Impact of Tax Evasion and Tax Avoidance on Economic Growth as Per Income Tax Act in Bangladesh

LL.M (2Years)
Department of Law

Supervised By:
Assistant Professor Sharmin Jahan Runa
Department of Law
Sonargaon University

Submitted By:
Md. Zahid Iqbal
LL.M (2Years)
ID: LLMP2102023004
Department of Law
Sonargaon University

Date of Submission: June 25, 2024

Letter of Transmittal

June 25, 2024

Assistant Professor Sharmin Jahan Runa
Department of Law
Sonargaon University

Subject: Submission of the report.

Dear Sir,

With due respect submitting herewith my report entitled Impact of **Impact of Tax Evasion and Tax Avoidance on Economic Growth as Per Income Tax Act in Bangladesh** partial fulfilment of the "**LL.M (2Years)"** degree requirement. In preparing this report, I adhered to your instruction and maintained academic integrity as best as I could. So, I therefore pray and hope that it will be a pleasure for me if this report fulfils all your expectations.

Sincerely Yours

Md. Zahid Iqbal
LL.M (2Years)
ID: LLMP2102023004
Department of Law
Sonargaon University

Certification by Supervisor

I certify that I have read this report by **Md. Zahid Iqbal** entitled **Impact of Tax Evasion and Tax Avoidance on Economic Growth as Per Income Tax Act in Bangladesh** This is submitted in fulfilment of the requirement for the degree of "LL.M (2Years)" under the Department of Law, Sonargaon University. In my opinion, it is fully adequate in scope and quality as a dissertation for the degree of **"LL.M (2Years)".** This is his original own report work.

As far as I know, he tried his best in preparation for this report. I believe, this work will be an asset to his professional life.

I wish him every success in his life.

Assistant Professor Sharmin Jahan Runa
Department of Law
Sonargaon University

Declaration

I, **Md. Zahid Iqbal** declare that the work presented in the report paper entitled Impact of **Impact of Tax Evasion and Tax Avoidance on Economic Growth as Per Income Tax Act in Bangladesh** my own work in the fulfilment of the requirement for the degree of LL.M (2years). I submitted this report to the Department of Law, Sonargaon University which includes the outcome of my own work.

I declare that I did not submit the whole paper or any part of it to any other university for the achievement of any other degree.

Sincerely yours

Md. Zahid Iqbal

Acknowledgements

First of all, I am grateful to The Almighty Allah for blessing me to complete this report. I would like to express my deepest gratitude to my supervisor **Assistant Professor Sharmin Jahan Runa,** Department of Law, Sonargaon University for his outstanding guidance, caring, mentoring, and patience and for providing me with pleasant atmosphere for doing this report. His proper supervision and guidance helped me greatly in preparing and writing this report properly. I am thankful to my supervisor, who always supported and encouraged me with her best wishes to carry out the course and report work.

Table of Contents

Letter of Transmittal	2
Certification by Supervisor	3
Declaration	4
Acknowledgements	5
Table of Contents	6
Executive Summary	7
Chapter 1: Introduction	8
1.1 Background of the study	8
1.2 Problem Overview	8
1.3 Research Objective	9
Chapter 2: Literature Review	10
Chapter 3: Methodology	13
Chapter 4: Understanding Tax Evasion and Evaluating the Current Policy	14
4.1 Concepts	14
4.2 Difference between Tax avoidance and evasion	14
4.3 Analysis of existing tax policy in Bangladesh	15
Chapter 5: Proposed Taxation System Overhaul	17
5.1 What is Tax Reform?	17
5.2 Necessity of Tax reform	17
5.3 Proposed Reforms	18
Chapter 6 Impact of Tax Evasion & Avoidance on the key drivers of Economic growth	21
Chapter 7 Findings	24
Chapter 8 Data Analysis	25
Chapter 9 Remedies of Tax Avoidance	32
Chapter 10 Conclusion	35

Executive Summary

The present report endeavours to examine the noteworthy incentives and mechanisms of tax evasion and avoidance in Bangladesh, as well as strategies for mitigating these issues. Additionally, efforts have been made to determine the source of tax evasion and avoidance as well as the extent of their negative effects on Bangladesh's economy. Where there is "tax" in Bangladesh, there is also "tax evasion" and "tax avoidance." They actually get along well with one another. One of Bangladesh's main sources of income is taxes. However, our nation's tax payment culture is really depressing. Our nation lost a significant amount of revenue as a result of tax evasion and avoidance. which have been seriously harming our nation's economy. Moreover, the impact of tax evasion and avoidance extends beyond mere revenue loss. It hampers the government's ability to fund essential public services, such as education, healthcare, and infrastructure development, thereby impeding overall socio-economic progress. The unequal distribution of the tax burden, where certain sectors or income groups evade their fair share, exacerbates existing disparities within the society, hindering the government's efforts to promote inclusivity and social justice. The detrimental effects of tax evasion and avoidance are further exacerbated by the unequal distribution of the tax burden. Certain sectors and income groups, through their evasion of a fair share of taxes, contribute to the widening disparities within our society. This regressive phenomenon directly contravenes the government's aspirations for inclusivity and social justice, hindering its earnest endeavors to create a more equitable and harmonious socio-economic landscape. In the face of these challenges, the road ahead demands a united front from policymakers, tax authorities, and the citizens of Bangladesh. Implementing robust reforms in tax legislation, enhancing enforcement mechanisms, and fostering a culture of tax responsibility are imperative steps. Consequently, a concerted and multifaceted approach is imperative to rectify these issues, encompassing not only legal and regulatory reforms but also initiatives to cultivate a culture of tax compliance and civic responsibility. In conclusion, the issue of tax evasion and avoidance in Bangladesh is not merely an economic challenge but a deeply rooted systemic concern that requires comprehensive and sustained efforts. Addressing the root causes, fostering a culture of tax compliance, and engaging in international collaborations are indispensable components of a holistic strategy. By undertaking these measures, Bangladesh can pave the way for a more resilient and equitable fiscal landscape, fostering sustainable economic growth and societal well-being.

