

*Presentation on*

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# **"TAX JUSTICE IN THE NATIONAL BUDGET: OBSERVATIONS ON FISCAL PROPOSALS FOR FY2026-27"**

Presentation by

**MR TAMIM AHMED**

Senior Research Associate  
Centre for Policy Dialogue (CPD)



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**Draft**



## ABOUT THE TEAM

### *TEAM MEMBER 1*

**DR KHONDAKER GOLAM MOAZZEM**

Research Director

Centre for Policy Dialogue (CPD)

**moazzem@cpd.org.bd**

### *TEAM MEMBER 2*

**MR TAMIM AHMED**

Senior Research Associate

Centre for Policy Dialogue (CPD)

**tamim@cpd.org.bd**



## CONTEXT

- ❑ Bangladesh's tax-to-GDP ratio has fallen to the **lowest level in South Asia and across Asia**, reflecting growing fiscal indiscipline.
- ❑ This challenge has intensified following the transition to a new BNP-led government, which has pledged to raise the ratio to **10% in the medium term and 15% by 2035**
- ❑ However, **a narrow, revenue-centric approach** without structural reform risks deepening inequality and undermining socioeconomic progress
- ❑ A fundamental shift to **a tax-justice-oriented framework** is essential
- ❑ The urgency is underscored by CPD estimates: **BDT 226,236 crore** lost to tax evasion in FY2022-23, **and VAT collection at only 28-29% of its potential**
- ❑ In Bangladesh, major amendments to tax legislation are typically introduced during the **annual budget announcement**
- ❑ Several studies are usually undertaken right after the **budget announcement to evaluate the national budget**, but these analyses predominantly focus on the revenue generation perspective



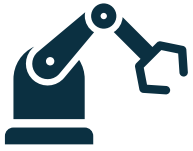
## CONTEXT (CONTD.)

- ❑ Consequently, there is a significant and persistent gap in the **formal assessment of proposed tax measures in the national budget from a tax justice standpoint.**
- ❑ A comprehensive tax justice analysis would examine whether the **tax system operates progressively**, analyse revenue losses due to evasion and avoidance, evaluate the **adequacy of countermeasures**, and assess whether collected revenues are allocated in a manner that **prioritises vulnerable populations**
- ❑ Against this backdrop, **CPD**, in partnership with **Christian Aid (CA)**, has undertaken a study to evaluate the national budget from a tax justice point of view.
- ❑ The study evaluates **the FY2026-27 national budget** at the stage of its adoption in the national parliament to determine its adequacy and sustainability in financing development, particularly social development, while assessing distributive justice through the **progressivity of proposed tax measures**, evaluating measures for **combating tax evasion, avoidance, and illicit financial flows**, and reviewing budget provisions and the institutional set-up of the NBR for enhancing transparency, accountability, and operational capacity to strengthen tax governance.
- ❑ The **preliminary assessment** of the proposed budget will be presented in this presentation



