

TAX JUSTICE FOR GRADUATING BANGLADESH

THE CASE OF CORPORATE INCOME TAX AND VALUE ADDED TAX



Recommendations for the

National Board of Revenue (NBR)

Fiscal Year 2026–27 Budget and Beyond

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1. Context

In recent years, Bangladesh's tax-to-Gross Domestic Product (GDP) ratio has declined to approximately 7.3 per cent, the lowest level not only in South Asia but also across Asia. This trend is indicative of growing fiscal indiscipline and has gained renewed urgency following the transition of power to a newly elected government led by the Bangladesh Nationalist Party (BNP). The incoming administration has articulated ambitious fiscal targets, pledging to elevate the tax-to-GDP ratio from its current level to 10 per cent in the medium term and to 15 per cent by 2035.

However, a narrow, revenue-centric approach to taxation, if pursued without addressing underlying structural weaknesses, risks deepening existing inequalities and undermining progress in reducing socioeconomic disparities. Addressing these multifaceted challenges requires a fundamental shift from a singular focus on revenue collection to a comprehensive, tax-justice-oriented approach.

The urgency of this paradigm shift is underscored by empirical evidence. The Centre for Policy Dialogue (CPD) estimates that Bangladesh lost BDT 226,236 crore in potential tax revenue in Fiscal Year (FY) 2022–23 due to tax evasion alone. Furthermore, actual Value-Added Tax (VAT) revenue remains significantly below its potential, with the government collecting only an estimated 28–29 per cent of what could be achieved if evasion and exemptions were effectively addressed.

Against this backdrop, CPD, in partnership with the Christian Aid (CA), conducted two comprehensive studies examining Bangladesh's corporate income tax (CIT) and value-added tax (VAT) systems through a tax justice lens. These studies aimed to assess existing structures, identify reform priorities, draw lessons from comparable countries, and propose actionable recommendations to enhance domestic resource mobilisation (DRM) in alignment with the tax justice principles.

This document consolidates the key recommendations from these studies, presenting them as a cohesive framework to inform policy discussions and reform decisions targeting the upcoming FY2026–27 budget and beyond.

2. The Tax-Justice Approach of CPD

Tax justice broadly refers to the pursuit of a fair and equitable taxation system that facilitates sustainable development and ensures taxpayers' burdens are aligned with their ability to pay.

Picture: Four components of Tax Justice



Source: Authors' Illustration.

Drawing from Besley and Persson (2014), Coady (2018), Awasthi & Matta (2024), and the Tax Justice Network (n.d.), studies of CPD conceptualise tax justice as the pursuit of a tax system that finances development fairly whilst curbing revenue leakages and limiting regressivity, with the practice and presence of good governance and strong, transparent institutions.

Equitable Financing of Development: A fundamental goal of any taxation system is to raise domestic revenue and thereby finance development effectively. To ensure tax justice, revenue generation alone is not enough unless it is supported by equitable spending, especially on health and education, which are critical to sustainable development.

Reduced Tax Regressivity: An essential component of tax justice is the progressive distribution of the tax burden, ensuring that higher-income groups contribute a larger share of taxes in line with their ability to pay than lower-income groups.

Elimination of Revenue Leakage: Another core component of tax justice is minimising revenue leakages arising from tax evasion, avoidance, or administrative inefficiencies since such leakages undermine the fiscal capacity and the integrity of the taxation system.

Strengthened and Accountable Governance: Effective governance and strong, transparent institutions are essential for the functioning of tax justice. They ensure efficient domestic revenue mobilisation and the proper implementation of tax policies, which have direct implications for taxpayer compliance and public trust in the overall taxation system.

3. Recommendations for Ensuring Equitable Financing of Development

1. Gradually Align Statutory CIT with Global Minimum Tax (15 per cent): 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 per cent, aligning with the global minimum tax commitment under the OECD/G20 Inclusive Framework, whilst still preserving Bangladesh's competitive advantage.

2. Ensure a Reduction in the Effective Corporate Income Tax (CIT) Rate: The effective tax rate (ETR) often exceeds the statutory rate due to disallowance of legitimate business expenses, caps on deductions, compliance costs, and inconsistencies in tax administration. CPD's estimates suggest that several sectors face exceptionally high ETRs, in some cases exceeding 60–70 per cent, which significantly increases the tax burden beyond intended policy levels. Therefore, the government should aim to gradually reduce the effective corporate income tax (CIT) rate¹ which currently averages around 31 per cent for listed firms and is estimated at approximately 33.5 per cent for comparable non-listed firms, to a more competitive level.

3. Introduce Performance-based Incentives for Listed Firms: 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. In fact, 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.

4. Earmark VAT Revenue for Social Protection: Since VAT is regressive, a portion of VAT revenue should be explicitly allocated to cash transfers and safety net programmes for low-income households (Short-term implementation).