Chapter 1: INTRODUCTION

1.1 Background of the Study

Taxes are like the money that citizens and businesses give to the government to help run the country. They're meant to cover things like schools, hospitals, roads, and other important services. But some people and companies try to pay less than they should or even avoid paying altogether. This is where we get into the ideas of tax avoidance and tax evasion.Tax avoidance is when people or businesses use legal ways to pay less in taxes. It's like finding loopholes in the rules to reduce their tax bill. On the other hand, tax evasion is when people or businesses break the law by purposefully not paying the taxes they owe. In Bangladesh, this is a significant problem. Many people think about avoiding or evading taxes. The government wants to collect taxes to provide good services, but when people avoid or evade taxes, it makes things difficult.For example, in Bangladesh, there are millions of people and businesses that should be paying taxes, but only a small portion actually do it regularly. This means the government doesn't have enough money to do all the things it needs to do, like build roads or provide healthcare. So, it's important for everyone to pay their taxes properly. When people avoid or evade taxes, it hurts the country because there isn't enough money for important things. The government is working to improve tax collection, but it's also up to the people to do their part by paying their fair share. This way, we can help our country grow and provide better services for everyone.

1.2 Problem Overview

Tax evasion is a big problem for Bangladesh. Even though the country has improved in many ways, lots of people and businesses still don't pay their taxes properly. This causes issues like less money for the government, unfairness in who pays taxes, and problems for the country's growth.

One of the main problems is the way taxes are set up. There are so many different tax rates, exceptions, and tricky rules that make it easy for people and businesses to find ways not to pay their full share. The rules for paying taxes are also very complicated and take a long time, which makes people not want to do it.Another issue is that the government agency responsible for collecting taxes, called the National Board of Revenue (NBR), doesn't have enough resources and can't do its job effectively. This makes it hard to make sure everyone pays their taxes properly. Also, the tax system isn't very clear, and this makes some people think it's okay to

evade taxes.Tax evasion causes serious problems. The government doesn't have enough money to spend on important things like building better roads, improving healthcare, and helping people get a good education. This slows down the country's progress and makes the gap between rich and poor people worse. People who do pay their taxes feel like they're paying too much while others get away without paying their fair share, and this makes them lose trust in the government and the tax system.

So, what needs to happen is that Bangladesh should change its tax rules to make them simpler and fairer. They also need to make sure everyone follows the rules and pays their taxes properly. By doing this, they can help the country grow more evenly and make people trust the government and the tax system again.

1.3 Research Objectives

The primary aim of this research is to thoroughly examine the issue of tax evasion in Bangladesh and put forward policy reforms to tackle it effectively. To accomplish this overarching objective, the following specific research objectives will be pursued:

- To evaluate the effectiveness of the current tax policy framework in Bangladesh.
- To estimate the extent of tax evasion among Tax Identification Number (TIN) holders in Bangladesh.
- To identify and recommend specific reforms in tax policy and administration that can effectively combat tax evasion.

Through the achievement of these objectives, this study will contribute to the existing knowledge on tax evasion in Bangladesh, providing valuable insights for scholars, tax authorities, and policymakers alike. The proposed recommendations will serve as a practical guide for shaping and implementing tax policy reforms aimed at addressing tax evasion comprehensively. These reforms have the potential to not only increase revenue collection but also foster fair and balanced development while enhancing governance in Bangladesh.

Chapter 2: Literature Review

Every effort has been made in this report to investigate the reasons behind tax evasion and avoidance, along with related objectives. Additionally, various surveys have been conducted in this regard, and existing literature and research findings have been reviewed.

Currently, tax avoidance and evasion are significant concerns. Different researchers have examined these issues from various angles. Although both practices negatively affect government revenue collection, it's essential to distinguish between them. Tax evasion is illegal, constituting a breach of the law, while tax avoidance is legal but may be viewed as ethically questionable.For example, Simser's 2008 study explored different tax avoidance and evasion typologies to understand their mechanisms and implications for those managing others' wealth. The research highlighted the complexity of structuring transactions to minimize taxes. Khan et al. (2000) identified a serious problem in countries like Bangladesh, where corruption among tax officials is widespread and negatively impacts tax administration. Bobek and Hatfield (2003) suggested that individuals' ethical beliefs can play a crucial role in promoting tax compliance. Rahman (2005) indicated substantial revenue losses in Bangladesh due to tax evasion. Kaibel and Nwokah (2009) found that tax avoidance and evasion pose common challenges to all tax systems. According to Oxfam (2013), tax evasion exacerbates poverty and damages the economies of developing countries. Hasan (2014) asserted that strong ethical convictions can encourage more individuals to become exemplary taxpayers.It is evident that most researchers have focused primarily on tax evasion rather than tax avoidance. However, both practices harm Bangladesh's economy and should not be underestimated. Tax avoidance involves legally exploiting gaps in tax laws to reduce tax liability, a practice considered legal but ethically questionable. Nevertheless, it still leads to substantial government revenue losses. In contrast, tax evasion is an entirely illegal activity aimed at reducing actual tax payments. Both practices ultimately diminish government revenue. Therefore, it is crucial to address both tax evasion and tax avoidance.This report diligently explores the complex issues of tax evasion and tax avoidance within the context of Bangladesh. Taxation is fundamental to a country's financial health as it provides the resources needed to run the government and fund essential services like education, healthcare, infrastructure development, and social welfare programs. However, when individuals or businesses engage in tax avoidance or evasion, it hampers the government's ability to collect the necessary funds, leading to adverse consequences for the entire nation. Tax avoidance is a practice where

individuals or businesses use legal means to reduce their tax obligations. While it may be within the bounds of the law, it often raises ethical questions. Tax evasion, on the other hand, involves deliberately and unlawfully underreporting income or manipulating financial transactions to pay less tax than is legally required.