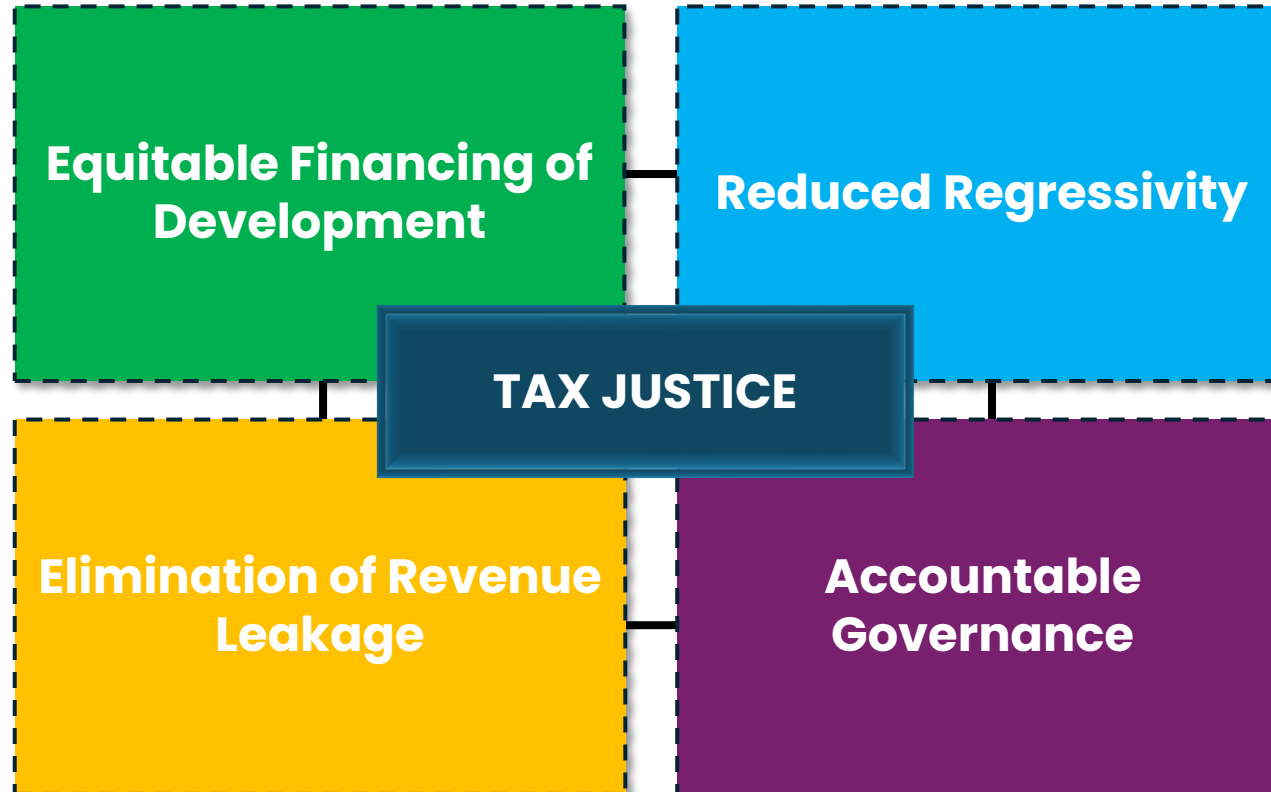
# A BRIEF OVERVIEW OF TAX JUSTICE

- ❑ Tax justice broadly refers to the pursuit of **a fair and equitable taxation** system that facilitates sustainable development and ensures taxpayers' burdens are aligned with their ability to pay
- ❑ Integrating tax justice into the budget and fiscal framework **promotes fairness and equity, reduces inequality, mobilizes sustainable domestic resources, strengthens public trust, and improves tax compliance**
- ❑ While several countries **have made significant progress** in promoting fairness, equity, and efficiency in taxation, no country has yet achieved **a perfect tax system**, as all tax frameworks continue to face challenges related to **inequality, compliance, administrative capacity, and balancing competing economic and social objectives**.
- ❑ Among others, several countries, including **Sweden, Denmark, Norway, Finland, Germany, France, Canada, and New Zealand** have made notable progress in integrating tax justice principles into their fiscal frameworks through progressive taxation, equitable public expenditure, and measures aimed at reducing inequality and strengthening domestic resource mobilisation.



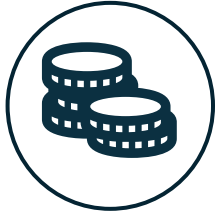
# THE FRAMEWORK

**Figure: Four Pillars of Tax Justice**



**Source:** Prepared by the authors based on Besley and Persson (2014), Coady (2018), Awasthi & Matta (2024), and the Tax Justice Network (n.d.)

# PILLAR 1: FINANCING OF DEVELOPMENT



**Definition:** Spending public funds in a way that is fair, balanced, and ensures that the benefits of national progress reach everyone, especially the most vulnerable and marginalised groups in society



**Key issues:** Budget deficit and fiscal sustainability; alignment of revenue contributions and expenditure; allocation for basic human needs, the environment, and marginalised groups.



**Key questions:**


- Is the budget being financed in a way that creates macroeconomic instability?
- Does the budget allocate sufficient resources for health, education, social protection, and the environment, especially targeting the marginalised communities?








# PILLAR 1: FINANCING OF DEVELOPMENT (CONTD.)

## CONTEXT

□ In the contemporary landscape of international development, the core philosophy of Financing for Development has evolved from merely mobilising capital to systematically ensuring **pro-poor and inclusive fiscal distribution**

□ While mobilising domestic public resources is the primary engine for national autonomy, global best practices demonstrate that **the composition of public expenditure** is just as critical as resource mobilisation

Government expenditure on education, total (% of GDP)	
Countries	Expenditure (% of GDP)
 India	4.1
 Pakistan	1.9
 Sri Lanka	1.8
 Nepal	3.7
 Bhutan	5.8
 EU	4.7
 World	3.6

Domestic general government health expenditure (% of GDP)	
Countries	Expenditure (% of GDP)
 India	1.3
 Pakistan	0.9
 Sri Lanka	1.24
 Nepal	1.93
 Bhutan	2.94
 EU	7.44
 World	6.1

Source: World Bank | Note: Latest Available Year

□ To bridge the gap between economic growth and structural inequality, modern fiscal architectures emphasize progressive public spending frameworks that intentionally direct funds toward **essential social sectors**, specifically **education and health**, to protect and empower the **most vulnerable and marginalised groups in society**

□ For Bangladesh, equitable financing is a critical prerequisite to address its underfunding in health and education, **protect vulnerable populations** from high out-of-pocket costs, and sustain human capital development

# PILLAR 1: FINANCING OF DEVELOPMENT (CONTD.)

## Review of Selected Measures of Budget 2026–27 and Their Implications from a Tax Justice Perspective

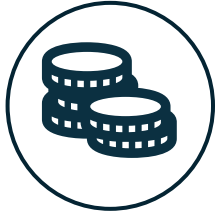
Measures	Remarks from the point of Tax Justice
Budget deficit: BDT 2.43 lakh crore (3.6% GDP)	A moderate deficit can support development, but rising reliance on borrowing raises concerns about future debt burdens and the sustainability of social spending.
Health sector allocation: 0.92% of GDP (vs 5% target)	Significant increase but still below 5% target. The government acknowledges this is a "beginning." No mechanism to ensure funds reach the poorest. The benefit of the allocation will depend on effective allocation
Education allocation: Tk.1,36,606 crore (1.79% of GDP)	The budget demonstrates strong commitment through substantial increases and concrete programmatic reforms. The focus on skills, technology, and gender equity is progressive. However, but it will only transform the sector if the government ensures transparent spending, cuts bureaucratic delays, builds teacher capacity, and coordinates effectively across all education levels.
Climate Allocation Tk 51,746	Although highest ever allocation yet insufficient relative to need.
Social security budget is the largest in Bangladesh's history ; 2.11% of GDP.	Marks a significant increase in allocation, but its effectiveness depends on whether it represents genuine expansion of pro-poor support or a reclassification of existing expenditures.
Family Card Programme: 4.1 million women, Tk.2,500/month through G2P transfers	Issuing the card to female heads of households is a transformative measure; it empowers women economically and recognises their role as primary household managers.

# PILLAR 1: FINANCING OF DEVELOPMENT (CONTD.)

## Missing/less highlighted issues

- ❑ The budget aims to increase the tax-to-GDP ratio, but there is limited emphasis on shifting the burden from **indirect taxes (VAT, consumption taxes) toward stronger progressive direct taxation.**
- ❑ While the budget speech acknowledges the challenges of high interest rates and public borrowing, it falls short of articulating **a coherent strategy to prevent crowding out of private investment**
- ❑ The budget speech provides limited attention to the specific development challenges and **rights of ethnic minority communities**, with few targeted measures or dedicated allocations highlighted
- ❑ Although the budget recognises the fiscal implications of LDC graduation and mentions deferral, it does not present **an integrated roadmap linking enhanced domestic resource mobilisation with expanded social protection systems to ensure a just and inclusive transition**

# PILLAR 2: REDUCED REGRESSIVITY



**Definition:** Ensuring that regressivity is minimised meaning higher-income groups contribute a larger share of taxes in line with their ability to pay than lower-income groups



**Key issues:** Effective tax burden, indirect and direct tax, tax rates



**Key questions:**

- What is the ratio of direct taxes (income, corporate, wealth) to indirect taxes (VAT, GST, sales tax)?
- Are essential commodities exempted from VAT/sales tax?
- Are the higher-income groups contributing a larger share of taxes than lower-income groups?

