

# Corporate Income Tax Reform for Graduating Bangladesh

## The Justice Perspective

Tamim Ahmed  
Khondaker Golam Moazzem  
Mohammad Iftekharul Islam







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## Authors' Biography

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## Introduction

The United Nations General Assembly has set Bangladesh's graduation from the Least Developed Country (LDC) category, officially transitioning to a Developing Country in November 2026. Whilst this graduation marks Bangladesh's economic development, the transition may introduce new macroeconomic challenges. Since Bangladesh has the lowest tax revenue GDP ratio (8.50 per cent of GDP in FY24) in South Asia, except for Afghanistan, one of the most critical concerns in the post-LDC era could be the mobilisation of domestic resources to meet rising financial demands, particularly as concessional finance diminishes and commercial financing from external sources increases. Among various fiscal instruments, direct taxation, including both personal income tax and corporate income tax, plays a crucial role in enhancing domestic revenue generation. Given the persistently high level of inequality, additional revenue generation cannot ignore the concerns and challenges caused by the existing tax structure. Hence, ensuring tax justice will need to be ensured for an equitable and efficient tax structure in the post-LDC era.

Developing countries graduating from the LDC status often experience economic restructuring, loss of preferential trade benefits, and reduced access to concessional financing. Consequently, governments face mounting pressure to increase domestic tax revenues to sustain investments in infrastructure, education, healthcare, and social protection. Furthermore, economic transition affects taxpayers, as tax systems tend to become more complex, requiring adaptation to new regulatory environments and compliance measures. The corporate tax system, in particular, influences economic behaviour, investment decisions, and international competitiveness (Clausing, 2016). Similarly, small and medium enterprises (SMEs) operating in emerging industries often encounter new tax challenges related to sector-specific regulations and incentives (OECD, 2022).

Addressing tax justice is always challenging for policy makers. Tax authorities in developing countries face challenges in enforcing compliance, leading to potential tax evasion and avoidance issues affecting the ability of SMEs and individual taxpayers to contribute equitably to tax revenues. Tax policies may influence poverty alleviation efforts, impacting SMEs and individual taxpayers operating in lower-income segments of the economy (Anjarwi, 2025; Julius, 2025). In the light of tax justice, how Bangladesh's tax authorities (i.e., National Board of Revenue) will design the tax structure, especially personal income tax and corporate tax, as well as how they will enforce that, will be critically important.

Bangladesh's LDC graduation would not be smooth when the domestic revenue generation has been historically low. The average tax revenue-GDP ratio has been below 9 per cent (in the last five years), one of the lowest amongst global economies. It has been argued that low compliance rates, tax exemptions for many sectors, and a high level of informality associated with various economic activities, etc., are major reasons for

low revenue collection (Mansur, 2020). For a rapidly growing economy like Bangladesh, a lower tax-GDP ratio compromises the government's ability to allocate the desired level of resources to key sectors. The implementation of large-scale infrastructure projects, strengthening of social protection, improving public service delivery, etc., will continue to demand a huge commitment of resources for which external financing will be critical (Razzak and Khan, 2021).

The goal of tax reform in Bangladesh should be twofold: (a) influencing economic growth, income distribution, and social welfare, and (b) ensuring fairness and effectiveness of the tax structures in achieving tax justice, which is always challenging. As Bangladesh transitions post-LDC graduation, understanding how taxes are structured and their implications from a tax justice perspective becomes imperative. Evidently, a major tax reform is needed for Bangladesh to ensure a smooth transition from LDC to post-LDC status. Literature suggests several tax reform initiatives of different countries brought meaningful successes. Existing studies on Bangladesh's tax structure lack comprehensiveness, overlooking the interconnected implications of LDC graduation and tax justice whilst failing to address all aspects of the tax system, such as rates, bases, and legal provisions together.

Against this backdrop, this study has been undertaken to identify the reform agenda of the tax structure of Bangladesh in the post-LDC era. The scope of this particular study is limited to issues of corporate income tax. Hence, the study evaluates the current corporate tax structure from a tax justice perspective. Based on the findings, several recommendations have been made regarding the necessary reforms in the corporate tax structure to ensure the effectiveness and fairness of tax policies, thereby contributing to equitable economic growth and reducing inequality in the post-LDC period.



# 2

## Objectives of the Study

### The Following are the Key Objectives of the Study:

- a) Assessing the current corporate tax structure of Bangladesh along with incentives, exemptions, and associated challenges from the perspective of required revenue generation for a graduated LDC, as well as from the perspective of growth and equity;
- b) Identifying tax reform areas 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 to take 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 per cent tax-to-GDP ratio by FY2030.



# 3

## Conceptualisation and Analytical Framework

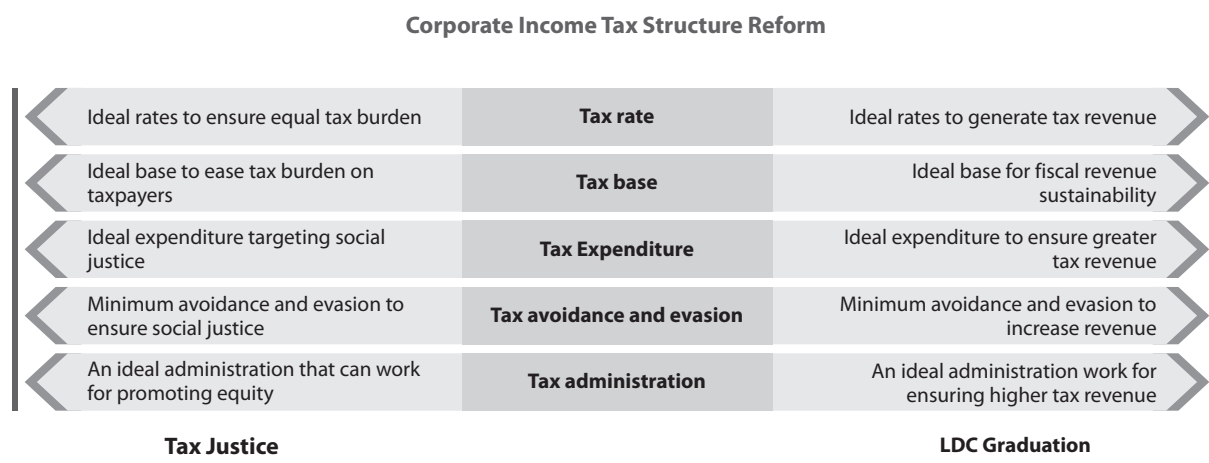
**Tax Justice - Concept and Application:** The Tax Justice Network (n.d.) defines tax justice as the set of ideas, policies, and advocacy activities aimed at promoting equality and social justice through fair taxation of wealthier individuals and multinational corporations (MNCs). Their conceptualisation of tax justice primarily focuses on addressing tax havens, reducing corruption, and curbing tax abuse by elites. On the other hand, Obeng (2018) refers to tax justice as the phenomenon of ensuring that all individuals and communities are taxed the right amount that will contribute to ensuring a sustainable and functional democracy. According to them, a tax system can be called just when it allows a government to collect necessary domestic revenue to fulfil the basic needs of its citizens, tackle inequality, and promote social well-being. Rogan (2019) narrows the definition of tax justice to two core principles: fairness and equity. Tax equity largely refers to the proportion of income that individuals and corporations pay in taxes.

Tax justice can be established by using its several elements. For example, Karim (2018) mentions elements of tax justice including a) raising revenue: to meet public spending requirements, stimulating sustainable and equitable economic development, maintaining institutions, and reducing inequality; b) redistributing wealth: to reduce inequalities between high and low-income groups and between women and men; c) supporting representation and accountable governance: to allow taxpayers to contribute to national revenues and entitle them to participate in decisions on how the revenue is raised and spent; d) changing damaging practices of individuals and companies by 'repricing' goods: to reduce the consumption of harmful goods by making them more expensive, and to encourage the use of beneficial goods through subsidies; e) regulating the economy: to incentivise economic activity in line with national plans and industrial policies.

The application of tax justice is not homogeneous across countries. Several countries' extractive sector are not paying their fair share of tax due to a) overly generous tax incentives; b) tax dodging or aggressive tax practices by companies and individuals (Obeng, 2018). Tax Justice Network (2021) estimates countries were losing a total of USD 483 billion a year to global tax abuse committed by various multinational companies and wealthy individuals. If tax justice cannot be ensured, countries globally can lose as high as USD 4.8 trillion in the next 10 years, as per the estimates of the Tax Justice Network (2023). One of the key barriers to ensuring tax justice is the presence of tax havens that allow multinational companies, especially those operating in developing countries, to largely avoid tax. Ryatt & Throne (2022), citing the Global Tax Justice Report of 2015, mention that the most corrosive corporate tax havens include the United Kingdom, the Netherlands, and Switzerland, which are responsible for over a third of corporate tax avoidance. Being tax havens for corporate tax avoidance, these countries, at the same time, are also among the largest lenders for developing countries (Ryatt & Throne, 2022).

**Analytical Framework:** Based on the concept generated for tax justice and tax reform, an analytical framework has been developed for the study (Figure 1). Accordingly to the framework, the study analyses the corporate tax structure from two dimensions, tax justice, and revenue generation. The framework consists of five key components: tax rate, tax base, tax expenditure, tax avoidance and evasion, and tax administration. Each of these components has been analysed from two perspectives.

**Figure 1 | Analytical Frame of the Study**



**Source:** Authors' illustration.

The study explores how tax rates can both generate sufficient revenue and ensure an equitable tax burden. Similarly, it assesses how the tax base can ease the burden on taxpayers whilst maintaining fiscal sustainability. In terms of tax expenditure, the study examines how incentives and exemptions can be structured to promote social justice while also ensuring greater tax revenue. Regarding tax avoidance and evasion, the research focuses on measures to minimise these practices for fairness and strategies to increase overall tax collection. Lastly, the study evaluates tax administration by considering its role in promoting equity in tax enforcement and its effectiveness in maximising revenue collection.



# 4

## Methodology

**Data Collection:** This study has been conducted using both primary and secondary data. Primary data for the study were collected through a survey administered to 123 companies located in Dhaka and Chattogram. The survey sample was structured to reflect the sectoral distribution of Bangladesh’s capital market (Table 1), ensuring the inclusion of a broad range of industries. The survey was conducted in December 2024.