Various studies and research findings have shed light on these issues. For instance, Simser's 2008 study explored different typologies of tax avoidance and evasion, highlighting the intricate nature of structuring transactions to minimize taxes. Khan et al. (2000) pointed out a pressing issue in Bangladesh—the prevalence of corruption among tax officials, which undermines tax administration. Bobek and Hatfield (2003) suggested that individuals' ethical beliefs can play a significant role in promoting tax compliance. Rahman (2005) underscored the substantial revenue losses in Bangladesh due to tax evasion, emphasizing its adverse effects on the economy. Kaibel and Nwokah (2009) found that tax avoidance and evasion are pervasive challenges faced by tax systems worldwide. Oxfam's report in 2013 drew attention to the global impact of tax evasion, particularly on developing countries, where it exacerbates poverty and weakens economies. Hasan (2014) emphasized the role of strong ethical convictions in motivating individuals to become exemplary taxpayers.While most researchers have primarily focused on tax evasion, it's essential to recognize that both tax evasion and tax avoidance have detrimental effects on Bangladesh's economy. Tax avoidance, despite being legally permissible, leads to substantial revenue loss, making it a matter of concern. Therefore, addressing both tax evasion and tax avoidance is crucial for the country's fiscal health and overall well-being.In light of this, this report meticulously examines the problems, methods, underlying reasons, consequences, and potential solutions related to both tax evasion and tax avoidance in Bangladesh. By providing a comprehensive understanding of these issues, it is expected that this report will play a pivotal role in guiding future efforts to address and mitigate the challenges posed by these practices, ultimately contributing to the economic growth and stability of Bangladesh.

In his 2014 article, Shaheen et al. explores the challenges that Bangladesh faces in enforcing its income tax rules and provides recommendations for enhancing tax compliance. The analysis begins by examining how Bangladesh generates revenue and the tax responsibilities placed on different groups of taxpayers. The article identifies shortcomings in the existing income tax system and proposes solutions to address non-compliance with tax regulations. These recommendations aim to

strengthen the country's income tax framework, making it more comprehensive, revenue-efficient, and equitable.

In their 2007 study, Tsakumis and colleagues examined the issue of tax evasion and how national culture might impact tax compliance in various countries. Despite penalties and investigations, tax evasion remains a widespread concern globally. The research aims to understand the relationship between cultural differences and deliberate tax non-compliance by comparing tax compliance levels in 50 different nations. The researchers develop hypotheses based on Hofstede's cultural framework and find that countries with higher levels of tax evasion tend to exhibit low levels of individualism, low levels of masculinity, and low levels of uncertainty avoidance.

In a study conducted by Mohabbat and colleagues in 2018 in Bangladesh, the researchers aimed to understand why and how people engage in tax avoidance and evasion. The study involved 200 participants from Dhaka city, including both taxpayers and tax collectors. Data were collected using a structured questionnaire. The findings of the study indicated that several factors contributed to tax avoidance and evasion. These included dissatisfaction with the current tax rates, anxiety related to taxation, a complex payment system, uncooperative behavior from tax collectors, issues with the tax assessment system, a lack of accessible tax information, and the absence of public awareness campaigns. Furthermore, the study identified common strategies employed for avoiding and evading taxes. These tactics included setting aside funds, seeking legal assistance, underreporting income, inflating expenses, utilizing investment allowances, and pursuing personal motives. The report suggests that in order to reduce tax evasion and avoidance, tax authorities should evaluate and improve their processes for assessing and collecting taxes. Additionally, they should focus on media campaigns and public awareness initiatives to inform and educate the public about tax compliance.

This study is notable for being the first to apply Hofstede's theory to explain differences in tax compliance across different countries. The findings have both theoretical and practical significance. They have implications for shaping tax policies and lay the groundwork for the development of an international tax compliance system.

Hence, this report equally highlights the issues, methods, reasons, consequences, and solutions related to both tax evasion and tax avoidance in Bangladesh. It is expected that this report will play a significant role in addressing these issues in the future.

Chapter 3: Methodology

Data Collection:

We will collect information for our study through the use of existing sources, which is referred to as secondary data. These sources will encompass:

Academic Journals: Research articles and papers published in academic journals focused on taxation, tax evasion, and tax compliance within Bangladesh.

Government Reports: Official reports issued by government entities, such as the National Board of Revenue (NBR), providing data and insights concerning tax-related matters.

Policy Documents: Documents outlining the tax policies, regulations, and reforms implemented within Bangladesh.

Statistical Databases: Data derived from government and international statistical databases containing information pertaining to tax revenues, economic indicators, and related aspects.

Reputable Research Institutions: Reports and publications from respected research institutions in Bangladesh that center on taxation and associated subjects.

Various Documents: A diverse range of documents, including tax return forms, tax assessment records, and case files associated with tax evasion.