# PILLAR 2: REDUCED REGRESSIVITY (CONTD.)

## CONTEXT

- ❑ In an ideal, progressive tax system, direct taxes (such as personal income tax and corporate tax) should form the bulk of national revenue because they can be levied based on a **citizen's or companies direct ability to pay**
- ❑ Conversely, indirect taxes (such as Value-Added Tax, goods and services tax, and customs duties) are consumption-based and **inherently regressive**, as lower-income households must spend a larger percentage of their income on basic goods than higher-income households
- ❑ In mature fiscal systems (like many EU nations or OECD countries), the reliance on regressive indirect taxes is heavily mitigated, with direct taxes often accounting for **60% to 70%** of total tax revenue
- ❑ Because indirect consumption taxes (like VAT and supplementary duties) still make up roughly **65% to 66% of total tax revenue** collected by the National Board of Revenue (NBR), lower-income households bear a disproportionately heavy financial burden
- ❑ Implementing a **progressive direct tax structure shifts the fiscal burden** onto those with the actual capacity to pay, allowing the government to offer strategic tax relief and source tax reductions on essential agricultural and everyday consumer commodities

# PILLAR 2: REDUCED REGRESSIVITY (CONTD.)

## Review of Selected Measures of Budget 2026–27 and Their Implications from a Tax Justice Perspective

Measures	Remarks from the point of Tax Justice
PIT structure unchanged for AY26–27 and AY27–28; tax-free threshold at BDT 3.75 lakh	Raises concerns as inflation-adjusted relief is inadequate. Lower- and middle-income taxpayers face proportionately larger increases in tax liability than higher-income groups, weakening vertical equity
Tax-free threshold raised to BDT 4.0 lakh (AY28–29 and AY29–30) and BDT 4.5 lakh (AY30–31)	Positive step toward protecting low-income earners, though effectiveness depends on whether future adjustments keep pace with inflation
Five-year PIT roadmap	Enhances predictability, transparency, and taxpayer confidence, which are important principles of a fair tax system
New 35% PIT slab for income above BDT 35 lakh from FY29	Progressive measure that strengthens ability-to-pay taxation and may improve redistributive capacity
Incentive and penalty system for return filing	Promotes voluntary compliance and horizontal equity by rewarding compliant taxpayers and discouraging delayed filing
Reduction of investment tax credit ceiling (BDT 10 lakh to BDT 7.5 lakh) and tax credit rate (15% to 10%)	Potentially progressive as investment tax credits often disproportionately benefit higher-income taxpayers; however, may discourage long-term savings and investment
Shanchayapatra withholding tax treated as advance tax instead of minimum tax	Positive reform that reduces over-taxation of small savers and retirees by allowing refunds when actual tax liability is lower

# PILLAR 2: REDUCED REGRESSIVITY (CONTD.)

## Review of Selected Measures of Budget 2026–27 and Their Implications from CPD’s Tax Justice Perspective

Measures	Remarks from the point of Tax Justice
38% of the total revenue are to be generated from VAT alone, the single highest contributor	High reliance on VAT requires careful assessment from a tax justice perspective, as consumption taxes may place a relatively higher burden on lower-income households unless essential goods and vulnerable groups receive adequate protection.
Fixed VAT of BDT 2,500 per bhorì on gold jewellery	May simplify compliance but could reduce the tax burden on high-value jewellery purchases, raising equity concerns.
Tobacco tax increases	Targets harmful consumption and raises revenue from a relatively inelastic good.
Excise duty on bank deposits: Exemption threshold Tk.300,000→400,000	Protects small depositors from bank tax.
Essential goods: Paddy, rice, wheat, potatoes, livestock, poultry, fish— withholding tax reduced to 0.5%	Reduces cost of essential food items.
Infant food: Import duty 15%→10%	Protects child nutrition. Reduces cost of essential nutrition for children.
Excise duty: Single charge for multiple accounts against one loan	Prevents multiple taxation on the same borrowing arrangement and reduces unnecessary financial burden on borrowers.
Mobile phones: Reduced AIT on raw materials for local manufacturing	Makes devices more affordable. Promotes digital access.
Tobacco products: Higher supplementary duty; Track & Trace system	Discourages harmful consumption. Progressive taxation with health rationale.
Alcohol: Specific VAT Tk.500/litre	High tax on luxury. Discourages harmful consumption.

# PILLAR 2: REDUCED REGRESSIVITY (CONTD.)

## Review of Selected Measures of Budget 2026–27 and Their Implications from CPD’s Tax Justice Perspective

Measures	Remarks from the point of Tax Justice
Corporate tax rates unchanged	Missing of horizontal and vertical equality remains
Women/SME entrepreneurs exemption: Up to Tk.7 million	Targets marginalised groups
Non-resident machinery rental: 15%→7.5%	Benefits multinational corporations operating in Bangladesh through machinery leasing
Reinsurance premium: 10%→5%	Lowers costs for the insurance industry, a corporate sector where benefits may not be passed on
Higher SD on nicotine products and heated tobacco	Consistent with public health objectives and can reduce harmful consumption; generally supportive of tax justice if revenues support health spending
Higher SD on ACs, washing machines, and selected imports	May protect domestic industry but could increase consumer prices; distributive impact depends on who bears the burden
New SD on natural honey	Regressive concern, as honey is not necessarily a luxury good and may affect small consumers and producers
AIT of 0.20% on supply of goods to retailers	May expand the tax base but could impose compliance burdens on small retailers if not carefully administered
Reduced SD on electric three-wheelers	Progressive measure benefiting low-income transport operators and promoting cleaner transport
Higher SD on luxury EVs above USD 50,000	Progressive taxation of luxury consumption and high-income households.