**Table 1** Distribution of Conducted Survey Sample (N = 123)

Category	% of Sample
Location-wise	
Chattogram	17.1
Dhaka	82.9
<b>Total</b>	<b>100</b>
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

*Table 1 contd.*

Table 1 contd.

Category	% of Sample
Textile	14.6
Travel & Leisure	2.4
Miscellaneous	4.1
<b>Total</b>	<b>100</b>

Source: Conducted survey by CPD and CA.

In addition to the survey, Key Informant Interviews (KIIs) were conducted with five industry leaders representing key sectors, including garments, plastics, ICT, banking, and leather. To further enrich the analysis, the study also included interviews with one academician and one tax expert, aimed at gaining expert insights into the corporate tax landscape in Bangladesh. Furthermore, a comprehensive literature review was carried out, primarily to collect qualitative information relevant to the study.

Another key source of data for the analysis was the audit reports of companies listed on the capital market. Although efforts were made to collect data from all the listed companies, some had to be excluded due to the unavailability of public financial reports. The final sample comprises 103 companies, representing all sectors listed in the capital market (Table 2).

**Table 2** Sector Distribution of the Publicly Listed Companies Considered for the Study (N = 103)

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

Source: Conducted survey by CPD and CA

**Tools:** The study primarily employed frequency analysis to examine the distribution of key variables. In specific instances, regression analysis was utilised to explore relationships between variables. Additionally, a range of secondary data analysis tools was applied, including trend analysis and descriptive statistical techniques. To estimate tax evasion, the study adopted the currency demand approach.

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



## Tax Structure of Developing Countries and Graduating LDCs

### 5.1 Composition of Tax Revenue

The tax performance of developing countries in terms of tax revenue is poorer than that of developed countries. Whilst the average tax revenue for developed countries is around 20 per cent, the same is only 11 per cent of GDP for developing countries (Apeti & Edoh, 2023). This number is also below the number, 15 per cent, that the Sustainable Development Goals (SDGs) mention as a required level of revenue to build a strong state (Apeti & Edoh, 2023).

Along with inadequate tax collection, the tax composition of developing countries varies significantly from that of developed countries. Lower-income countries historically have been more inclined to collect large amounts of revenue from indirect tax than direct tax. After the introduction and growth of Value Added Tax (VAT), consumption tax has become one of the major sources of tax revenue for these countries. As such, Consumption taxes represent approximately 62 per cent of all taxes in the lower-income developing countries.

However, the dependence on indirect taxes decreases with the level of development, and as Low-Income Developing Countries (LIDCs) have continued to develop, the tax mix continues to shift. The current 62 per cent consumption tax for LIDC was over 70 per cent during the 1990s. More importantly, an improvement can be observed for the LIDC in the areas of Corporate Income Tax (CIT) and Personal Income Tax (PIT). In the last two decades (2000-20), PIT and CIT of LIDC increased by 1 and 0.8 percentage points of GDP, respectively – a higher growth than property tax and excise (Benitez et al., 2023).

**Table 3** Key Statistics Regarding Global CIT Share in Total Tax Revenue

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

Source: Benedek et al., 2022, Baker (2018)

From the perspective of tax mix (PIT, CIT, and VAT), significant differences can be observed in the structure of advanced and lower-income countries. For example, in 2019, the average revenue of Advanced Economies (AEs) sourced from PIT was 24.0 per cent of total tax and social security contribution revenue. However, in the case of LIDCs, the average was only 13.4 per cent, whilst for Emerging Market Economies (EMEs) it was only 12.7% (Benedek et al., 2022). One of the key reasons for LIDC and EMCs to have this low share of PIT is that in these countries, only a narrow section of the population, especially those working in the public sector or large multinational businesses, are covered in PITs (Benedek et al., 2022).

In the case of CIT, the gap between all three country groups is rather narrow. Interestingly, the share of CIT in the tax mix is higher for the EMEs than for the other two country groups (Table 3). For the Emerging Market Economies (EMEs), the average share of revenue generated from CIT for the period 2019 was 19.1 per cent of total tax and social security contribution revenue. Whereas, for AEs and LIDCs, the amounts are 10.4 & 16.1 per cent of total tax and social security contribution revenue, respectively (Benedek et al., 2022).

The share of VAT in total tax and social security contribution revenue for these three country groups, Advanced Economies (AEs), EMEs, and LIDCs, is 19.8, 29.3 & 29.9 per cent, respectively (Benedek et al., 2022). A major difference in the tax mix amongst these three country groups is that EMEs and LIDCs have a higher share of tax revenue from trade (10.8 & 17.8 per cent, respectively), unlike the AEs (0.9 per cent).

Least Developed Countries (LDCs), on the other hand, as a group, generate significantly less tax revenue compared to other country groups. According to UNCTAD (2023), the median tax-to-GDP ratio in LDCs was 11.6 per cent; in the same year, the ratio was 16.3 per cent in other developing countries and 23.2 per cent in developed nations. However, according to UNOHRLLS (2024), the median tax-to-GDP ratio in LDCs decreased from 12.1 per cent in 2020 to 11.7 per cent in 2022. Also, during 2020-2022, only 14 LDCs (out of 39 for which data is available) attained the DPoA target of a tax-to-GDP ratio of at least 15 per cent at least once.

In the Organisation for Economic Co-operation and Development (OECD) countries, personal tax revenues are about 2.3 times higher than corporate tax revenues, whilst in LDCs, corporate tax revenues are more important, with the ratio being 0.7:1 (Baker, 2018). This shows personal taxes are more significant in developed countries, whereas corporate taxes play a bigger role in less developed countries, where corporate tax policy has become increasingly important.

Overall, from the discussion, it can be observed that whilst developing countries, particularly LIDCs, face substantial challenges in tax revenue mobilisation, there is a noticeable shift in their tax structure towards increasing Corporate Income Tax (CIT) and Personal Income Tax (PIT). However, these countries still rely heavily on indirect taxes like VAT, which constitutes a significant portion of their tax revenue. The narrow PIT base in LIDCs highlights a need for broader tax coverage, especially among the informal sector, and a more balanced tax mix to ensure equitable and sustainable revenue generation.

## 5.2 Rate of CIT in Developing and LDCs

The global trend in corporate income tax (CIT) has shown a decline in recent years (Table 4), dropping from 27.5 per cent in 2006 to about 23.6 per cent in 2016 (Pomerleau & Potosky, 2016). Many developing countries maintain standard CIT rates of 25 per cent, 30 per cent, or higher; for instance, China has a CIT rate of 25 per cent, Malaysia 24 per cent, Indonesia 22 per cent, Pakistan 29 per cent, and Myanmar 22 per cent (PricewaterhouseCoopers, 2024). However, some developing countries offer significantly lower CIT rates, such as Oman and Uzbekistan at 15 per cent, and Paraguay and Kyrgyzstan at 10 per cent.

Additionally, certain countries have different tax rates for various types of corporate entities. In India, domestic companies face rates of 25 per cent, 30 per cent, 15 per cent, or 22 per cent under specific conditions, whilst foreign companies with a permanent establishment (PE) are taxed at 40 per cent, subject to surcharges and cess (PricewaterhouseCoopers, 2024). In Nigeria, the corporate tax rate is 30 per cent for large companies, 20 per cent for medium companies, and 0 per cent for small companies. Algeria has corporate tax rates of 19 per cent for manufacturing, 23 per cent for building, public works, hydraulics, tourism, and thermal activities

**Table 4** CIT Rates Across Different Country Groups

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

**Source:** Based on (PricewaterhouseCoopers, 2024) and (Pomerleau & Potosky, 2016).

(excluding travel agencies), and 26 per cent for all other activities (PricewaterhouseCoopers, 2024). Similar to developing countries, the statutory CIT rate of LDCs has decreased throughout 1980-2006 (Baker, 2018). The mean CIT rate for LDCs fell from 41 to 29 per cent during the same period, and it was found that smaller LDCs (as measured by GDP) had a higher corporate tax rate and experienced a larger drop (Baker, 2018). Some of the LDCs have different sectoral CIT rates. For example, Mozambique's overall corporate tax rate is 32 per cent, with a reduced rate of 10 per cent applicable to agricultural, livestock, aquaculture, and urban transportation activities (PricewaterhouseCoopers, 2024). The CIT rates for graduated LDCs are Botswana (22 per cent), Cabo Verde (21 per cent), and Equatorial Guinea (35 per cent) (PricewaterhouseCoopers, 2024).

### 5.3 Tax Incentives in Developing and LDCs

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

### 5.4 Pre and Post-LDCs Graduation Tax Revenue Scenario

A higher tax-GDP revenue ratio is crucial for any country, particularly Bangladesh, which is set to graduate from LDC status in 2026. However, the key questions for Bangladesh would be what the ideal level of tax-GDP revenue ratio for Bangladesh's economy is, how the revenue generation targets can be balanced while minimising economic distortions, and what corporate tax targets Bangladesh should set to improve its overall tax-GDP ratio.

Analysing the experiences of previously graduated LDCs can provide valuable insights in this regard. Due to data limitations, the analysis focuses on trends observed two years before and after graduation (Table 5). The data in the table reveal no consistent trend across LDC graduates. For instance, tax revenue as a percentage of GDP declined following graduation in Botswana and Equatorial Guinea, whereas in countries like the Maldives and Cabo Verde, revenue fluctuated but showed signs of recovery post-graduation. Samoa showed a relatively stable and even increasing trend in tax revenue after graduation. This variation suggests that LDC graduation

might not have a uniform impact on tax revenue. However, one clear lesson for Bangladesh is that, except for Equatorial Guinea, all these countries maintained a significantly higher tax-to-GDP ratio in their post-graduation phase (15 to 23 per cent of GDP) than Bangladesh currently does (lower than 10 per cent). This indicates that Bangladesh must strengthen its tax revenue system to avoid potential fiscal challenges and ensure smooth economic progress in the post-graduation period.