Books: Books authored by experts and scholars that delve into taxation and tax evasion within the context of Bangladesh.

Newspapers: Articles and reports published in newspapers that cover news related to taxation, encompassing tax evasion cases and government initiatives aimed at combating tax evasion.

Websites: Information sourced from official government websites, international organizations, and non-governmental organizations (NGOs) that specialize in matters related to taxation.

Data Selection Criteria:

Data will be selected based on its pertinence, credibility, and currency. The chosen data will closely align with the strategies employed in Bangladesh to combat tax evasion. Priority will be given to recent and up-to-date information to ensure that our study accurately reflects the current tax landscape and recent policy.

Chapter 4: Understanding Tax Evasion and Evaluating the Current Policy

4.1 Concepts

Tax evasion is when people or businesses intentionally break the law by not paying the taxes they owe to the government. It happens when they do things like manipulating their money, lying about how much they earn, or hiding their assets to avoid paying taxes they should legally pay. Tax evasion usually involves dishonest actions, like saying you earned less money than you really did, exaggerating your deductions, using illegal tax hideaways, or doing transactions to hide your taxable money or assets.

4.2 Difference between tax avoidance and evasion:

Basis of difference	Tax evasion	Tax avoidance
1.Defination	Tax evasion is an illegal activity in which a person or a firm consciously and intentionally avoids paying real tax liability.	On the contrary, tax avoidance means the use of lawful procedure to cut down or reduce the real amount of income tax liable by person or a firm.
2. How is it organized?	Tax evasion is organized by using illegal and unfair methods.	On the contrary, tax avoidance is organized by taking assistance of escapement in the tax law.
3.Legallity	Tax evasion is illegal and unethical.	On the contrary, tax avoidance is legal but unethical.
4.Punishment	Tax evasion is a punishable offence. So the person who evade tax is liable for punishment	On the contrary, tax avoidance is not a punishable activity but socially reprehensible.
5.Examples	Keeping two or more sets of books of accounts and making false entries and records, deliberately omitting income, hiding assets, transferring assets and income, claiming false deduction in the return are the examples of tax evasion.	On the contrary, claiming various deduction and tax credit, claiming various tax exclusions, claiming various adjustments that are allowed by law are the examples of tax avoidance

4.3 Analysis of existing tax policy in Bangladesh

The tax policy framework in Bangladesh plays a vital role in fostering the country's economic progress and revenue generation. It encompasses a range of tax regulations, structures, and incentives designed to encourage fairness, effectiveness, and sustainable fiscal growth. However, a more detailed examination of its various components and their efficacy is required to assess the existing tax policy framework in Bangladesh. Here is a more comprehensive analysis of several strengths and weaknesses of Bangladesh's tax policy framework:

Advantages of the Tax Policy Framework:

a) Progressive Taxation System: Bangladesh has implemented a progressive taxation system, which ensures that individuals with higher incomes bear a greater tax burden. This form of progressive taxation promotes social welfare and reduces income inequality. Consequently, the tax burden is distributed more equitably, ensuring that those with higher incomes contribute proportionally more.

b) Value Added Tax (VAT) System: The introduction of a Value Added Tax (VAT) system has been a significant development in Bangladesh's tax policy framework. It employs a multi-tiered rate structure, applying different rates to various goods and services. The framework also includes customs duties, excise duties, and supplementary duties on specific goods and services. The VAT system has expanded the tax base, enhanced revenue collection, and reduced reliance on income taxes. By taxing consumption at each stage of production and distribution, the VAT system minimizes opportunities for tax evasion and creates a more transparent tax system. It has also contributed to increased revenue generation, enabling the government to finance public services and development projects.

c) Streamlined Tax Filing Process: In Bangladesh, efforts have been made to simplify the tax filing process. The integration of online technologies and e-filing platforms has improved efficiency by streamlining tax procedures and reducing paperwork. Taxpayers now find it easier to fulfill their tax obligations thanks to these digital initiatives. Tax authorities have enhanced the overall taxpayer experience by offering user-friendly interfaces, clear instructions, and electronic payment options. Digitalization has also made it easier to monitor tax payments, reduce errors, and minimize opportunities for tax evasion.

[1]d**) Investment Incentives:** Bangladesh's tax policy framework offers various incentives to encourage investment in key industries. Tax holidays, reduced tax rates, exemptions, and tax credits are provided to attract both domestic and international investments, stimulate economic growth, and create employment opportunities. These incentives are particularly beneficial for technology-oriented businesses, export-focused industries, and infrastructure development. The tax policy aims to promote economic diversity, enhance competitiveness, and foster sustainable growth through these incentives.

e) Exemptions and Deductions: The framework includes provisions for exemptions and deductions for specific types of income or investments. For instance, agricultural income may be exempt from income tax, and export earnings may enjoy tax exemptions or reduced rates. These exemptions and deductions are designed to support targeted sectors, boost employment, and incentivize specific economic activities.

f) Double Taxation Agreements (DTAs): Bangladesh has entered into DTAs with various countries to prevent double taxation and encourage international trade and investment. These agreements establish guidelines for the allocation of taxing rights between jurisdictions, provisions for eliminating double taxation, and mechanisms for exchanging tax-related information. The tax policy framework incorporates these agreements to ensure fair and efficient international taxation.