5. Reinvest VAT from Essential Sectors: VAT collected from sectors like private healthcare and education should be channelled back to improve access for disadvantaged populations (Short-term implementation).

6. Publish Tax-Spending Incidence Analysis: Regularly assess and disclose how CIT and VAT revenues are redistributed across income groups to ensure progressivity (Short-term implementation).

¹A number of specific measures regarding this have been proposed in the following section

4. Recommendations for Reduced Tax Regressivity

1. Introduce Progressive Minimum Tax Structure and Gradually Abolish: Whilst sector-specific minimum tax rates exist, they fail to account for variations in profit margins across businesses of varied sizes and turnover levels. To address this, the system should be temporarily redesigned into a progressive structure. A progressive structure is needed because a flat minimum tax ignores differences in firms' profitability, placing an unfair burden on smaller, low-margin businesses while under-taxing larger, more profitable ones.² However, as governance improves, this provision imposing a minimum tax should be abolished fully.

2. Establish Expert Committee on Tax Deductions: The 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 (Short-term implementation).

3. Create Transparent Dispute Oversight Mechanism: The 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 transparently and consistently (Short-term implementation).

4. Expand Active Taxpayer Base and Clean Registry: The NBR should aim to increase the current tax base to at least 59 per cent of registered companies. In this regard, the Office of the Registrar of Joint Stock Companies and Firms 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, the NBR and the Registrar of Joint Stock Companies and Firms should make publicly accessible, through a dedicated database, the tax submission status data for all registered entities. This transparency will create reputational risks for companies that fail to submit their tax returns, putting pressure on them to comply with tax obligations. If a business has ceased operations, the process of officially declaring it non-existent is currently complicated due to lengthy court procedures. Necessary legal reforms should be introduced to make this process smoother and faster (Short-term implementation).

5. Criminalise Persistent Non-Filing: To encourage tax compliance, repeated failure to submit tax returns for multiple years should be made a criminal offense by law (Short-term implementation).

6. Introduce Tax Education in Curriculum: The Ministry of Education should introduce mandatory, dedicated classes in schools, colleges, and universities to educate students about the process of tax return submission (Short-term implementation).

7. Mandate Digital Tax Filing Nationwide: The 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

²any shift to a progressive structure should be carefully designed to prevent underreporting and ensure it does not weaken safeguards against tax avoidance.

businesses can easily access the tools and resources needed to file their returns electronically (Short-term implementation).

8. Expand Tax Coverage to Emerging Sectors: 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) (Short-term implementation).

9. Simplify VAT Structure to Three Tiers and Gradually to One: The 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 towards a two-tier system (Standard and Zero Rates) (Short-term implementation).

10. Limit Reduced VAT to Essential Goods Only: A reduced rate should apply only to a narrow, clearly defined set of essential goods and services to preserve social equity whilst minimising administrative complexity (Short-term implementation).

11. Limit Reduced VAT to Essential Goods: Revenue generated from the streamlined VAT system should be used to fund direct transfer programmes or subsidies for low-income households, a more effective and equitable approach than generalised reduced VAT rates (Short-term implementation).

12. Shift to Targeted Subsidy Mechanisms: 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 (Short-term implementation).

13. Reduce Standard VAT Rate with Safeguards: The NBR should consider lowering the standard VAT rate from 15 per cent to a more competitive level of 10 per cent, only alongside concrete measures to broaden the tax base and strengthen enforcement (around 8.5 per cent availing of the potential VAT revenue could compensate for the loss of revenue forgone for reducing the standard rate) (Short-term implementation).

14. Introduce Tiered VAT Registration System: 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 (Short-term implementation).

15. Modernise Data Systems for Transparency: Enhance data integrity and transparency by modernising the NBR's data management systems to eliminate reporting inconsistencies and ensure the regular, reliable publication of tax statistics (Short-term implementation).

16. Provide Incentives for Small Taxpayers: 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 (Short-term implementation).

5. Recommendations for Elimination of Revenue Leakage

1. Remove Fossil Fuel-Based Tax Incentives: The Ministry of Finance (MoF) must 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. Provide Time-Bound Incentives for Startups: 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 in stabilising and growing in their initial years.

3. Develop a Transparent Incentive Framework: The government should establish a clear, measurable framework that 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 and ensure they continue to serve their intended purpose. Based on the review, the government should make informed decisions about whether to continue, modify, or terminate the incentives.

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

5. Phase Out Export Cash Incentives: 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 the WTO rules by offering permissible alternatives such as duty drawbacks and investment credits.

6. Publish Comprehensive Tax Expenditure Reports: 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, regularly updated database should be created to list all tax expenditures, the sectors receiving them, and the expected outcomes (Short-term implementation).