**Table 5** Share of Tax Revenue in GDP of Five LDC Graduate Countries Before and After LDC Graduation

Botswana (1994)				Maldives (2011)			
Pre-LDC Graduation		Post-LDC Graduation		Pre-LDC Graduation		Post-LDC Graduation	
1992	1993	1994	1995	2009	2010	2011	2012
27.85	23.69	19.92	16.77	9.1	8.85	12.08	14.49
Cabo Verde (2007)				Samoa (2014)			
Pre-LDC Graduation		Post-LDC Graduation		Pre-LDC Graduation		Post-LDC Graduation	
2005	2006	2007	2008	2012	2013	2014	2015
21.08	22.74	19.18	19.42	20.54	22.69	23.68	22.54
Equatorial Guinea (2017)							
Pre-LDC Graduation		Post-LDC Graduation					
2015	2016	2017	2018				
11.46	6.38	5.98	6.17				

Source: World Bank (n.d.)

## 5.5 Tax-related Good Practices in Developing Countries

Globally, developing countries have been implementing several policies which is yielding increased Tax revenue (Table 6) (as cited in Bachas et al, 2021). Pomeranz (2015) found that in Chile, when the firms were audited, they were forced to report information about their suppliers in their Value Added Tax (VAT), and more taxes were paid. Naritomi (2019) finds in Brazil that presenting lottery prizes to consumers for submitting receipts increased targeted firms' reported sales by 21 per cent. Balan et al. (2020) find that the local elites implementing tax collection in the urban Democratic Republic of the Congo can leverage information about their communities to collect 43 per cent more property taxes than provincial tax collectors. A study by Krause (2020) targeting Haiti suggests that when authorities increase enforcement efforts, such as auditing, inspections, or penalties, this can backfire if the underlying public goods are inadequate.

Bruhn & McKenzie (2014) investigated the empirical studies and found strong evidence that interventions can induce firms to formalise, which in turn can generate additional tax revenue. Some of these interventions include in-person visits and training on formalisation in Benin (Benhassine et al., 2018), inspections in Brazil (de Andrade et al., 2014), and incentives in Sri Lanka (de Mel et al., 2013). According to the study findings of Cohen (2020), SMS reminder messages to taxpayers increased tax payments by 6 per cent in Uganda. Also, De Neve et al (2020) estimated that providing taxpayers with simplified information reduced delayed payments by 23 per cent in Belgium.

**Table 6 Tax-related Good Practices Across Different Countries**

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

Source: Literature review.

## 5.6 Tax Reform for Developing Countries and Graduating LDCs

An ideal tax system should raise adequate revenue for the government with minimal disruption to economic activity and align closely with international norms (Tazni & Zee, 2001). International norms refer to widely accepted standards, principles, and practices that guide behaviour and policy in various fields, including taxation.

Adopting such an ideal tax structure is relatively more challenging for developing countries. Some of the common tax-related challenges of developing countries include narrow tax bases (resulting in fewer taxpayers), low revenues, and low reported levels of tax morale (OECD, 2021). In fact, developing countries, on top of their much lower per capita national incomes, can only convert a smaller portion of these earnings into tax revenue of these earnings (Hearson, 2017).

On the other hand, several Least Developed Countries (LDCs) share the common characteristic of having a large informal sector. In 2018, the informal economy in LDCs accounted for an estimated 35–40 per cent of GDP, and during 2019–2021, it represented 86 per cent of total employment (UNCTAD, 2023). This significant informal sector operates largely outside the formal tax system, limiting the government's ability to collect revenue. Ohnsorge and Yu (2022) found that a higher prevalence of informal economic activities is associated with lower government revenues and reduced public expenditure. Thus, LDCs with substantial informal sectors can potentially increase tax revenue by facilitating the formalisation of these businesses.

UNCTAD (2018) notes that a considerable proportion of informal entrepreneurs in LDCs express a willingness to register their businesses but face obstacles such as high administrative burdens, costs, and a lack of information. Therefore, LDCs should focus on simplifying business registration and tax payment procedures, providing incentives for formalisation, and offering support services to encourage informal businesses to enter the formal economy.

Besides, LDCs must implement an effective, equitable, and just tax system to sustain their revenue flows. Currently, VAT is the highest revenue earner for LDCs with an average share of 44.8 per cent, followed by taxes

on incomes, profits, and capital gains (34.9 per cent) and taxes on international trade (17.2 per cent). The tax rate should not be irrationally set solely to attract FDI. Several LDCs have reduced their tax rates and provided a range of tax incentives to firms operating in SEZs, and as such, the average corporate income tax rate in LDCs fell from 35 per cent in 2000 to 28 per cent in 2022 (UNCTAD, 2022). Moreover, LDCs need to review and reduce tax exemptions or preferential treatment for certain sectors from a broadening tax base and an equitable distribution point of view. An expansion of the coverage of a value-added tax could assist in broadening the tax base by capturing revenue from a broader base of economic activities. Also, LDCs should focus on establishing a progressive income tax and enforcing compliance among high-income earners, which in turn would broaden the tax base and ensure a fairer tax system.

In fact, LDCs can significantly enhance their fiscal capacity by curbing illicit financial flows (IFFs) and reducing tax avoidance, which have been prevalent issues in these economies. For example, UNCTAD (2020) estimated that between 2013 and 2015, illicit capital flight from Africa averaged USD 89 billion annually. Similarly, between 2002 and 2018, the estimated capital flight from 15 African LDCs amounted to USD 521 billion (Ndikumana and Boyce, 2021). On the other hand, tax evasion and aggressive tax avoidance practices, mainly in the form of the manipulation of transfer prices, are pervasive in the LDCs. This practice is particularly high for Multinational Enterprises (MNEs) that often avoid tax by reporting the wrong price for their cross-border transactions and shifting profits to countries where tax rates are relatively low.

The overall fiscal capacity of an LDC can be enhanced through : (a) broadening the tax base by incorporating more sectors, particularly the informal economy; (b) combating illicit financial flows that drain resources; (c) ensuring strong and efficient tax administration systems; (d) reviewing tax exemptions and other fiscal incentives that often erode revenue; (e) avoiding race-to-the-bottom tax competition; (f) strengthening tax compliance mechanisms; (g) enhancing international tax cooperation to tackle cross-border tax avoidance; and (h) improving the management of natural resources, especially critical minerals linked to the global energy transition; (i) more diversified tax components that are more progressive and wealth based; (j) improving; (k) simplification of tax structure (UNCTAD, 2023; UNESCAP, 2020). Additionally, the development of the financial sector can play a pivotal role in promoting domestic resource retention, which is vital for sustainable economic growth in LDCs (UNCTAD, 2023).

Graduation from the least developed country (LDC) status is expected to lead to a loss of preferential treatment in international trade. According to the World Trade Organization (WTO, 2021), approximately 88 per cent of merchandise exports from LDCs that are set to graduate shortly are directed towards markets with preferential schemes for LDCs. Consequently, these countries may experience a decline in export competitiveness, which could result in export losses. Several countries that have already graduated from LDC status have faced the loss of trade preferences, adversely affecting their export performance (UNCTAD, 2020). Additionally, reciprocal trade preferences may apply, meaning that tariffs imposed on exports from graduating LDCs may be reciprocated, further reducing competitiveness. This trade adjustment could lead to a decline in tax revenue for graduating LDC governments, constraining their fiscal space.

However, the potential to mitigate these challenges in the post-graduation era is significant. Whilst countries may lose LDC-related trade benefits, they remain eligible for developed countries' Generalized System of Preferences (GSP) schemes, which can help restore their trade competitiveness to a substantial extent (WTO, 2021). Moreover, in several instances, non-reciprocal trade preferences are not tied to LDC status (WTO, 2021). This transition period could also present an opportunity for graduating LDCs to advocate for enhanced capacity-building assistance in trade and fiscal policy.

Graduating LDCs will need to make multilateral efforts to address revenue challenges, reduce tax leakages, promote banking transparency, and reform tax havens, alongside domestic measures aimed at improving revenue collection (WTO, 2021).

Graduation is also likely to intensify the pressure to mobilise domestic revenue. The transition from LDC status typically coincides with reduced external support and preferences, necessitating the strengthening of tax collection systems, broadening the tax base, and enhancing tax compliance. Many countries have

encountered difficulties in expanding their tax bases and ensuring compliance, particularly as they seek to maintain economic growth following LDC graduation (World Bank, 2021).

Overall, it can be inferred that Least Developed Countries (LDCs) face significant challenges in designing and implementing an effective tax system due to structural constraints like a narrow tax base, large informal economies, low tax morale, and high levels of illicit financial flows. Despite these barriers, evidence shows that targeted policy interventions, such as formalising informal businesses, strengthening tax administration, and simplifying compliance, can enhance tax revenue mobilisation. LDCs must also balance the need to attract investment with the risk of eroding their tax base through excessive incentives and low corporate tax rates. With the added pressure from graduation-related loss of trade preferences, these countries need to focus on broadening the tax base, curbing tax evasion, and improving fiscal management to build resilient, equitable, and sustainable revenue systems.

## 5.7 Implications of Tax Reforms in Developing Countries and Graduating LDCs

Gnangnon and Brun (2020) defined tax reform as the procedure that ensures the convergence of developing countries' tax structure towards that of developed countries. According to Judijanto et al. (2024), tax reform is the reformation of the tax system by implementing certain policies to increase the country's revenue and encourage economic growth.

Reforming the tax system can have significant effects on the economy. Gupta and Jalles (2022) found that changes to personal income tax or improvements in revenue administration can reduce the disposable Gini coefficient and increase the share of income for those at the bottom in developing countries. They also suggest that implementing tax reforms during periods of slow economic growth can more effectively reduce inequality, noting that a smaller government spending budget and a less extensive tax system can enhance the positive impact of these reforms on inequality. According to Yohou (2020), the impact of tax reform on fiscal space is not straightforward and depends on how well corruption is controlled; tax reform improves fiscal space and tax revenue when corruption control is stronger.

Gnangnon (2019) found that tax reform is positively linked to the trade openness of a country, with LDCs experiencing a greater positive impact from tax reform on trade openness compared to more advanced developing countries. Another empirical study by Gnangnon (2021) finds that extensive tax reform can help reduce public debt, with this negative effect being stronger in countries that rely heavily on non-resource tax revenue. Additionally, they found that the reduction in public debt from tax reform is higher in countries with a higher share of international trade tax revenue within their non-resource tax revenue. Judijanto, Husain & Syaiful (2024) found that proper tax reform can positively impact a country's SME sector, while faulty tax reform can do the opposite. According to them, SMEs prefer reforms that are clear and simple because they make it easier to follow tax rules and report earnings, while complicated reforms create confusion and problems. Also, having the right technology and support systems is important for successfully implementing tax reforms, along with government help through tax incentives and education. In another research by Gnangnon (2023), it was found that tax reform can cause real exchange rate depreciation. The extent of this effect is rather higher in developed countries than in developing countries. Considering the case of Ghana, Kamasa et al (2022) found that tax-related reforms have a positive and significant impact on tax revenue generation. This is a very similar findings to an earlier work by Aminu & Eluwa (2014) for the case of Nigeria.