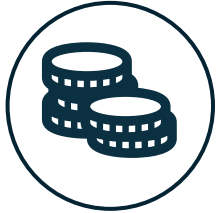
# PILLAR 2: REDUCED REGRESSIVITY (CONTD.)

## Missing/less highlighted issues

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- ❑ The budget appears not to have considered gradually aligning **statutory CIT with the global minimum tax (15%)** under the OECD/G20 Inclusive Framework
- ❑ Despite ongoing calls from tax justice advocates to capture untaxed wealth redistribution, the FY27 budget did not introduce **an inheritance tax framework**. Instead of **wealth or property tax** structures, the National Board of Revenue (NBR) opted to broaden the definition of "Capital Assets" to include personal assets such as gold, jewelry, digital currency, and club memberships, thereby netting capital gains taxes.
- ❑ The budget did not condense the complex multi-tier ad-hoc slab system into a **simplified three-tier structure (Standard, Reduced, Zero)**. Instead, it continued the practice of tweaking selective, item-by-item VAT exemptions and reductions
- ❑ The budget did not reduce the standard VAT rate from **15% to a more competitive level of 10%**
- ❑ The budget did not incorporate the recommendation to make **publicly accessible, through a dedicated database, the tax submission status** data for all registered entities
- ❑ The budget did not introduce performance-based incentives **for listed firms**, such as tax benefits linked to capital investment, export growth, or employment generation

# PILLAR 3: LEAKING REVENUE



**Definition:** It assesses whether the state is collecting what it is rightfully owed and doing so fairly.



**Key issues:** Tax Evasion and avoidance, Preferential Tax Exemption, Integration of Undeclared Income, and repatriation of Flight Capital



**Key questions:**

- Are the tax exemptions given in the budget justified?
- Does the budget provide emphasis on minimising tax evasion and avoidance?
- Does the budget address repatriation of flight capital adequately?

# PILLAR 3: LEAKING REVENUE (CONTD.)

## CONTEXT

- ❑ Within the framework of tax justice and sustainable public finance, **plugging revenue leakages** is a critical prerequisite for achieving equitable national progress
- ❑ In Bangladesh, **revenue leakage poses a severe macroeconomic challenge**, severely constricting the state's capacity to build social safety nets and realise its true developmental potential
- ❑ Empirical evidence from the Centre for Policy Dialogue (CPD) reveals that Bangladesh lost an estimated **BDT 226,236 crore** in potential tax revenue in a single fiscal year due to tax evasion and avoidance alone.
- ❑ The actual Value-Added Tax (VAT) collected by the **National Board of Revenue (NBR)** amounts to only an estimated **28% to 29% of its true potential**
- ❑ The total tax loss in the economy is estimated to be **2.6 times** the national expenditure on health
- ❑ Moreover, extensive tax exemptions, when not transparently evaluated, can further widen the revenue gap by reducing the tax base
- ❑ Such a substantial revenue gap not only **weakens fiscal capacity** but also limits the government's ability **to finance essential public services**, reduce inequality, and build a more inclusive and sustainable development pathway

# PILLAR 2: REDUCED REGRESSIVITY (CONTD.)

Measures	Remarks from the point of Tax Justice
Free Trade Zone framework	May stimulate exports and investment but requires strong oversight to prevent tax avoidance and revenue leakage.
Expansion of duty-free facilities for export sectors	Supports export diversification but should be monitored to prevent abuse and ensure economic benefits outweigh revenue costs.
Removal of 30% value-addition requirement	Reduces compliance burdens but may weaken incentives for domestic value addition.
Duty reductions for domestic manufacturing sectors	Can support industrialisation and employment if linked to performance and accountability.
Accelerated depreciation outside Dhaka and Chattogram	Encourages regional investment and may contribute to more balanced economic development.
Duty-free electric buses for educational institutions <sup>3</sup>	Supports environmental sustainability and affordable student transport.
VAT/AIT exemptions on selected medical products <sup>3</sup>	Strongly progressive, reducing healthcare costs and improving access to treatment.
Reduced taxes on products for persons with disabilities	Supports equity and inclusion by lowering costs for a vulnerable population.
Reduced tax rates on recycled products and recycling inputs	Supports environmental sustainability while encouraging circular economy activities.

# PILLAR 3: LEAKING REVENUE (CONTD.)

## Review of Selected Measures of Budget 2026-27 and Their Implications from CPD's Tax Justice Perspective

Measure	Remarks from the point of Tax Justice
Solar power sector: Zero tax rate until 2035	Supports renewable transition, but benefits should reach consumers through affordable clean energy rather than only investors.
Electric vehicles: Reduced AIT, duty concessions until 2030	Supports green transport, but concessions should target public and mass mobility to avoid benefiting mainly higher-income groups.
Consumer electronics manufacturing: Duty exemptions on raw materials until 2030	Supports industrial development, but tax benefits require clear public returns through jobs, investment, and affordable products.
Semiconductor industry: 1% duty on raw materials until 2031	Encourages high-tech development, but incentives should be linked with domestic capacity building and measurable economic benefits.
VAT exemption for edible oil production using local oilseeds	Supports farmers and domestic value chains, but monitoring is needed to ensure benefits reach consumers rather than only large producers.
VAT exemption for local ICT manufacturing	Promotes technology development and employment, but should be regularly reviewed as a tax expenditure.
VAT exemption for locally manufactured vehicles	Benefits domestic industry, though benefits may accrue disproportionately to producers unless consumer prices decline.
SME entrepreneurs: Income tax exemption up to Tk.5 million turnover	Reduces entry barriers, encourages formalisation, and supports entrepreneurship and job creation.
SME women/disabled entrepreneurs: Exemption up to Tk.7 million turnover	Promotes inclusive entrepreneurship and improves economic participation of underrepresented groups.
Automated and faceless tax refund system 4	Strong tax justice measure that improves taxpayer rights, reduces discretion, and enhances fairness in administration.