[1] Allingham, Michael G., and Agnar Sandmo. "Income tax evasion: A theoretical analysis." Journal of Public Economics 1, no. 3-4 (1972): 323-338. doi:10.1016/0047-2727(72)90010-2

Chapter 5: Proposed Taxation System Overhaul

5.1 What is Tax Reform?

Tax reform involves making substantial alterations to a nation or region's current tax system. The primary objectives are to address weaknesses, enhance efficiency, and improve the effectiveness of tax administration, ultimately leading to increased tax revenues relative to overall expenditures. In simpler terms, tax reform entails modifying a country's tax laws to reduce the opportunities for tax evasion. It also aims to bolster revenue stability, address issues related to inequality through behavior modification and redistribution, and foster a nation's economic growth.

5.2 Necessity of Tax reform

a) Simplifying Compliance: Complex tax laws and procedures can create significant burdens for taxpayers, particularly small businesses and individuals. Tax reform aims to simplify compliance by reducing the complexity of tax regulations, providing clear guidelines, and offering user-friendly tools and resources. This simplification can improve overall tax compliance rates.

b) Enhancing Revenue Stability: A stable and predictable revenue stream is essential for effective government budgeting and planning. Tax reform seeks to establish a more stable source of revenue by diversifying the tax base and reducing reliance on volatile revenue sources. This helps governments better manage fiscal challenges and deliver essential services consistently.

c) Promoting Investment and Job Creation: Tax policies can significantly impact investment decisions and job creation. Tax reform often includes incentives and measures to attract investments, stimulate economic growth, and generate employment opportunities. Lower tax rates, investment credits, and targeted incentives for specific industries are examples of strategies employed to achieve these goals.

d) Encouraging Environmental Responsibility: As environmental concerns grow, tax reform may incorporate environmentally friendly measures. These can include taxes on carbon emissions or incentives for renewable energy production and energy efficiency. Such reforms align tax policies with sustainability and environmental conservation objectives**.**

e) Addressing Global Tax Challenges: In an increasingly interconnected world, international tax issues have gained prominence. Tax reform may involve addressing challenges related to international taxation, such as transfer pricing, base erosion, and profit shifting (BEPS), and participating in international efforts to combat tax evasion and promote fair taxation practices.

f) Promoting Fiscal Sustainability: Tax reform can play a crucial role in ensuring the long-term fiscal sustainability of a nation. This includes addressing issues like unsustainable public debt levels, optimizing tax structures to fund essential services without relying excessively on debt, and creating a balanced fiscal framework that accounts for demographic changes and future liabilities.

g) Responding to Technological Advances: Advancements in technology have transformed business models and economic activities. Tax reform may consider adapting tax policies to account for the digital economy, e-commerce, and remote work arrangements to ensure that businesses and individuals are taxed fairly in this evolving landscape.

h) Public Engagement and Transparency: Tax reform efforts often involve seeking input from stakeholders and the public to ensure that tax policies reflect the values and priorities of the broader society. Transparency in the reform process, along with public education and awareness campaigns, can foster public trust and support for tax changes.

5.3 Proposed Reforms

Enhancing Tax Administration:

a) Improving taxpayer registration and identification: Streamlining the taxpayer registration process and enhancing methods for identifying taxpayers can expand the tax base, ensuring the inclusion of all eligible individuals and businesses. This can be achieved through the modernization of registration systems, data integration, and interagency coordination.

b) Utilizing advanced data analytics and risk profiling: The utilization of sophisticated data analytics tools and techniques can aid in identifying potential tax evasion risks and patterns. By analyzing taxpayer data, financial transactions, and other pertinent information, tax authorities can pinpoint high-risk individuals or sectors and allocate resources more efficiently for investigations and enforcement actions.

c) Bolstering audit and investigation capabilities: Strengthening the skills of tax auditors and investigators through specialized training programs and technological advancements can enable more efficient detection and investigation of tax evasion cases. This entails enhancing proficiency in forensic accounting, data analysis, and conducting comprehensive examinations of financial records.

d) Reinforcing Tax Enforcement: Strengthening tax enforcement mechanisms is essential to effectively combat tax evasion and non-compliance. This involves enhancing the capabilities of tax authorities, harnessing technology for data analysis and risk assessment, and implementing rigorous audit and investigation procedures. Stricter penalties and sanctions for non-compliance should be enforced to deter tax evasion.

e) Collaborating with international agencies: Enhancing cooperation with international organizations, such as the OECD, World Bank, and regional tax authorities, can facilitate the exchange of information, best practices, and expertise in combating tax evasion. Sharing intelligence on cross-border transactions and adhering to international standards, such as the Common Reporting Standard (CRS), can aid in identifying offshore tax evasion and improving enforcement efforts.

f) Monitoring and Evaluation: The tax policy framework should establish robust monitoring and evaluation mechanisms to assess the effectiveness and impact of tax policies. Regular assessments can help identify gaps, measure outcomes, and guide future policy reforms and adjustments. Continuous monitoring of tax policy implementation and impact allows for adaptation and refinement to achieve revenue targets and economic objectives.