Overall, it can be inferred that tax reform can play a transformative role in improving economic outcomes in developing countries, but its impact is multifaceted and depends on context-specific factors. Well-designed tax reforms, particularly those that enhance personal income tax systems, simplify compliance for SMEs, improve revenue administration, and are supported by effective corruption control, can reduce inequality, increase fiscal space, boost trade openness, and even lower public debt. However, poorly implemented reforms or those lacking clarity and institutional support may have adverse effects, especially on small businesses. Additionally, the effects of tax reform on broader economic indicators like the real exchange rate and debt sustainability vary depending on a country's reliance on different types of tax revenues and its level of development.

## 5.8 Issues Related to Tax Compliance

Syamsudin et al. (2023) did a comprehensive review of the definition of tax compliance. According to their study, tax compliance refers to how well taxpayers follow the rules about reporting their income and paying taxes. According to Roth et al. (1989), as cited in Maseko and Sawe (2022), tax compliance means submitting returns on time and accurately reporting tax obligations based on the current rules and court decisions. Alm (1991) describes it as correctly reporting income and claiming expenses according to tax laws. Andreoni et al. (1998) define tax compliance as the willingness of taxpayers to follow tax laws for the economic stability of the country. Kirchler (2008) uses 'tax compliance' as a neutral term for a taxpayer's readiness to pay taxes. Allingham and Sandmo (1972) focus on tax compliance as reporting actual income. Inasius (2019) explains it as the willingness of taxpayers to follow tax laws, report accurate income, file returns, and pay taxes on time. The OECD (2017) defines tax compliance as how well taxpayers meet their country's tax rules, which include declaring income, filing returns, and paying taxes on time.

There is no consensus in the literature regarding the factors that determine tax compliance levels. Both economic and non-economic factors have been identified as contributors to tax compliance in various studies. Barbuta-Misu (2011) highlights key economic factors, including income level, audit probabilities, tax audits, tax rates, tax benefits, penalties, and fines, as determinants of tax compliance. In addition, they identify non-economic factors such as attitudes towards taxes, personal, social, and national norms, and perceived fairness as significant influences on tax compliance.

According to the model developed by Allingham and Sandmo (1972), taxpayers make decisions regarding tax payments by evaluating the risk of detection versus the potential reward of tax evasion. This implies that even risk-averse taxpayers may choose not to comply if the expected gains from tax evasion outweigh the potential costs. The study concludes that four key factors influence a taxpayer's decision to comply: (a) actual income level, (b) tax rates, (c) the severity of fines, and (d) the risk of audits.

Torgler and Schneider (2007) investigated the psychological factors influencing individual tax compliance. Their findings suggest that trust in the legal system, government, and parliament, as well as national pride and pro-democratic attitudes, play significant roles in advancing tax compliance among citizens.

Additional factors that may affect tax compliance behaviour include the complexity of the tax structure (Blaufus & Ortlieb, 2009), tax knowledge among individuals (Ericksen & Fallan, 1996), age and marital status (Orviska & Hudson, 2003; Andreoni et al., 1998), rewards for tax compliance (Feld et al., 2006), and the level of religiosity (Torgler & Schneider, 2007).

Mixed results are observed in the literature regarding factors such as fairness, justice, and equity. For instance, as cited in Mebratu (2024), studies by Jemberie (2020), Engida and Baisa (2014), Sebhat & Assfaw (2019), and Deyganto (2018) report no significant influence of fairness and justice on tax compliance behaviour. Conversely, Ademe and Simret (2020) find that fairness, justice, and equity in the tax system have a significant impact on tax compliance behaviour.



## Setting Corporate Income Tax Target Framework for Bangladesh

No fixed benchmark in global literature 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 per cent, whilst the global average is also close to this level (Table 7). This suggests that Bangladesh should aim for a tax-to-GDP ratio of at least 15 per cent to enhance its fiscal capacity and ensure greater financial stability in the post-LDC graduation phase.

**Table 7** 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 Bank (n.d.)

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 regarding improving the 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 so far. This plan serves as a long-term strategy extending through FY2041. As part of this plan, Bangladesh aims to increase its tax-to-GDP ratio to 16.96 per cent from FY2020 to FY2041 (on average) (Table 8). For this study, the benchmark scenario has been set for the FY 2030. While the plan does not specify the share of corporate tax revenue within the total revenue, secondary data can be utilised to estimate this target and determine the necessary adjustments.

The current size of the GDP of Bangladesh is USD 451.47 billion in FY2024. Hence, the size of tax revenue for Bangladesh in FY2024 stands at 7.9 per cent of USD 451.47 billion = USD 35.67 billion (Table 9). If the projections of the IMF are considered, the GDP of Bangladesh (*ceteris paribus*) may reach USD 719.25 billion in the fiscal year 2030<sup>1</sup>. Therefore, if the size of tax revenue in 2030 is targeted to be 17 per cent of GDP, the amount must be 17 per cent of USD 719.25 billion = USD 122.27 billion. In the latest available fiscal year, 2023-24, the contribution of corporate tax revenue to total tax revenue was 20 per cent. If this remains constant in 2030, then the required corporate tax revenue in 2030 would be 20 per cent of USD 122.27 billion

<sup>1</sup> Considering calendar year 2029 as fiscal year 2030

**Table 8** Tax-related Target (% of GDP) for Bangladesh Stated in the 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.

**Table 9** Key Current and Future Figures Regarding the Corporate Tax Revenue of Bangladesh

Key Indicator	Value
Current GDP (FY2024)	USD 451.47 billion
Current Tax Revenue (FY2024)	USD 35.67 billion
Projected GDP (FY2030)	USD 719.25 billion
Targeted Tax Revenue (FY2030)	USD 122.27 billion
Corporate Tax Revenue Share	20% of total tax revenue
Current Corporate Tax Revenue (FY2024)	USD 7.13 billion
Required Corporate Tax Revenue (FY2030)	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 the IMF and others.

= USD 24.45 billion. The current level of corporate tax revenue is 20 per cent of USD 35.67 billion = USD 7.13 billion. Therefore, to achieve the target tax revenue in 2030, Bangladesh would need an additional (24.45 - 7.13) = USD 17.32 billion in corporate tax revenue. This means that over the next six years, the size of the corporate tax revenue of Bangladesh must grow on average by 22.79 per cent per year or increase by approximately 1.23 times every year compared to the current level by 2030.

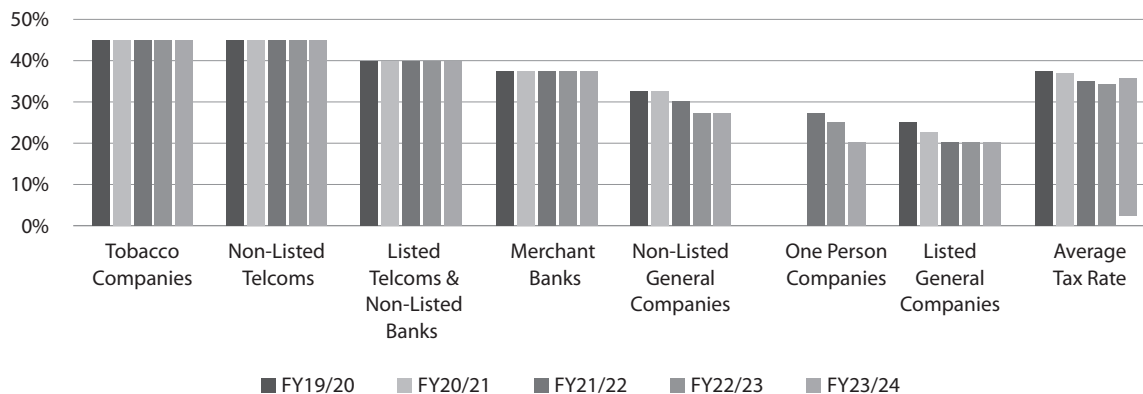


# Review of the Current Corporate Income Tax Scenario of Bangladesh

Corporate income tax is a form of direct taxation that is typically imposed on the profits of revenue-generating companies. In Bangladesh, business entities registered under the Companies Act 1994, including manufacturing, service-oriented, and financial institutions, as well as educational institutions and any other revenue-generating businesses, are subject to corporate income tax.

Over the years, Bangladesh has maintained a few sector-specific rates. The highest CIT rate has consistently applied to companies that produce all types of tobacco products, including cigarettes, bidis, chewing tobacco, and gul, with a rate of 45 per cent plus a 2.5 per cent surcharge. If the average corporate tax rate across all sectors, or the rate for unlisted private companies (which are the most common type of company), is examined, a downward trend in the CIT rate over the years can be observed (Figure 2).

**Figure 2 | Corporate Income Tax Rate in Bangladesh Over the Years**



Source: Based on KPMG (2024).

The corporate tax rates for the latest fiscal year, FY2025, have largely been similar to previous years (Table 10). The corporate income tax rate for publicly traded companies remains between 20 per cent and 25 per cent, with lower rates applicable if they transfer a higher portion of shares through an Initial Public Offering (IPO). Non-publicly traded companies, including One Person Companies (OPCs), are taxed at 22.5 per cent to 27.5 per cent, with reductions available for compliance with banking transaction requirements. Financial institutions such as banks and insurance companies remain with a higher tax rate, ranging from 37.5 per cent to 40 per cent, whilst tobacco product manufacturers, as usual, pay the highest rate of 45 per cent plus a 2.5 per

cent surcharge. Certain industries, including the readymade garment (RMG) and non-RMG export-oriented businesses, benefit from a reduced tax rate of 10 per cent–12 per cent if they meet sustainability criteria like LEED certification. Additionally, SMEs engaged in goods production are fully exempt from tax if their annual turnover does not exceed BDT 5 million, with a higher exemption threshold of BDT 7 million for women-owned SMEs. A few selected industries, including 19 ICT businesses and the power and energy sector (under certain selections), continue to enjoy full tax exemptions under specific conditions.