# PILLAR 3: LEAKING REVENUE (CONTD.)

Measure	Remarks from the point of Tax Justice
Mandatory TIN for bank accounts (except student accounts/No-Frills accounts)	Strengthens tax formalisation and expands the taxpayer base while exemptions protect financially vulnerable groups from unnecessary compliance burdens.
TIN mandatory for motorcycle registration ( $\geq 150$ cc engines)	Improves taxpayer identification and expands the tax database, though revenue impact may be limited compared to broader high-income compliance measures.
Business BIN mandatory for opening business bank accounts	Encourages formalisation and expands the VAT base, while reducing compliance gaps among formal businesses.
Central Data Integration: NBR connected to NID, banks, utilities, sub-registry.	Strengthens detection of tax evasion through data-driven enforcement. However, strong privacy safeguards and responsible data governance are essential.
Absence of voluntary disclosure scheme or amnesty	Positive from a tax justice perspective as it avoids rewarding non-compliance and protects fairness for regular taxpayers.
Refund of excess withholding tax	Improves fairness by ensuring taxpayers are not overburdened and encourages voluntary compliance.
No mention of whistleblower mechanisms or enhanced penalties	Enforcement gap. While absence of amnesty is positive, the budget is silent on whether enforcement against evasion will be strengthened.
Automated audit selection (software-based, no human intervention)	Positive from tax justice perspective. Reduces discretion and rent-seeking in audit selection. Increases transparency and fairness by removing human bias. Technology-based selection ensures audits are targeted based on risk rather than personal relationships.

# PILLAR 3: LEAKING REVENUE (CONTD.)

Measure	Remarks from the point of Tax Justice
Tax rebates extended to additional charitable organisations	Can support social welfare objectives, though transparency is needed to ensure benefits serve public interests.
VAT on agricultural inputs: Fertiliser exemption	Reduces cost of food production, benefiting consumers and farmers.
Agricultural pesticides: VAT exemption	Lowers food production cost. Benefits farmers and consumers.
Agricultural fertilisers: VAT exemption	Lowers food production cost. Benefits farmers and consumers.
VAT on healthcare: Cardiac stents and intraocular lenses exempted	Reduces cost for the sick—targeted relief for high-cost medical needs.
VAT on digital economy: Exemptions for startups, freelancers	Encourages new sector and formalises digital economy.
Simplified turnover tax for small businesses	Reduces compliance costs and encourages informal businesses to enter the formal tax system. However, fixed tax amounts should be designed carefully to ensure fairness among businesses with different capacities.
Spices: Regulatory duty withdrawn	Reduces cost of daily cooking. Essential for low-income households.
Dates: Regulatory duty withdrawn	Protects staple (especially during Ramadan). Practical benefit for Muslim consumers.
ICT equipment: Duty-free laptops, desktops, monitors	Promotes digital access. Reduces cost of education and work equipment.
Legalisation of undisclosed real estate investments	Raises significant fairness concerns as it may reward non-compliance and create moral hazard by encouraging future underreporting.
Removal of SIM card tax	Strongly progressive as it improves digital access and affordability, particularly for lower-income users.
Withdrawal of withholding tax on BTRC revenue sharing and licence fees	Benefits telecom operators; indirect benefits for consumers depend on whether savings are passed through.
Withdrawal of duty on musical instruments	Supports cultural participation and creative industries, though benefits are concentrated among specific users.

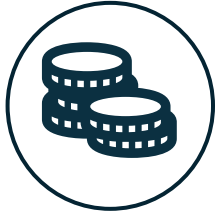
# PILLAR 3: LEAKING REVENUE (CONTD.)

## Missing/less highlighted issues

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- ❑ The budget did not appear to **publish a comprehensive tax expenditure** report listing all exemptions with their cost estimates and justifications
- ❑ The budget appears not to **follow a transparent incentive framework** with regular reviews to assess whether exemptions achieve their intended purposes
- ❑ The budget did not mention a clear tariff reform **roadmap to prepare for the transition after LDC graduation** and safeguard export competitiveness
- ❑ The budget did not appear to provide specific tariff policy measures or **adjustments in response to emerging international trade commitments**, including US reciprocal tariff arrangements
- ❑ The budget did not remove **fossil fuel-based tax incentives** for power producers, especially those relying on fossil fuels
- ❑ The budget did not appear to consider **criminalising persistent non-filing** of tax returns for multiple years
- ❑ The budget seems not to have addressed the need to impose penalties for non-cooperation with **the NBR during audits, investigations, and data requests**
- ❑ The budget did not appear to consider publishing **comprehensive tax expenditure reports with details of all tax expenditures, sectors receiving them, and expected outcomes**

# PILLAR 4: ADMINISTRATION



**Definition:** Examines whether the state has the capacity and will to enforce the tax system effectively, fairly, and transparently.



**Key issues:** Funding, Skills, Human Resources, Transparency, Digitalisation



**Key question:**

- Does the state have the capacity, integrity, and transparency to implement tax laws fairly and effectively?

# PILLAR 4: ADMINISTRATION (CONTD.)

## 1 Specialized Audit Staff for International Tax Issues



Country	Specialized Audit Staff
Sri Lanka	✔ Yes
Bhutan	✘ No
Nepal	✔ Yes
Bangladesh	✘ No
India	✔ Yes
Pakistan	✘ No

## 2 Systems for Importing, Storing and Managing Third-Party Data – Data from Stock Exchanges



Country	Stock Exchanges Data
Bhutan	✘ No
Sri Lanka	✘ No
Pakistan	✔ Yes
India	✔ Yes
Nepal	✘ No
Bangladesh	✘ No

## 3 Track of Incoming Service Contacts



Country	Incoming Service Contacts
Pakistan	✔ Yes
Sri Lanka	✔ Yes
India	✔ Yes
Bangladesh	✘ No
Nepal	✘ No
Bhutan	✘ No

## 4 Systems for Importing, Storing and Managing Third-Party Data – Data on Property Ownership and Sales



Country	Property Ownership & Sales Data
Bhutan	✘ No
India	✔ Yes
Nepal	✘ No
Pakistan	✔ Yes
Bangladesh	✘ No
Sri Lanka	✘ No

## 5 Systems for Importing, Storing and Managing Third-Party Data – Data from Online (Internet-Based) Vendors



Country	Online Vendor Data
Bangladesh	✘ No
Bhutan	✘ No
Sri Lanka	✘ No
India	✔ Yes
Pakistan	✔ Yes
Nepal	✘ No