Legislative and Policy Reforms:

a) Simplifying tax laws and regulations: Streamlining tax laws and regulations can enhance their transparency and comprehensibility for taxpayers. Clear and straightforward rules reduce ambiguity, encourage voluntary compliance, and minimize opportunities for tax evasion. Regular reviews and updates of tax laws to align with evolving business practices and economic conditions are also essential.

b) Introducing anti-avoidance measures: Implementation of anti-avoidance measures, such as general anti-abuse rules (GAAR), can prevent taxpayers from exploiting legal loopholes to evade taxes. These measures empower tax authorities to disregard transactions or arrangements lacking economic substance and primarily undertaken for tax evasion purposes.

c) Strengthening penalties and deterrents: Elevating penalties for tax evasion serves as a deterrent and discourages non-compliance. Imposing significant fines, criminal prosecution, asset seizures, and blacklisting of tax evaders can promote a culture of compliance and convey a strong message that tax evasion will not be tolerated.

d) Encouraging voluntary compliance through incentives: Providing incentives and rewards for voluntary compliance, such as reduced penalties, tax credits, or simplified procedures, can motivate taxpayers to willingly fulfill their tax obligations. Clear communication regarding the benefits of tax compliance and the consequences of non-compliance can also contribute to fostering a positive compliance culture

Chapter 6 Impact of Tax Evasion & Tax Avoidance on the key drivers of Economic Growth

Tax evasion has significant repercussions for individuals, societies, and economies, impacting both immediate and long-term results. Some of the main outcomes of tax evasion include:

a) Revenue Loss: Tax evasion deprives governments of vital funds that are used for important public investments such as social welfare programs, infrastructure enhancements, and public services. Reduced tax collection limits the government's capacity to address socioeconomic challenges, hindering efforts toward sustainable development.

b) Increased Tax Burden: When a substantial portion of individuals or businesses evade taxes, law-abiding taxpayers end up bearing a disproportionate share of the expenses needed for public services. This results in an unfair tax burden on honest individuals and companies, leading to a sense of injustice and diminishing trust in the tax system.

c) Inequality and Poverty: Tax evasion exacerbates income inequality by enabling influential and affluent individuals or entities to avoid paying their rightful share of taxes. This uneven distribution of resources further widens social and economic disparities, potentially obstructing inclusive development and poverty reduction initiatives.

d) Eroded Governance and Trust: Tax evasion undermines public trust in both the government and the tax system. When taxpayers perceive others benefiting unfairly from tax evasion while they diligently fulfill their tax obligations, it weakens the social contract between citizens and the government. Trust in government diminishes, potentially undermining social cohesion, cooperation, and effective governance.

e) Weakened Institutions: Tax evasion erodes the integrity and effectiveness of institutions. Frequent violations of tax regulations erode the credibility of organizations responsible for tax administration, making it challenging to enforce compliance. Weak tax institutions have a detrimental impact on tax compliance, accountability, and the ability to deter tax evasion.

f) Impact on Economic Development: Tax evasion hampers economic growth by limiting government spending on critical areas such as infrastructure, education, healthcare, and social welfare. A lack of funding for public investments constrains economic expansion, job creation, and overall societal well-being.

It is imperative to address tax evasion to achieve sustainable development and equitable socioeconomic outcomes. Through the implementation of effective tax policies, the strengthening of tax administration, the promotion of voluntary compliance, and the enhancement of transparency and accountability, governments can mitigate the adverse consequences of tax evasion and foster economic growth and social progress.

Impacts of Tax Evasion and Tax Avoidance on Economic Growth in Bangladesh educed Government Revenue: Tax avoidance leads to a reduction in the overall tax revenue collected by the government. When individuals and businesses exploit legal loopholes and engage in aggressive tax planning, the government misses out on much-needed funds for public services and development projects.

a) Budgetary Constraints: The decreased revenue due to tax avoidance can lead to budgetary constraints for the government. This, in turn, limits its ability to invest in critical sectors such as infrastructure, healthcare, education, and social welfare programs, which are essential for economic development.

b) Increased Budget Deficits: Tax avoidance contributes to budget deficits as the government struggles to balance its books. To cover the revenue shortfall, the government may resort to borrowing, which can lead to mounting public debt and interest payments, further straining the national budget.

c) Inequality and Social Disparities: Tax avoidance exacerbates income inequality within the country. When wealthy individuals and corporations avoid paying their fair share of taxes, the burden of funding public services falls disproportionately on lower-income segments of the population. This results in social disparities and can hinder overall economic growth.

d) Economic Instability: A reduced tax revenue base due to widespread tax avoidance can lead to economic instability. It limits the government's ability to respond to economic crises, implement counter-cyclical fiscal policies, and invest in economic stimulus measures during downturns.

e) Lack of Public Trust: Rampant tax avoidance erodes public trust in the government and the tax system. Citizens may perceive the tax system as unfair, leading to decreased compliance among law-abiding taxpayers and a culture of non-compliance.

f) Underinvestment in Public Goods: Tax avoidance can result in underinvestment in crucial public goods and services like healthcare, education, and infrastructure. This underinvestment can hinder the overall productivity and competitiveness of the economy.

g) Deterrence of Foreign Investment: An environment where tax avoidance is prevalent may deter foreign investors who seek stable and transparent tax regimes. This can slow down foreign direct investment (FDI) inflows, which are often critical for economic growth.

h) Pressure on Smaller Businesses: When larger corporations engage in aggressive tax avoidance, smaller businesses may face unfair competition. Smaller businesses typically cannot employ the same tax avoidance strategies and may suffer a competitive disadvantage.

i) Legal Reforms and Countermeasures: To address the consequences of tax avoidance, governments often need to enact legal reforms and implement countermeasures. These efforts require resources and time, diverting attention from other important policy areas.

In the context of Bangladesh, addressing tax avoidance is essential for sustaining economic growth, reducing inequality, and ensuring that the government has the necessary resources to invest in the country's development. Effective measures to combat tax avoidance can help create a more equitable and stable economic environment

Chapter 7 Findings

[2]In Bangladesh, there are several reasons why people evade taxes, as noted by Akram et al. (2012). Numerous researchers have discovered relationships between these factors and the peer effect, age, gender, income level, status, economic position, education, source of income, likelihood of being discovered and punished, marginal tax rate, complexity of the tax code, high costs associated with compliance, inefficiencies in tax collection, lax enforcement of the law, low tax morale, and many other factors. In any particular civilization, there is no one reason that is completely to blame for tax evasion. In light of this, the primary causes of tax evasion in Bangladesh are covered in the section that follows.