**Table 10** The Latest Corporate Tax Rate for Bangladesh

Description	Tax Rate	Tax Rate in case comply with condition
Publicly traded company that transfers shares worth more than 10 per cent of its paid-up capital through an Initial Public Offering (IPO)	22.5%	20% <sup>a</sup>
Publicly traded company that transfer shares worth ten per cent or less than ten per cent of its paid-up capital through IPO	25%	22.5% <sup>a</sup>
Defined in Income Tax Act, 2023 as a company but a non-publicly traded company	27.5%	25% <sup>a</sup>
One Person Company (OPC)	22.5%	20% <sup>a</sup>
Publicly traded bank, insurance, and financial institution (except merchant bank)	37.5%	37.5%
Non-publicly traded bank, insurance, and financial institutions	40%	40%
Merchant bank	37.5%	37.5%
Company producing all sorts of tobacco items including cigarettes, bidis, chewing tobacco and gul	45% (+) 2.5 % Surcharge	45% (+) 2.5 % Surcharge
If a publicly traded mobile phone operator company (that holds at least 10% of its paid-up capital, out of which Pre-Initial Public Offering Placement cannot exceed 5%)	40%	40%
Non-publicly traded mobile operator company	45%	45%
Cooperative Society	20%	20%
Private educational institutions (profit-making)	15%	15%
Association of persons (AOP)	27.5%	20% <sup>a</sup>
<b>Specially exempted industries (selected ones only)</b>		
Export-oriented RMG	12%	10% <sup>b</sup>
Export-oriented non-RMG	12%	10% <sup>b</sup>
Textile sector, including spinning, yarn dyeing, finishing, coning, fabric dyeing, and printing, benefits	15%	15%
Jute goods	10%	10%
Manufacturers of freezers and accessories, refrigerators, air conditioners, motorcycles, and compressors	Applicable CIT rate	10% <sup>c</sup> (announced to be annulled from FY 26)

Table 10 contd.

Table 10 contd.

Description	Tax Rate	Tax Rate in case comply with condition
<b>Fully tax-exempt industries</b>		
Nineteen ICT businesses (AI-based solution development, Blockchain-based solution development, Robotics process outsourcing Software as a service, Security service, Data analytics and data science, Application development service, Development and customisation, Test lab service, Listing, website development and service, Assistance and software maintenance service, Information Service, Animation development, Graphics design, Data entry and processing, Platform and e-publication, Freelancing, Centre service Conversion, imaging and digital archiving.)	Applicable CIT rate	0% <sup>d</sup>
SMEs that are involved in goods production	Applicable CIT rate	0% <sup>e</sup>
Power Sector	Applicable CIT rate	0% <sup>f</sup>

**Source:** NBR and Ministry of Finance.

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



# 8

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

### 8.1 Tax Rate

From a tax justice perspective, the current corporate income tax structure has both positive and problematic elements. While the structure appears to tax more profitable (such as Telecom, Bank industry) or socially harmful industries (such as Tobacco industry) are at higher rates and transparent and socially beneficial businesses (such as incentive for the 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 only tax incentives are insufficient to encourage companies to list on the stock market, and as such, the IPO landscape in the Bangladesh's capital market has seen no significant improvement over the years despite such incentives being in place. Rather, this kind of incentive distorts tax equity as companies of similar size and profitability end up paying different taxes solely based on whether or not they are publicly listed, instead of on the actual financial performance of the business. In fact, the most common global practice is 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.

Currently, export-oriented sectors, including the 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, whilst these significantly 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 (table 11), it is evident that the standard CIT rates in those countries generally range between 20 per cent and 30 per cent. This suggests Bangladesh could reasonably raise the CIT rate for its export-oriented sectors to as high as 19 per cent and can still maintain a competitive edge whilst 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 per cent, compared to the standard corporate tax rate of 25–30 per cent.

Moreover, according to one interviewed tax expert, 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.

**Table 11** 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 websites.

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 per cent 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 per cent tax rate is not consistent with 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 a 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 be relatively low, and businesses exceeding this limit are likely to face steep jumps in tax rates, which in turn can discourage their business expansion or report a true turnover amount.

The tax structure of Bangladesh currently has a 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 per cent of gross receipts, whilst for mobile phone operators and tobacco manufacturers, the rate is 2 per cent. Banks, insurance firms, and financial institutions typically have a 0.6 per cent–1 per cent minimum tax, whilst export-oriented industries benefit from a lower rate of 0.5 per cent. Whilst 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 should rather 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. Analysing these effective tax rates can provide deeper insights into tax justice. One of the major challenges in calculating the effective tax rate in Bangladesh is the lack of data availability. Although data for companies listed in the capital market is publicly accessible, concerns remain about the accuracy of reported figures. Also, for many listed companies, a detailed breakdown of data was not available. Despite these challenges, this study attempts to calculate the effective tax rate using data collected from capital market-listed companies.

The Effective Tax Rate (ETR), calculated as the current tax paid relative to net profit before tax, can deviate from the stipulated corporate tax rate due to various factors such as tax incentives, exemptions, carry-forward losses, and industry-specific regulations. Based on data from 103 publicly listed profit-making firms for FY2023, the average overall effective tax rate across all sectors is found to be 31 per cent. Since all listed firms benefit from approximately a 2.5 per cent tax reduction compared to non-listed firms, the effective tax rate for comparable non-listed companies could be estimated at around 33.5 per cent. The calculation for different sectors shows various results (Table 12). Sectors such as Engineering (73 per cent), Banking (66 per cent),

**Table 12** 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%

**Source:** Authors' calculation based on the capital markets listed companies' financial reports.

**Note:** a) All these analysed firms are listed in the capital market, hence a subsidised corporate tax rate is already applied to these companies. b) The calculation is for only companies that reported profit in FY2022-23. c) A total of 103 companies (that only made a profit in that fiscal year) have been considered for the calculations.

Cement (65 per cent), Food & Allied (65 per cent), and Telecommunication (65 per cent) were found to have high ETRs, exceeding the statutory corporate tax rates.

These differences in their effective tax rate can arise for several reasons. One reason could be that whilst 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. This is intended to prevent businesses from reporting inflated or unrealistic expenditures to artificially reduce their taxable profit and avoid paying taxes. 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 does not always reflect ongoing business realities. If a company's expenses align with the tax authority's framework, there is generally no issue. However, as is found, the effective tax rate is significantly higher for many businesses than the official statutory rate; it is indicative that a considerable portion of the business's legitimate expenditures may have been disallowed. This effectively increases the tax burden on those businesses, undermining tax justice.

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. These additional income streams are often taxed at different rates, or in some cases, may be subject to withholding taxes or enjoy preferential treatment under tax laws. As a result, even if the core business is taxed at the standard corporate rate, the blended effective tax rate may be lower or higher depending on the composition of taxable income.

Although a higher effective tax burden could be indicative of some degree of unfair treatment, it may not reveal the actual scenario. However, a more ideal picture of tax justice can be depicted if the equity of these taxes can be measured. Equity of taxes can be calculated from two points of view: a) vertical and b) horizontal. The vertical equity refers to the principle that firms or individuals with higher income or ability to pay should contribute a higher proportion of their income in taxes, whereas horizontal equity means that firms with similar financial characteristics (such as similar profit levels, revenue, etc.) should pay similar taxes.

To estimate the quantitative extent of vertical equity in Bangladesh's tax system, a log-linear regression analysis was conducted using data from 120 publicly listed companies for the fiscal year 2022-23 (Table 13). The dataset includes a proportionate representation of various sectors, including Banking, Insurance, Financial Institutions, Fuel and Power, Textile, IT, and others. The model aims to explore the relationship between tax payments and financial indicators such as profit before tax, revenue, and total assets. It estimates how changes in these variables affect tax liability, providing insights into the vertical equity of the tax system. By interpreting the regression coefficients, the analysis determines whether larger firms are paying proportionally higher taxes, with a particular focus on assessing tax progressivity.

**Table 13** Estimated Value for the Regression Model that Measured Vertical Equity

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

Source: Authors' calculation.

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. The coefficient for log profit before tax is 1.026, statistically significant at the 1 per cent level ( $p = .000$ ), indicating that a 1 per cent increase in profit leads to roughly a 1.026 per cent increase in tax paid. In contrast, the coefficients for log revenue (-0.002) and log total assets (0.113) are not statistically significant ( $p = .987$  and  $.266$ , respectively), indicating that these variables do not have a meaningful direct impact on tax paid in this model. Although the 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. It should also be noted that this pattern does not reflect broader corporate tax practices, especially among unlisted or smaller firms.

Another analysis that can give insight into equity is the average relative tax burden across sectors, measured as the ratio of a sector's share of total current tax to its share of total profit before tax (Table 14). The estimation conducted on 103 listed companies reveals how different industries contribute to the tax revenue. The telecommunication sector appears to have the highest relative tax burden, with a ratio of 1.46, indicating it pays 46 per cent 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

**Table 14** 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.

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 other proxy measures of horizontal equity as well. To estimate the horizontal equity in Bangladesh's corporate tax structure, we assume that a company generates a profit of BDT 1 million (before tax) in a fiscal year. Ideally, with complete horizontal equity, the same economic profit would result in the same amount of tax, irrespective of the company's sector or other attributes. However, due to variations in tax rates across different sectors, this is not the practice case. The tax amount has been calculated based on the assumption of BDT 1 million profit, considering the specific tax rate for each sector (refer to Table 10). The Gini coefficient of these amounts has been computed using the following formula.

$$G = \frac{n + 1 - 2 \sum_{i=1}^n \frac{i \cdot x_i}{\sum_{i=1}^n x_i}}{n}$$

**Where:**

- n is the number of firms or entities being analysed.
- $x_i$  represents the sorted values of the tax amounts for each firm.
- i is the rank or position of each firm in the sorted list.

A Gini coefficient closer to 0 would signify greater horizontal equality, meaning firms with the same economic capacity (assumed based on profit) would pay the same tax amount. In contrast, the value found for Bangladesh is 0.34233, indicating that firms within the same profit bracket are experiencing varying tax burdens, likely due to sector-specific tax rates and other distinguishing attributes. Whilst not extremely high, this level of inequality suggests room for improvement in aligning tax obligations more closely with horizontal equity.

