Scenario 1: Focus on Reducing Standard VAT Rate to 10% While Not Impacting VAT revenue

- The country would need to reduce corporate VAT GAP by %8.5

Scenario 2: Focus on Reducing Standard VAT Rate to 10% While Not Impacting VAT revenue

- The country would need to increase VAT base by 24% from the existing level

Thank You