I. High Tax Rate

Most people agree that one of the key reasons for tax avoidance is a high tax rate. According to Alingham and Sandmo (1998), Wallschutzkt (1984), Clotfelter (1983), and Bayer (2006), there is a positive correlation between tax rate and tax evasion. Fisman and Wei discovered that any rise in the tax rate is probably going to result in less tax revenue overall rather than more (Fisman and Wei, 1994).

II. Corruption in the income tax department:

Tax evasion is said to be encouraged by corruption (Tanzi and Davoodi, 2000). Most people define corruption as the abuse of governmental authority for personal benefit (Schneide, 2013).

III. Political Intentions:

Kim (2008) contends that there is a positive correlation between tax evasion and the government's political objectives. Politicians attempt to take over tax administration in emerging nations in order to further their political agendas. In Bangladesh, administrations frequently sway tax laws in order to win over powerful and affluent citizens to their political cause.

IV. Lack of Informations:

To identify instances of tax evasion and enhance voluntary compliance, information is essential. Lederman claims that information asymmetry is the primary issue facing tax administrations (Lederman, 2003).

[2] Slemrod, Joel. "The economics of corporate tax selfishness." National Tax Journal 63, no. 4 (2010): 877-900. doi:10.17310/ntj.2010.4.06.

V. Inefficient Tax Administration:

A tax system's efficacy is dependent on both appropriate tax legislation and effective tax administration (Kaldor, 1964). Although some have had more success recently, Kaldor (1994) notes that tax administrations in developing countries are generally inefficient and ineffective (OECDE, 2011)

Chapter 8 Data Analysis

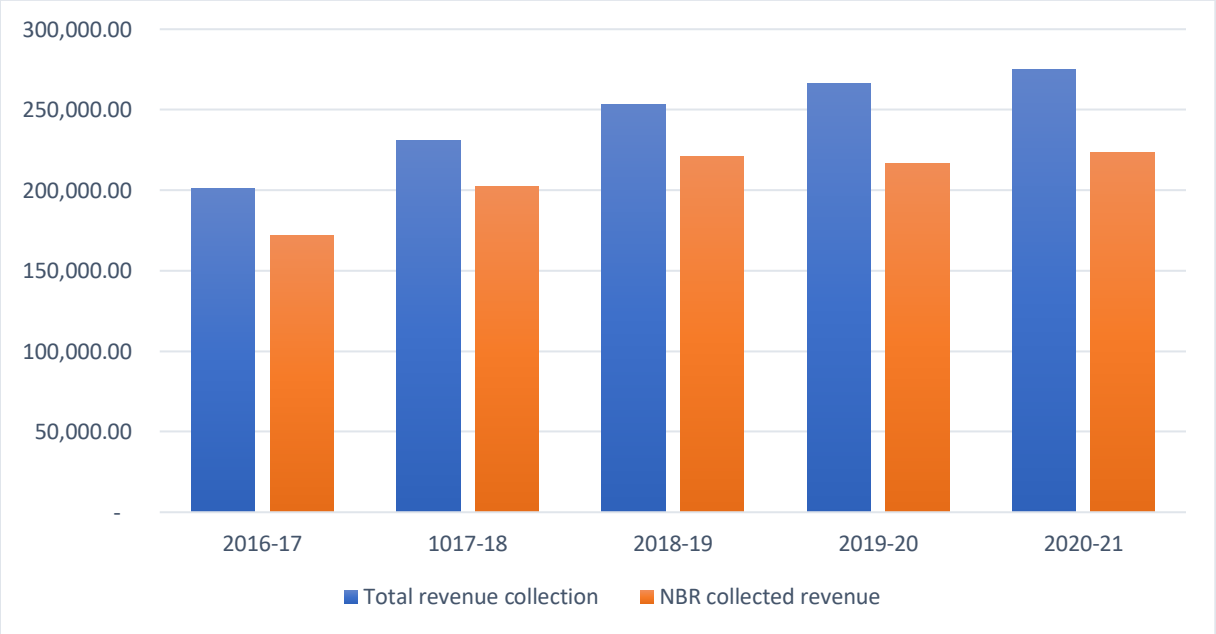
Revenue collection is essential to the national budget because it provides the money needed for the government to fund operations, public services, infrastructure development, social welfare programs, and other expenses. The money raised contributes to fiscal stability, economic expansion, and the delivery of necessary public services. The countries and their unique tax systems can influence the sources of revenue collection. A sizeable amount of our nation's income is derived from taxes and customs fees that NBR collects. The government's capacity to finance its operations and fulfill its financial obligations is directly impacted by the efficacy and efficiency of the NBR's revenue collection efforts.