## 6 Measures the Effectiveness of Any Compliance Interventions Undertaken



Country	Effectiveness of Compliance Interventions
Bangladesh	✔ Yes
India	✔ Yes
Nepal	✘ No
Pakistan	✘ No
Bhutan	✘ No
Sri Lanka	✘ No

## 7 Systems for Importing, Storing and Managing Third-Party Data – Customs Data



Customs Data					
Country					
Sri Lanka	Bhutan	India	Nepal	Pakistan	Bangladesh
✔ Yes	✔ Yes	✔ Yes	✔ Yes	✔ Yes	✔ Yes

# PILLAR 4: ADMINISTRATION (CONTD.)

## 8 Administration Keeps Track of Incoming Service Contacts

Country	Keeps Track of Incoming Service Contacts
Pakistan	✔ Yes
Sri Lanka	✔ Yes
India	✔ Yes
Bangladesh	✘ No
Nepal	✘ No
Bhutan	✘ No

## 9 Measures the Effectiveness of Any Compliance Interventions Undertaken

Country	Measures Effectiveness of Compliance Interventions
Bangladesh	✔ Yes
India	✔ Yes
Nepal	✘ No
Pakistan	✘ No
Bhutan	✘ No
Sri Lanka	✘ No

## 10 Administration Undertakes Fully Automated Compliance Checks Based on Data Matching/Analysis

Country	Undertakes Automated Compliance Checks
Bangladesh	✘ No
Pakistan	✘ No
Nepal	✘ No
Sri Lanka	✘ No
Bhutan	✘ No
India	✔ Yes

## 11 Administration Pre-fills PIT Returns or Assessments

Country	Pre-fills PIT Returns or Assessments
Pakistan	✘ No
Sri Lanka	✔ Yes
India	✔ Yes
Nepal	✘ No
Bangladesh	✘ No
Bhutan	✘ No

## 12 Administration Receives Data from Devices that Register Transactions

Country	Receives Data from Devices
Pakistan	✔ Yes
Nepal	✔ Yes
Bangladesh	✔ Yes
Sri Lanka	✘ No
India	✘ No
Bhutan	✘ No

## 13 Administration Uses Electronic Compliance Checks as Part of Returns Filing Process

Country	Uses Electronic Compliance Checks
Nepal	✘ No
Pakistan	✔ Yes
Bangladesh	✘ No
Sri Lanka	✘ No
India	✔ Yes
Bhutan	✘ No

## 14 Administration Sanctions for Taxpayer Non-disclosure – Administration is Empowered to Make Public Details of Some / All Taxpayers Subject to Administrative Penalties Imposed for Non-disclosure

Country	Administrative Sanctions for Non-disclosure
Bhutan	✘ No
Nepal	✘ No
Bangladesh	✘ No
India	✔ Yes
Sri Lanka	✘ No

## 15 Administration Receives Data to Support and Disclose Administration Decisions

Country	Receives Data to Support & Disclose Decisions
Nepal	✘ No
Pakistan	✘ No
Bangladesh	✔ Yes
Sri Lanka	✘ No
India	✔ Yes
Bhutan	✘ No

# PILLAR 4: ADMINISTRATION (CONTD.)

## Review of Selected Measures of Budget 2026–27 and Their Implications from CPD’s Tax Justice Perspective

Measure	Remarks from the point of Tax Justice
Separation of revenue policy from administration	Professionalises tax administration and reduces political interference.
Digitalisation (eVAT, eReturn, A-Challan): Funded	Technology investment. Modernises tax administration and reduces compliance burden.
NBR allocation increased by 66%	Increase in the NBR Budget is a positive move, however accountability needed for the spending
Online tax return filing: Corporate + individual taxpayers; year-round filing allowed	Reduces compliance burden and office visits.
Early filing incentives	Should increase compliance and reduce last-minute rush.
Simplified turnover tax: Small businesses pay fixed amount, no returns required	Tailored to small taxpayers—reduces compliance burden for those with limited capacity.
A-Challan mandatory from 1 July	Reduces leakages and ensures direct government treasury deposits.
eVAT system: Online submission mandatory; simplified form for small taxpayers	Procedural simplification. Online filing reduces time and cost for businesses.

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Measure	Remarks from the point of Tax Justice
Automated VAT refunds: Direct bank transfer through iBAS++	Speeds cash flow for businesses, addresses a key complaint.
No requirement to visit tax offices for refunds	Reduces opportunities for corruption and rent-seeking.
One-click VAT returns from taxpayer's ERP software	Reduces compliance burden for larger businesses using modern systems.
Digital-only systems may exclude rural taxpayers	Taxpayers without internet access or digital literacy may be excluded. No mention of offline alternatives or digital literacy support.
Automated audit selection: Software-based risk selection, no human intervention	Reduces discretion and rent-seeking. Increases transparency.
Data integration: NBR connected to NID, banks, utilities, sub-registry	Cross-referencing income declarations with bank deposits, utility payments, property registrations.
Digital-only systems may exclude rural taxpayers	Taxpayers without internet access or digital literacy may be excluded. No mention of offline alternatives or digital literacy support.

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Measure	Remarks from the point of Tax Justice
WIN (Withholders Identification Number)	Modernises withholding tax system, reduces duplication.
TIN mandatory for bank accounts	Expands taxpayer base. Internationally proven compliance tool.
Track & Trace for tobacco: AI cameras, QR codes, whistleblower rewards	Could significantly reduce illicit trade and protect revenue.
Customs Act amendments: Free Trade Zones, private port operators, air cargo stations	Improves trade facilitation and revenue collection.
AEO (Authorised Economic Operator): Doubling clearance rate; audit report requirement withdrawn	Encourages voluntary compliance—enforcement can focus on high-risk cases.
One-click VAT returns from taxpayer's ERP software	Reduces compliance burden for larger businesses using modern systems.
WIN (Withholders Identification Number)	Modernises withholding tax system, reduces duplication.
Excess minimum tax that cannot be adjusted against future liabilities will now be refunded, though businesses face a 3-year waiting period	

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## Missing/less highlighted issues

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- ❑ The budget did not standardise and improve tax **data reporting to eliminate inconsistencies and ensure regular publication of reliable tax statistics**
- ❑ The budget did not mandate **Electronic Fiscal Devices (EFDs)** nationwide for real-time, transparent recording of transactions
- ❑ The budget seems not to have addressed **strengthening the recovery of illicit financial flows** through legal, investigative, and diplomatic efforts
- ❑ The budget appears not to have considered **reducing the regular issuance of SROs**, consolidating redundant and outdated orders
- ❑ The allocation for the **Competition Commission increased only marginally**, raising concerns about its capacity to effectively enforce competition laws and address market distortions.
- ❑ The **digitalisation of associated institutions** received inadequate attention, despite its importance for improving transparency, efficiency, service delivery, and regulatory oversight.