**Table 15** Perception of Corporate Entities on the Progressiveness of the Tax System

Category	% of the corporate respondents
Not progressive at all	26.8
Somewhat progressive	22.0
Moderately progressive	43.1
Significantly Progressive	7.3
Highest progressive	0.8
<b>Total</b>	<b>100</b>

**Source:** Survey conducted by CPD and CA.

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 per cent) categorises the Bangladesh corporate tax system as 'moderately progressive'. A smaller percentage (22.0 per cent) consider the system 'somewhat progressive', whilst 26.8 per cent view it as 'not progressive at all'. Only 8.1 per cent of the respondents believe that the tax system is 'significantly progressive' (7.3 per cent%) or 'highest progressive' (0.8 per cent) (Table 15). This suggests that the overall tax structure falls short of being highly effective or equitable in promoting tax justice.

Whilst there is scope for improving tax justice in Bangladesh, it is crucial to meet the revenue generation target to ensure sustainable economic growth, fund essential public services, and reduce dependency on external sources of finance in the post-LDC era. As mentioned in the preceding section, Bangladesh needs to increase its corporate tax revenue by an average of 23 per cent every year to achieve the overarching goal of a 17 per cent tax-to-GDP ratio by 2030.

The necessary effective tax rate to achieve this target can be determined under a simple scenario based on certain assumptions. The effective corporate tax rate identified in this study is around 32 per cent. The current corporate tax revenue for the latest year stands at USD 7.13 billion. If the corporate tax rate is adjusted to 28 per cent (4 per cent less than 32 per cent to account for taxes collected through minimum tax payments despite losses), the estimated corporate profit would be approximately USD 25.46 billion. This amount represents 6 per cent of Bangladesh's current GDP. If this corporate profit rate persists until 2030, Bangladesh's corporate profits will reach USD 43.155 billion. To achieve the targeted corporate tax revenue of USD 24.45 billion, an effective tax rate of 57 per cent would be required. However, compared to other developing and developed countries, a corporate profit of 6 per cent of GDP is relatively low. Considering a more favourable scenario in which Bangladesh reaches the corporate profit levels typical of other developing countries (i.e., 15 per cent of GDP by 2030), the required effective tax rate would be only 23 per cent. In fact, there is a higher scope for Bangladesh to minimise the effective tax rate to an even lower level if it can improve its tax base and reduce tax avoidance and evasion. A detailed analysis of these has been provided in the subsequent sections.

**Table 16** 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:** Survey conducted by CPD and CA.

The reduction of the tax rate should be given even higher priority, as it can stimulate investment and enhance the competitiveness of firms. To better understand the preferences of businesses regarding the rate and type of corporate tax, the survey included specific questions on this topic. Interestingly, whilst many countries globally are gradually adopting a flat tax rate to reduce complexity, the survey revealed that the majority of corporate respondents (93 per cent) in Bangladesh prefer a sector-based taxation system (Table 16). This suggests that businesses may be advocating for greater tax justice, particularly in terms of the equitable distribution of the tax burden.

**Table 17** Expected CIT Rate of the Surveyed Respondent

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

**Source:** Survey conducted by CPD and CA.

The survey findings also indicate that, on average, businesses expect a corporate tax rate of 17.6 per cent (Table 17), 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 per cent). Whilst this is the preference of businesses, tax authorities should continue to explore opportunities to reduce tax rates for companies. This could be achieved by ensuring progressivity in the tax structure, broadening the tax base, minimising tax evasion and avoidance, and rationalising tax expenditures by focusing on more need-based approaches.

## 8.2 Tax Base

The corporate income tax base is highly important for Bangladesh from the point of both tax justice and LDC graduation point of view. Widening the tax base can increase tax revenue, ease the burden on compliant corporations, and thereby ensure tax justice. As Bangladesh prepares for a more competitive post-graduation economic landscape, ensuring a strong corporate tax base is crucial for the country.

**Table 18** Corporate Tax Base Related to 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*

**Source:** NBR Annual Reports.

**Note:** \*This particular data was found at Begum (2025).

Official statistics suggest that despite higher economic growth and efforts by the government, the number of companies submitting tax returns remains limited (Table 18). A significant mismatch is observed between the number of registered corporate entities and the companies actually submitting tax returns. Despite a higher number of e-TIN holders and company registrations, the percentage of companies submitting tax returns remains critically low, with only 19 per cent of e-TIN holders and 11 per cent of registered companies in FY2021-22. In fact, just 26 per cent of corporate taxpayers (entities with business earnings) filed returns in FY2020-21. In the most recent data available, i.e., for FY2023-24, the return submission rate declined even further to only 9 per cent of registered companies, indicating widespread non-compliance or ineffective enforcement.

**Table 19** Tax Burden Scenario for Bangladeshi Corporate

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	-

**Source:** Authors' calculation from NBR Annual Reports.

From a tax justice perspective, this reflects inequity, as a small portion of companies continuously bear the tax burden whilst a large number of others evade it, creating a major disincentive for voluntary tax compliance. Over the years, the tax burden on individual companies has nearly doubled, rising from BDT 1.09 crore in FY2016-17 to BDT 2.09 crore in FY2020-21 and BDT 1.94 crore in FY2021-22. 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 per cent (Table 19).

On the revenue side, a narrow tax base limits the government's ability to fund essential public services. Addressing these gaps is crucial to ensure a fairer, broader, and more effective corporate tax base. The achievement of the 2030 corporate revenue target will largely depend on the effective expansion of the existing corporate tax base whilst putting a minimal tax burden on the corporate taxpayers.

**Table 20** Estimation of Needed Tax Expansion to Meet 2030 Target

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

**Source:** Authors' calculations based on NBR's annual report.

**Note:** \*Considering the current total number of registered companies at 288,000.

The estimation for meeting the 2030 corporate tax revenue target suggests that Bangladesh will need to significantly expand its tax base. Based on the average individual tax burden of BDT 1.505 crore over the past six years, it is estimated that approximately 170,582 taxpayers would be required to meet the target revenue (*ceteris paribus*) (Table 20). Given that the current total number of registered companies is 288,000, this would mean that about 59 per cent of the registered companies would need to comply with tax filing to achieve the revenue goal for 2030. However, this estimate may be a bit optimistic. Many large firms already submit returns, and the remaining firms, many of which are either inactive or non-operational, may not have the same tax-paying capacity. Incorporating the assumption that 20 per cent of registered companies are non-existent, the number of potentially active registered companies would be around 259,200. Considering 30 per cent less average per-head revenue burden, the required average tax contribution per firm would be BDT 1.1 crore.

**Table 21** Surveyed Companies' Perception of an Extended Tax Base

Category	% of surveyed companies
Informal sector	68.0
Entertainment	39.3
Non-Profit	65.6
Health	50.0
Education	66.4
E-commerce	24.6
All the sectors that are outside the purview of tax	96.7

**Source:** Survey conducted by CPD and CA.

Under these revised assumptions, approximately 243,688 taxpaying firms would be needed to fulfil the 2030 corporate revenue goal, roughly 94 per cent of all active firms.

When asked to surveyed businesses which new sectors the government should focus on to broaden the tax base and increase corporate tax revenue, the response indicated that all sectors (those outside the tax coverage due to evasion or tax holidays) must be included in the tax net (Table 21). Additionally, a large portion of the surveyed companies (more than 60 per cent) believe that the informal sector, non-profits, and education should be targeted to expand tax coverage.

### 8.3 Tax Expenditure

Whilst tax expenditures targeting businesses can increase dependency within the sector, reduce the government's fiscal space, narrow the tax base, and contribute to inequality, the reality for Bangladesh and many other developing nations is that they cannot disregard the strategic use of such measures to protect infant industries, attract foreign investment, and thereby create employment. However, by designing tax expenditure policies based on economic considerations rather than political ones, and by focusing on their necessary scope, fair distribution, and intended outcomes, it is possible to minimise negative impacts and enhance over effectiveness of tax expenditure.

The tax expenditure provided by the Bangladesh government to the corporate sector includes offering reduced corporate tax rates, tax exemptions, tax holidays, accelerated depreciation allowances, investment tax credits, exemptions on export earnings, and allowances for donations and contributions. The National Board of Revenue (NBR) does not officially report the annual tax expenditure incurred every year. However, for 2021-22, the NBR estimated tax expenditures using the revenue forgone method.

**Table 22** Size of Corporate Tax Expenditure in Bangladesh for FY2021-22

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%
<b>Sectoral tax expenditure (in BDT crore)</b>	
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.

According to their findings, the total tax expenditure for corporate income tax during this period amounted to BDT 71,394 crore, representing 1.8 per cent of Bangladesh's GDP (Table 22). A significant share of the corporate tax expenditure found to have concentrated in sectors like capital gains (16 per cent), microcredit (16 per cent), power and energy (11 per cent), and economic zones (6 per cent). On other hand, sectors such as education, IT, and fisheries receive less than 1 per cent of tax expenditure each. Although the highest share of tax expenditure (36 per cent) goes to the category other, due to unavailable of information it is not clear what this portion includes.

From a tax justice perspective, there is significant scope to make Bangladesh's tax incentive structure more equitable. For instance, the substantial tax expenditure directed towards 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 sectors. Whilst 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 are 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 do not provide any conclusive scenario. The majority of the surveyed businesses (57 per cent) who receive tax incentives from the government believe that investment decisions depend on a range of factors beyond tax benefits (Table 23). However, 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 (Table 24).

**Table 23** Perception of Business Entities Regarding Tax Incentive and Investment

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

Source: Survey conducted by CPD-CA.

**Table 24** 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.

From a revenue generation point of view, Bangladesh has scope of further improve its fiscal capacity by revising the tax incentive structure. As already mentioned, 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. Additionally, it should be noted that Bangladesh will not be able to continue export-related cash incentives (including for the RMG and Non-RMG sectors) after its graduation from Least Developed Country (LDC) status. According to the 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 whilst complying with international trade regulations. Considering the level of corporate tax revenue collected in FY2022 and the estimated corporate tax expenditure for the same year, the size of the expenditure stands at 123 per cent of the total corporate revenue collected. Clearly, this figure is quite high and signals that a significant portion of the corporate tax revenue of Bangladesh is being forgone due to incentives, exemptions, or other forms of tax relief. However, when considering the total tax revenue, the share of corporate tax expenditure stands at 22 per cent, which means that whilst corporate tax expenditure represents a significant portion of corporate tax revenue, its impact on the overall tax revenue of the country is somewhat limited. If Bangladesh has to maintain the current level of corporate tax expenditure (1.8 per cent of GDP) in 2030, the country can only afford a corporate tax expenditure of approximately BDT 142,411.5 crore.