7. Strengthen Recovery of Illicit Financial Flows: The government should prioritise the prompt recovery of money laundered over the past decades by strengthening its legal, investigative, and diplomatic efforts.

8. Institutionalise Tax Gap Analysis: The government should conduct corporate tax gap measurement (difference between potential and actual collections) regularly to track trends and the effectiveness of policies (Short-term implementation).

9. Adopt Data Analytics and AI in Tax Administration: 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. Align with Global Anti-Evasion Frameworks (BEPS): 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.

11. Enable Inter-Agency Data Sharing: There should be a mandate on a secure, bidirectional data-exchange framework among the NBR, Bangladesh Bank, and commercial financial institutions. This would enable automated cross-referencing of declared income with bank transaction data to swiftly identify discrepancies and non-compliant taxpayers (Short-term implementation).

12. Remove Non-Essential Tax Exemptions: The 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 (Short-term implementation).

13. Ensure Public Sector Tax Compliance: By applying VAT to all commercial and non-sovereign activities of the President's Office, a higher standard of fairness for all public institutions should be set by the government.

14. Strengthen Enforcement via Mobile Courts: The 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 (Short-term implementation).

15. Mandate Electronic Fiscal Devices (EFDs): 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 a necessary incentive provided for this (Short-term implementation).

16. Expand SME-Focused Tax Training: The current scope and coverage of the NBR training on tax-related issues must be extended, especially targeting the SMEs (Short-term implementation).

6. Recommendations for Strengthened and Accountable Governance

1. Establish Digital Tax Dispute Resolution System: The NBR should establish a dedicated digital tax dispute resolution system to handle tax disagreements swiftly. This system should be staffed with trained professionals to resolve disputes within a reasonable timeframe, ideally 30-45 days (Short-term implementation).

2. Separate Tax Policy from Administration: 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 (Short-term implementation).

3. Reform Tax Refund Mechanism: 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 refund processing.

4. Standardise and Improve Tax Data Reporting: The current state of data reporting at the NBR is highly problematic, with significant inconsistencies and a lack of required data. It is difficult to ensure transparency and accountability in the country's taxation system without consistent, comprehensive, publicly available data. In response to this shortcoming, the government must prioritise improvements to the data-collection process and adopt standardised reporting practices within the NBR. A reliable, transparent, and comprehensive data reporting system must be established to ensure that the true scope of tax compliance, revenue generation, and challenges can be accurately identified and addressed (Short-term implementation).

5. Increase Travel Expense Allowance for Startups: Export-oriented businesses and startups often bear higher travel costs to secure clients, explore new markets, and expand their networks. Given the significant costs involved, the government should consider raising the travel expense allowance limit for startups for certain years (Short-term implementation).

6. Adopt Accrual-Based Tax Accounting: The government should consider allowing businesses to deduct interest and profit on an accrual basis to ensure tax assessment practices are aligned with the global accounting standards and, thereby, promote fairness by reflecting a more accurate financial position in the tax assessment process.

7. Strengthen Oversight and Anti-Corruption Measures: The government should establish proper checks and balances, through independent oversight, regular audits, and clear reporting mechanisms, to ensure that tax enforcement is conducted equitably, without corruption or abuse of authority.

8. Replace Blanket Protection with Conditional Support: Instead of providing unconditional protection and blanket exemptions to certain sectors, the government should consider providing a more conditional form of protection in accordance with public interest, ensuring accountability and reducing the likelihood of misconduct.

9. Remove Advance Tax Burden on SMEs: The government should consider removing the advance tax payment requirements for small businesses, allowing businesses to have fair access

to the judicial process without being financially pressured into settling unjust tax disputes (Short-term implementation).

10. Ensure Fair Dispute Resolution Without Upfront Payments: 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 (Short-term implementation).

11. Mandate Independent Audit for Tax-Supported Projects: The government should require Chartered Accountant (CA) firms to audit and submit verified reports for projects receiving tax.

12. Strengthen Legal Authority for Tax Enforcement: 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.

13. Impose Penalties for Non-Cooperation: 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 (Short-term implementation).

14. Implement Universal Unique TIN System: The NBR should prioritise the development and implementation of a fully integrated tax system built around a common, universal Unique TIN (Short-term implementation).

15. Reform NBR Recruitment Policy: The NBR must reform its recruitment policy to attract and retain highly specialised audit and data analysis professionals.

16. Improve NBR Governance Structure: 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.

17. Enhance Participatory Budgeting Process: The government should maintain citizen engagement in the budget process and strengthen the involvement of the Cabinet and Parliament by requiring each minister to present annual development targets and assess whether the proposed resources are adequate to achieve them.

18. Reduce the Regular Issuance of SROs: NBR should ensure the number of SROs is reduced, consolidating redundant and outdated orders, so that tax rules are transparent, predictable, and fair, thereby strengthening compliance and promoting tax justice (Short-term implementation).



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