# PILLAR 1: FINANCING OF DEVELOPMENT (CONTD.)

## Short Review of the Budget of FY 2025-26

Measure	Tax Justice Observations
<b>Total allocation for social safety nets increased to BDT 1,16,731 crore</b>	The increase does not depict the real picture, as the social safety net budget actually includes government pension as well. The impact on tax justice is also diminished by systemic leakages and targeting inefficiencies; without reforming the delivery mechanism, a significant portion of this tax-funded relief may fail to reach the most vulnerable populations. This represents a failure of equitable financing of development.
<b>Specific VAT exemptions granted to recycled jute products and women-run beauty parlours</b>	These measures support "Equitable Financing" by targeting marginalised sectors and environmentally sustainable industries, though their success depends on whether the NBR can ensure these benefits are passed down to workers rather than retained as higher margins for owners. This reflects a positive step toward inclusive development, but implementation and monitoring remain critical.
<b>Deficit financing strategy relies heavily on central bank monetisation and high levels of commercial bank borrowing</b>	Excessive government borrowing from the banking sector can lead to inflationary pressure, which acts as a "hidden regressive tax" on low-income households whose purchasing power is eroded more severely than that of the wealthy. This represents a failure of equitable financing of development and a regressive outcome.
<b>Health spending remains below 1% of GDP and education at 1.69% of GDP, despite nominal increases</b>	The persistent underfunding of human capital sectors is a failure of "Equitable Financing of Development"; tax justice mandates that the revenue collected must be redirected toward essential public services that reduce long-term inequality and foster social mobility. Without adequate investment in health and education, the budget perpetuates inequality and undermines long-term development.

# PILLAR 2: REDUCED REGRESSIVITY (CONTD.)

## Short Review of the Budget of FY 2025-26

Measure	Tax Justice Observations
<b>Reintroduction of a higher 30% top marginal tax rate for high-income earners (moving up from the previous 25%)</b>	By increasing the burden on the highest earners, the system begins to align more closely with the principle of "ability to pay," helping to balance the heavy reliance on indirect taxes. This is a progressive step toward reducing regressivity and ensuring that those with greater capacity contribute their fair share.
<b>Increased Supplementary Duty (SD) on premium-brand cigarettes and other non-essential luxury goods</b>	This measure correctly targets non-essential consumption by higher-income groups, serving both a revenue-generation purpose and a public health goal without placing an additional burden on the poor. This reflects a progressive approach to taxation that aligns with tax justice principles.
<b>NBR's refusal to compromise on Advance Income Tax (AIT) at the import stage for many industrial raw materials</b>	High AIT functions as an inefficient system, as businesses frequently pass these costs on to consumers in the form of higher prices for finished goods, disproportionately affecting the general public. This represents a regressive outcome where the burden of taxation falls on consumers rather than producers, undermining the progressivity of the tax system.
<b>Heavy reliance on indirect taxes (VAT and trade taxes) for the majority of revenue collection</b>	High reliance on VAT is inherently regressive because it consumes a larger percentage of the income of poor households compared to the wealthy. Without a corresponding shift toward progressive direct taxes (income tax, wealth tax), the overall tax structure remains regressive, perpetuating inequality and undermining tax justice.

# PILLAR 3: LEAKING REVENUE (CONTD.)

## Short Review of the Budget of FY 2025-26

Measure	Tax Justice Observations
<b>VAT and duty exemptions for local manufacturers (e.g., sanitary napkins, liquid milk, computer monitors) alongside reduced income tax rates on land and flat sales</b>	Reducing property taxes for the wealthy may shrink public funds that should instead be used for essential services like healthcare and education for everyone. This reflects a regressive approach that benefits higher-income groups while undermining fiscal capacity for social spending.
<b>Symbolic minimum tax ranging from Tk 1,000 to Tk 3,000 for new and existing taxpayers to formally bring the massive informal economy into the tax net</b>	While broadening the tax base is essential, charging everyone the same small "flat fee" could hit the poorest people the hardest. A better approach would be to keep taxes very low for small-scale workers while ensuring that those who earn more within the informal sector pay a fairer, higher share. This represents a missed opportunity for progressive formalisation.
<b>Disallowance of legalising undisclosed "black money" through real estate investments</b>	The measure discourages tax evasion and restores the moral incentive for honest taxpayers who previously felt penalised. This is a positive step toward tax justice by not rewarding those who have evaded taxes.
<b>No explicit or targeted measures for repatriation of capital held overseas (no formal repatriation framework or specific amnesties)</b>	This remains a critical gap in curbing Illicit Financial Flows (IFFs). Without a robust strategy to recover resources lost to capital flight, the government limits its capacity to finance public services and address the widening fiscal deficit. This is a significant missed opportunity for revenue recovery.
<b>Mandatory online submission of tax returns for individual taxpayers through the "e-Return" system</b>	This was a positive step toward administrative transparency and reducing corruption. By minimising direct human interaction, the system can lower the "cost of compliance" and reduce the potential for informal negotiations. However, a similar gradual initiative is needed for corporate tax as well to ensure comprehensive digitalisation.
<b>Continued extensive tax holidays and reduced tax rates for RMG, power, and IT sectors without transparent cost-benefit analysis</b>	Continued exemptions without an official "Tax Expenditure Framework" may lead to significant revenue loss. Tax justice requires that these incentives be time-bound and performance-based to ensure they deliver actual social and economic value rather than simply inflating corporate profits. This represents a persistent gap in accountability and transparency.