## 8.4 Tax Evasion and Avoidance

Tax evasion, like in all other countries in the world, is a big challenge for Bangladesh in ensuring higher revenue mobilisation. Moreover, the practice of tax evasion undermines tax justice, which calls for an equitable tax system where everyone contributes fairly to public finances.

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. Whilst 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. Despite its limitations, the CDA was used in this study primarily due to the availability of the required data. The CDA assumes that individuals who engage in tax evasion prefer cash transactions over bank or electronic transactions. By analysing fluctuations in the demand for currency in relation to total economic activity, the shadow economy can be estimated, which serves as a proxy for tax evasion. It is to be noted that the figure might be somewhat inflated, as in reality shadow economy does not always mean tax evasion.

For this particular analysis using data for the period of 1991 to 2023, the following currency demand model was used<sup>2</sup>.

$$\ln(DUCW_t) = \beta_0 + \beta_1 \cdot \ln(TR_t) + \beta_2 \cdot \ln(PC_t) + \varepsilon_t$$

### Where,

DUCW<sub>t</sub> = Ratio of Currency in Circulation at year t (currency in circulation relative to the total money supply or GDP at year t).

TR<sub>t</sub> = Tax Revenue at year t (total direct tax collected by the government at time t).

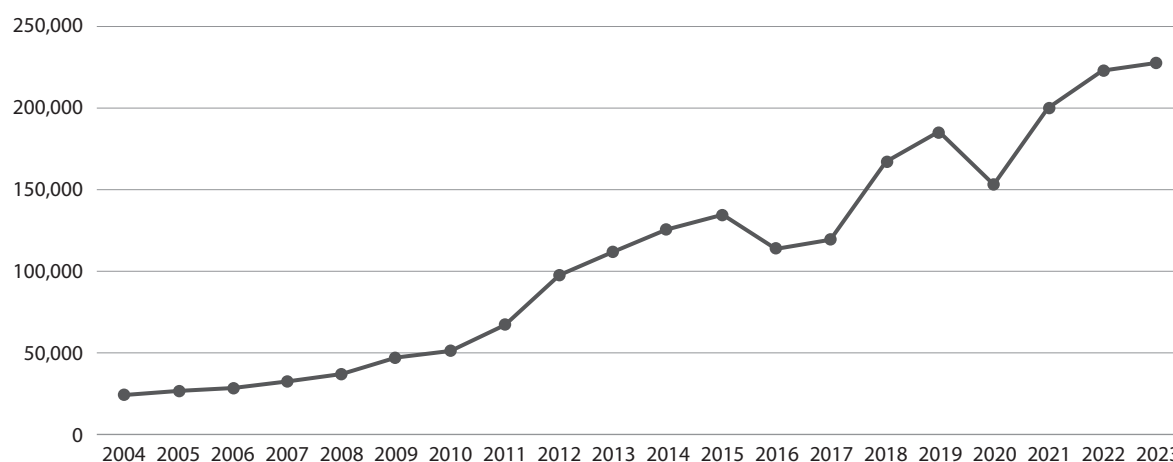
PC<sub>t</sub> = Per Capita GDP at year t.

To estimate tax evasion, the CDA was used. First, the ratio of circulating currency to the total money supply was

<sup>2</sup> The model utilised controlled variables including Remittance, Real Interest rate, Exchange Rate, Number of Bank Branches, Lag of DUCW. The details of the results have been added to the annex tables.

calculated, both with and without considering taxes. The difference between these two ratios was then multiplied by the money supply to estimate the illegal demand for money, assuming this money was used for tax evasion. The legal money demand was calculated by subtracting the illegal money from the total money supply. Next, the velocity of money in the formal economy was used to estimate the size of the shadow economy, and it was assumed that the tax revenue to GDP ratio in the shadow economy is the same as in the formal economy. Finally, this ratio was multiplied by the shadow economy size to estimate the level of tax evasion. The detail of the regression result is provided in the Annex (1).

**Figure 3 | Estimation of Tax Evasion in Bangladesh Using Currency Demand Approach (BDT Crore)**



**Source:** Authors' estimation.

The estimated results suggest that tax evasion in Bangladesh reached approximately BDT 226,236 crore in 2023 (Figure 3). From 2004 to 2010, tax evasion remained relatively low and steady, gradually increasing from BDT 23,635 crore in 2004 to just over BDT 50,550 crore in 2010. 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.

Although there was a temporary decline in 2016, the trend picked up again from 2017 onward. A particularly sharp rise occurred between 2017 and 2019, with figures increasing from BDT 117,808 crore to BDT 184,062 crore. Despite a slight dip in 2020 to BDT 152,092 crore, the amount surged again in the following years, reaching BDT 198,273 crore in 2021 and BDT 221,689 crore in 2022. By 2023, tax evasion estimates had climbed to BDT 226,236 crore. Assuming 50 per cent 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.

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 LDC graduation context, 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 with 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.



# Evaluation of the Tax Administration of Bangladesh

Tax administration plays the main role in ensuring both tax justice and tax revenue generation. From a tax justice perspective, an effective administration can promote fairness in tax collection by implementing a tax policy where a taxpayer pays tax proportionate to their ability and minimising tax evasion and avoidance. On the other hand, from a revenue standpoint, an effective tax administration can work with the highest efficiency in tax collection and ensure better monitoring of tax compliance.

## 9.1 Structural Challenges

The weakness of the National Board of Revenue (NBR), the main tax authority in Bangladesh, remains a significant obstacle for Bangladesh in achieving tax justice and meeting its revenue targets. Findings from the survey highlight several areas where the NBR needs substantial improvement. Notably, 82 per cent of surveyed businesses believe the current tax rates imposed on them are unfair, identifying this as one of their major challenges (Table 25). 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 per cent of respondents, respectively (Table 25).

**Table 25** Key Tax Related Challenges Perceived by the Surveyed Businesses

Category	% of surveyed respondents
Corruption among tax officials	72.4
Manual processes in the 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

**Source:** Survey conducted by CPD and CA.

Furthermore, 65 per cent of businesses reported persistent disputes with tax officials regarding the calculation of their payable tax amounts (Table 25). 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 26).

**Table 26** Trust of Having Benefits 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.

**Process-related challenges:** Tax is a mechanism for the redistribution of wealth rather than the creation of new money. Whilst tax collection does not generate additional wealth, it enables the state to fund essential public services and infrastructure. However, if the tax collection costs become disproportionately high relative to the revenue generated, it can be seen as inefficient and a potential waste of resources. Therefore, ensuring an efficient and cost-effective tax administration system is crucial for maximising the benefits of taxation. According to the conducted survey data, on average, a company in Bangladesh has to spend 5.27 per cent of its total tax paid to prepare tax return-related materials and complete the submission process. However, the value varies across surveyed companies, with reporting of no additional cost (0.0 per cent) and also as high as 62.6 per cent of their total tax paid. 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 (Table 27). The survey also reveals that resolving a tax dispute in Bangladesh takes an average of 93.2 days, with some cases being resolved in as little as 3 days and others taking up to 600 days.

**Table 27** 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
Number of days it takes to prepare tax-related documents	34.2 Days (on average)	2 Days	180 Days
Number of days needed to solve the tax dispute	93.2 Days (on average)	3 Days	600 Days

Source: Survey conducted by CPD and CA.

The weakness of Bangladesh's tax administration is further reflected in the perceptions and experiences of the surveyed taxpayers. For example, 40 per cent of the surveyed companies reported facing problems whilst adjusting their tax refunds, indicating inefficiencies and delays in the refund process (Table 28). Additionally, 45 per cent of the surveyed companies stated that they were asked for a bribe by tax officials (in FY23), indicating a lack of transparency and corruption within the tax administration.

**Table 28** Tax Adjustment-related Issues Faced by Surveyed Companies

Category	Value
% of the surveyed companies face problems while adjusting tax refunds	40%
% of surveyed companies were asked for bribes by a tax official	45%

Source: Survey conducted by CPD and CA.

## 9.2 Legal Challenges

According to the conducted KIIs, businesses are facing additional challenges due to stringent tax regulations that increase their tax burden to a greater extent. These challenges include minimum tax on gross receipts even during losses, limitations on allowable expenses, advance tax requirements for appeals, and the excessive powers exercised by tax officials. For example, a newly established export company may require frequent international travel to secure clients and establish markets, but the law restricts travel expense deductions beyond 0.5 per cent of turnover. As a result, despite high startup costs and limited initial revenue, the company faces disallowed expenses .

## 9.3 Digitalisation of Tax Submission Procedure

The reduction of complexity and increase of accountability of tax processing could be ensured if the entire submission process were fully digitalised. Although the government has made efforts over the years to streamline tax submission, the process is still not entirely digital for all corporate companies.

**Table 29** Status of Digital Return Submission in FY 23

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

**Source:** Conducted survey by CPD & CA

According to the conducted survey, only 25 per cent of the surveyed companies submit their full tax returns digitally (Table 29). Moreover, 44 per cent of the companies in the survey 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 the 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 NBR officials also discourage it, as these systems reduce opportunities for tax avoidance and limit the potential for bribery.



## Recommendations

### 10.1 Tax Rate

1. The corporate income tax (CIT) structure should be gradually reformed to ensure that the statutory tax rate for both export-oriented and non-export sectors is not lower than 15 per cent, aligning with the global minimum tax commitment under the OECD/G20 Inclusive Framework while still preserving Bangladesh's competitive advantage. A minimum threshold of 15 per cent would bring the country's rates closer to those of key competitors, many of which maintain CIT rates between 20 and 30 per cent, and help address tax justice concerns by reducing the disparity in tax burdens across sectors. This adjustment would also contribute to higher domestic revenue without significantly discouraging investment or exports.

**1.1** In the forthcoming FY2025–26 budget, the government should consider raising the current CIT rate for export-oriented industries, including the ready-made garments (RMG) sector, from 12 to 15 per cent.