# PILLAR 4: ADMINISTRATION (CONTD.)

## Short Review of the Budget of FY 2025–26

Measure	Tax Justice Observations
<b>Emphasis on "e-Return" system and mandatory BIN for opening business bank accounts</b>	Strengthening the link between banking and tax IDs is essential for reducing corporate tax evasion; however, these administrative tools must be backed by independent audits and stronger enforcement against large-scale tax dodgers to be truly effective. This reflects a positive step toward formalisation, but without robust enforcement mechanisms, the impact on revenue leakage will remain limited.
<b>Nominal increase in allocation for NBR's digitisation efforts and staff training for data analytics</b>	Modernising the NBR is crucial for "Accountable Governance," but technical upgrades must be accompanied by policy reforms that protect whistleblowers and ensure that tax data is used to hold politically connected evaders accountable. Without these complementary measures, digitisation alone will not address the deeper governance challenges that enable revenue leakage.



# RECOMMENDATIONS

## PILLAR 1: EQUITABLE FINANCING OF DEVELOPMENT

- ❑ Strengthen **progressive direct taxation by expanding** the personal income tax base, improving compliance among high-income earners, and reducing excessive reliance on indirect taxes.
- ❑ Develop a clear debt and investment strategy **that** minimizes the crowding-out effect of public borrowing and supports greater private sector investment
- ❑ Introduce targeted programmes and **dedicated budget allocations to address the socio-economic** challenges and development rights of ethnic minority communities
- ❑ Formulate a comprehensive **LDC graduation roadmap that links enhanced domestic resource** mobilisation with expanded social protection and social safety net programmes to ensure an inclusive and equitable transition.
- ❑ Gradually align statutory corporate income tax (CIT) rate with the OECD/G20 global **minimum tax threshold of 15 per cent**, ensuring neither export-oriented nor non-export sectors fall below this floor
- ❑ Replace the flat reduced tax rate for **listed companies with performance-based incentives** linked to capital investment, export growth, or employment generation.
- ❑ Introduce **gender-responsive budgeting across all ministries**, tracking how budget allocations benefit women and men differently
- ❑ Adopt a **cashback or rebate mechanism for low-income households on** VAT paid for essential goods



# RECOMMENDATIONS

## PILLAR 2: REDUCED TAX REGRESSIVITY

- ❑ Index personal income tax thresholds, tax-free income limits, **and tax slab boundaries annually to inflation (CPI) and nominal income growth** to prevent bracket creep and protect the real purchasing power of low- and middle-income taxpayers
- ❑ Consolidate the existing **eight-slab VAT structure into a simplified three-tier system—standard, reduced, and zero rates—with a long-term goal of moving to a two-tier system.**
- ❑ Lower the standard VAT rate **from 15 per cent to 10 per cent, alongside** measures to broaden the tax base and strengthen enforcement.
- ❑ Introduce a uniform **specific excise duty of BDT 10 per cigarette stick on all cigarettes, increased annually to account for inflation and income growth, replacing the complex multi-tier tobacco tax system**
- ❑ Introduce a **direct wealth tax, replacing the existing wealth surcharge system,** to raise additional revenue and reduce income and wealth inequality.



# RECOMMENDATIONS

## **Pillar 3: Elimination of Revenue Leakage**

- ❑ **Publish comprehensive tax expenditure** reports listing all exemptions with cost estimates and justifications.
- ❑ Remove **tax concessions for fossil-fuel-based power producers**, as such incentives disproportionately benefit high-emission producers while harming the environment.
- ❑ Deploy data analytics and **artificial intelligence in tax administration to modernise enforcement.**
- ❑ Establish a **secure bidirectional data-sharing system linking the NBR, Bangladesh Bank, and financial institutions.**
- ❑ Publish a medium-term VAT reform roadmap with clear timelines for **simplifying rates, exemptions, and compliance requirements.**
- ❑ Develop a phased **tariff rationalisation strategy to reduce excessive dependence** on trade taxes while enhancing competitiveness ahead of LDC graduation
- ❑ To encourage tax compliance, repeated failure to submit tax returns for **multiple years should be made a criminal offense by law**
- ❑ The Ministry of Education should introduce **mandatory, dedicated classes in schools, colleges, and universities** to educate students about the process of tax return submission
- ❑ Instead of only providing sector-specific tax incentives, the government **may also consider offering time-bound tax cuts exclusively for newly formed** companies for certain years, regardless of their sector
- ❑ Gradually mandate **Electronic Fiscal Devices and e-invoicing systems for VAT-registered businesses to improve transaction transparency and reduce VAT evasion**



# RECOMMENDATIONS

## **Pillar 4: Strengthened and Accountable Governance**

- ❑ Digitise the **NBR and its associated institutions and legalise the** tax system to prevent tax evasion and stop tax avoidance
- ❑ Ensure that the **two newly formed departments (Revenue Policy Division and Revenue Management Division)** are placed beyond the reach of political and administrative influence through legal safeguards.
- ❑ Reform NBR recruitment policy to **attract specialised audit and data analysis professionals.**
- ❑ Introduce participatory **budgeting mechanisms to maintain citizen engagement in the budget process**
- ❑ 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
- ❑ The NBR should prioritise the development and **implementation of a fully integrated tax system** built around a common, universal Unique TIN
- ❑ 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
- ❑ NBR should ensure the **number of SROs is reduced**, consolidating redundant and outdated orders, so that tax rules are transparent, predictable, and fair, thereby strengthening compliance and promoting tax justice
- ❑ Publish annual performance scorecards for the NBR and related revenue institutions covering collection efficiency, taxpayer **services, audit outcomes, dispute resolution, and transparency indicators**
- ❑ **Institutionalise a Tax Justice Impact Assessment (TJIA) for every annual budget and major tax policy change, assessing impacts on inequality, gender, poverty, regional disparities, environmental sustainability, and vulnerable populations before implementation**

**Thank You**