2. Preferential tax rates for listed companies have not effectively stimulated IPO participation in Bangladesh and have instead created tax inequity, as companies of similar size and profitability end up paying different tax rates solely based on their listing status. This undermines tax justice and misallocates incentives that are not necessarily tied to economic performance. Therefore, 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 practised alternatives such as tax credits for IPO-related costs, temporary tax holidays for newly listed firms, or reduced audit scrutiny, can offer more targeted and equitable support.

**2.1** In the forthcoming FY2025–26 budget, the government can consider minimising the tax cut solely based on listed on the market. At the same time, the government can reform the structure with performance-based or conditional incentives, such as tax benefits linked to capital investment, export growth, or employment generation, or introduce alternative tools such as tax credits for IPO-related costs, temporary tax holidays for newly listed firms.

3. The current gross receipt-based minimum tax system in Bangladesh imposes a fixed tax on businesses regardless of their profitability, disproportionately affecting low-margin but compliant firms and undermining the principles of tax fairness. Whilst 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, especially for the SMEs, where the minimum tax rate increases with turnover. This would protect smaller or low-margin businesses from undue tax burdens whilst ensuring that larger, higher-turnover companies contribute more appropriately. The SMEs should also be covered under the minimum tax provisions.

**3.1** In the forthcoming FY2025–26 budget, the government may consider implementing a progressive minimum tax provision.

**4.** 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. In addition, they should also review and resolve disputes related to disallowed business expenditures in a transparent and consistent manner.

**5.** The government could consider targeting an increase in corporate profits as a share of GDP from the current 6 per cent to 15 per cent by 2030 through measures that enhance the ease of doing business. In parallel, it may gradually reduce the effective corporate tax rate from the existing 31–33 per cent to around 23 per cent. However, such a strategy should be pursued cautiously.

## **10.2 Tax Base**

**1.** 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 the tax submission status-related data of all the registered entities publicly accessible through a dedicated database. 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.

**2.** To encourage tax compliance, repeated failure to submit tax returns for multiple years should be made a criminal offence under the law. This would act as a strong deterrent and ensure that businesses take their tax obligations seriously.

**3.** The Ministry of Education should introduce mandatory dedicated classes in schools, colleges, and universities to educate students about the process of tax return submission. This will empower them with the knowledge to assist their parents, particularly those involved in the informal business or SME sector, in understanding and submitting their tax returns.

**4.** 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 businesses can easily access the tools and resources needed to file their returns electronically.

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

## **10.3 Tax Expenditure**

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

**1.1** This elimination of the tax cut incentives for fossil fuel-based power producers could be considered for implementation from the forthcoming fiscal year 2025-26.

**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.

**2.1** The MoF can consider the implementation of this kind of tax incentive from the upcoming fiscal year

**3.** 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, 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.** The government should establish a clear, time-bound framework for all tax incentives to ensure they remain temporary and purpose-driven. Incentives should be granted for a fixed period with built-in sunset clauses, after which industries must transition to standard tax rates.

**4.1** Given that tax holidays for several sectors, such as ICT, power, and those operating under the Bangladesh Export Processing Zone Authority (BEPZA), have been extended for many years, the government should reconsider their continuation.

**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.

**5.1** As Bangladesh is set to graduate from LDC status by November 2026, the upcoming budget should prioritise a comprehensive overhaul of export cash incentives and introduce innovative alternatives such as duty drawback schemes, investment credits, and other WTO-compliant support mechanisms.

**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.

## **10.4 Tax Evasion**

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

**2.** In order to track trends and the effectiveness of policies, the government should conduct tax gap measurement (the difference between potential and actual collections) regularly.

**3.** Rather than relying solely on human resources, the government should set a clear goal of building an integrated ecosystem where tax-related information is increasingly audited and monitored using artificial intelligence. This would enhance accuracy, efficiency, and transparency in detecting tax evasion and non-compliance.

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

**5.** 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.

6. The current scope and coverage of the NBR training on tax-related issues must be extended, especially targeting the SMEs.

## 10.5 Tax Administration

1. The 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. 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.

3. 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.

4. 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, standardisation, 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.

## 10.6 Legal Reforms

1. Export-focused businesses and startups often incur higher travel expenses to secure clients, explore new markets, and expand their networks. Given the significant costs involved, the government should consider raising the allowable travel expense limit for the startup for certain years. This adjustment should be based on the specific industry and the stage of the business (e.g., early-stage companies vs. established export firms) to reflect the different needs and operational realities they face.

2. The International Financial Reporting Standards (IFRS) require businesses to use accrual accounting, which recognises income and expenses when they occur, not when cash changes hands. 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.

3. Tax recovery efforts that are heavily incentive-driven may lead to misuse of power by tax officials, as they may prioritise revenue collection over fairness and transparency. To avoid such risks, the government should establish proper checks and balances, such as independent oversight, regular audits, and clear reporting mechanisms, to ensure that tax enforcement is conducted equitably, without corruption or abuse of authority.

4. Providing blanket indemnity to government officials can potentially encourage misuse of power and lack of accountability. This could lead to officials abusing their positions without fear of consequences. The government should consider removing unconditional indemnity and replacing it with a more conditional form of protection based on actions that align with the public interest, ensuring accountability and reducing the likelihood of misconduct.

5. The requirement to pay 15-25 per cent of the disputed tax amount in advance when filing an appeal with the tribunal can be a significant financial burden, particularly for small businesses. This advance payment

requirement may deter businesses from appealing tax assessments even when they feel the assessment is unfair. The government should consider removing this advance payment requirement for small businesses, allowing them to have fair access to the judicial process without being financially pressured into settling unjust tax disputes.

**6.** Some businesses exploit reduced tax provisions, especially those related to tax exemptions or breaks, for illicit purposes, such as money laundering. To counter this, the government should require Chartered Accountant (CA) firms to audit and submit verified reports for projects receiving tax breaks. These reports should include detailed project photos and valuations, which will be directly submitted to the Board of Experts for scrutiny. This added layer of transparency and oversight will help ensure that tax provisions are not misused and that the financial activities of businesses remain legitimate.

**7.** 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.

**8.** 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.

**9.** NBR should prioritise the development and implementation of a fully integrated tax system built around a common, universal Unique Taxpayer Identification Number (TIN).

**10.** NBR must reform its recruitment policy to attract and retain highly specialised audit and data analysis professionals.

**11.** 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.

**12.** 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

## 10.7 Scenario Building

Based on the findings of the study, a potential pathway can be outlined for how Bangladesh might achieve its corporate tax revenue target for 2030. If Bangladesh continues to increase corporate tax revenue by approximately 23 per cent annually (or by a factor of 1.23 each year), the country could reach its target under the current policy framework. Alternatively, if 59 per cent of all registered companies pay taxes at the current average rate, the target could still be met without introducing any new policy changes.

Considering two key factors, tax evasion and tax expenditure (incentives), the following scenarios are developed to illustrate how Bangladesh can reach the estimated target of BDT 90,420 crore in corporate tax revenue:

### **Scenario 1:** Focus on Reducing Tax Evasion Whilst 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 per cent, without making changes to existing tax expenditures.

**Scenario 2:** Eliminate Tax Incentives Without Tackling Tax Evasion

- Bangladesh eliminates 100 per cent of corporate tax expenditure.
- Despite this, the country would still fall 21 per cent 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 per cent, 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 per cent.



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**Table**    **Estimation of Tax Evasion**

Year	M2	Illegal Money	M1	Legal Money	GDP in crore	Velocity of Money	Size of Informal Economy	Tax Evasions Total
2004	129774.00	7378.95	15811.00	8432.05	383294.00	45.46	335423.41	23635.44
2005	151588.00	8619.29	18518.00	9898.71	427074.10	43.14	371874.56	26535.74
2006	181156.00	10300.53	22862.00	12561.47	482336.97	38.40	395521.11	27857.75
2007	211986.00	12053.52	26644.00	14590.48	549799.70	37.68	454202.03	31418.35
2008	248795.00	14146.48	32690.00	18543.52	628682.20	33.90	479609.28	36719.03
2009	296500.00	16858.99	36049.00	19190.01	705071.80	36.74	619426.38	46445.31
2010	363031.00	20641.94	46157.00	25515.06	797538.70	31.26	645216.98	50550.72
2011	440520.00	25047.97	54795.00	29747.03	915828.80	30.79	771157.58	66982.17
2012	517110.00	29402.87	58417.00	29014.13	1055204.04	36.37	1069342.32	96503.47
2013	603505.00	34315.29	67553.00	33237.71	1198923.17	36.07	1237793.06	110936.13
2014	700623.00	39837.42	76908.00	37070.58	1343674.40	36.25	1443962.62	124691.63
2015	787614.00	44783.73	87941.00	43157.27	1515802.30	35.12	1572928.21	133672.93
2016	916378.00	52105.25	122075.00	69969.75	2075821.10	29.67	1545827.85	113106.86
2017	1016076.00	57774.08	137532.00	79757.92	2324307.20	29.14	1683653.68	117807.65
2018	1109981.00	63113.52	140918.00	77804.48	2639248.10	33.92	2140908.03	165530.13
2019	1219612.00	69347.14	154287.00	84939.86	2951428.50	34.75	2409623.90	184062.47
2020	1373735.00	78110.57	192115.00	114004.43	3170469.40	27.81	2172259.30	152091.53
2021	1560896.00	88752.55	209518.00	120765.45	3530184.80	29.23	2594391.71	198272.83
2022	1708122.00	97123.82	236449.00	139325.18	3971716.40	28.51	2768690.11	221689.02
2023	1763032.00	100246.00	257668.00	157422.00	4490841.70	28.53	2859758.57	226235.50





As Bangladesh prepares to graduate from LDC status in November 2026, it confronts a stark fiscal reality: dwindling concessional aid and one of the world's lowest tax-to-GDP ratios. This study investigates whether corporate income tax can become a cornerstone of domestic resource mobilisation and tax justice in the post-graduation era. Drawing on a survey of 123 firms, key informant interviews, and financial data from 103 listed companies, the research uncovers deep-rooted vulnerabilities, including runaway tax exemptions, pervasive informality, and flawed tax design, that currently undermine both revenue generation and fairness. The findings offer critical insights for policymakers seeking to build a more resilient and equitable fiscal system beyond 2026.



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