Table 6.1: Revenue Collection

Year	Total revenue collection	NBR collected revenue	NBR Collection %
2016-17	201,230.44	171,656.44	85%
1017-18	231,152.94	202,312.94	88%
2018-19	253,311.62	220,771.62	87%
2019-20	266,536.77	216,451.77	81%
2020-21	274,978.68	223,689.68	81%

Source: NBR Yearly report

Figure 6.1: NBR Contribution in Total Revenue collection



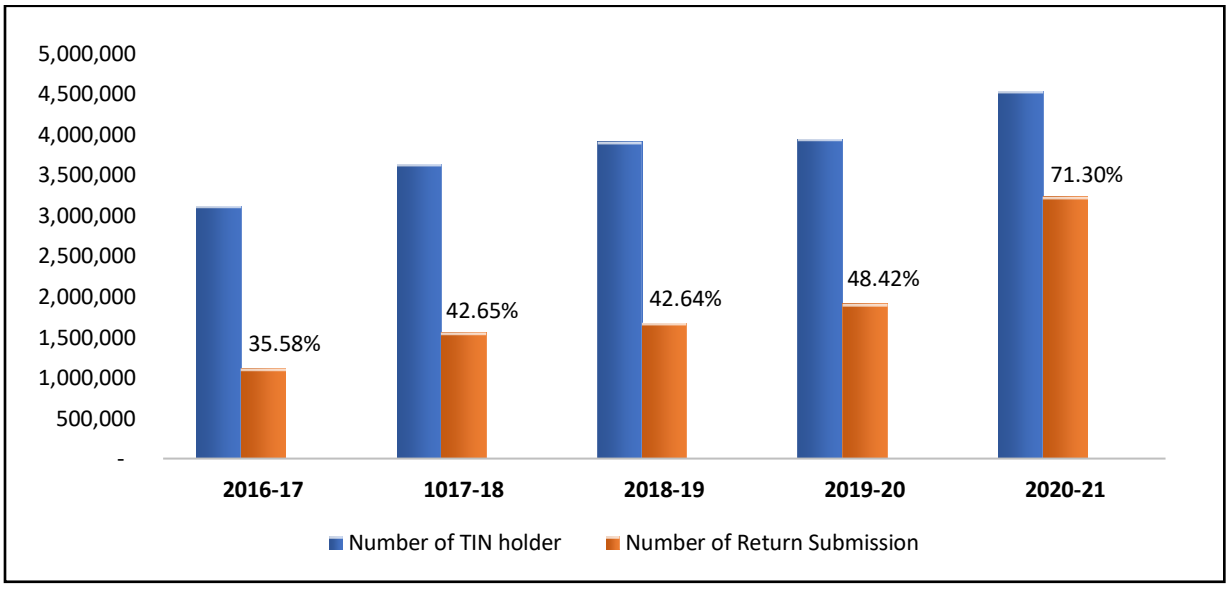
It is evident from the above table and chart that NBR assumes responsibility for approximately 85% of total revenue collected annually, a relatively high percentage. This indicates that the government of Bangladesh depends largely on NBR revenue collection to pay for all of its expenses. Because tax revenue makes up the majority of NBR revenue, it is crucial to know the number of TIN holders and the proportion of those who actually file their returns.

Table 6.2: Yearly Number of TIN holder & Return Submission

Year	Number of TIN holder	Number of Return Submission	Return submission %
2016-17	3,113,330	1,107,578	35.58%
1017-18	3,633,250	1,549,723	42.65%
2018-19	3,909,446	1,667,097	42.64%
2019-20	3,943,510	1,909,555	48.42%
2020-21	4,531,651	3,231,166	71.30%

Source: NBR Yearly report

Figure 6.2: Number of TIN holder vs Return Submission



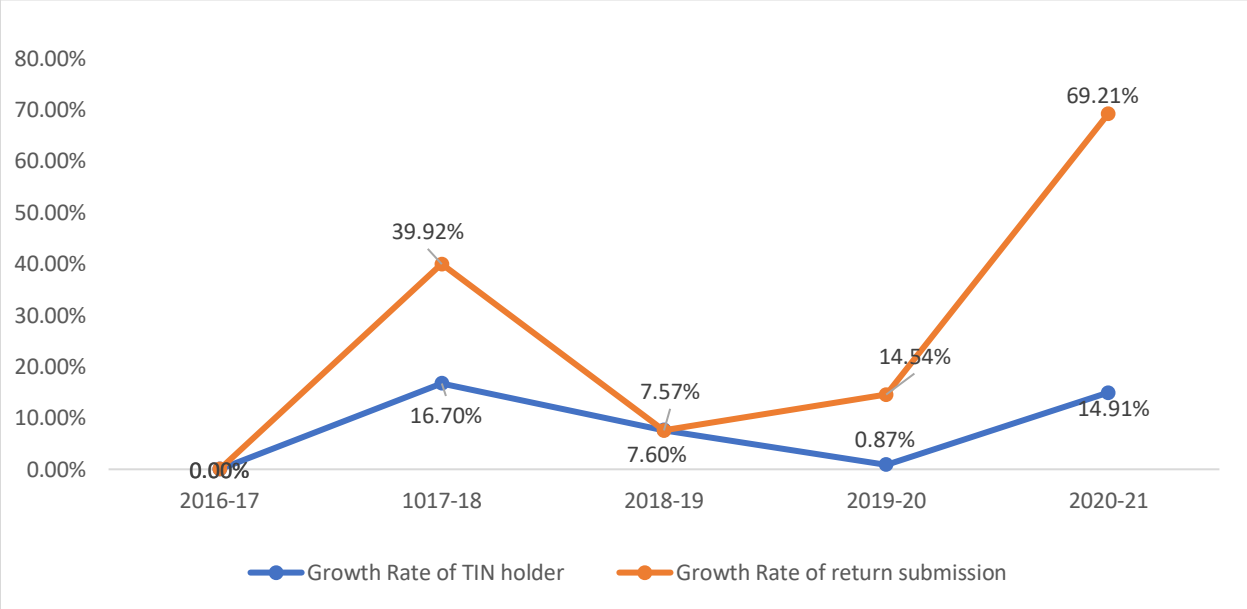
The table and chart that are provided displays data from the previous five years. With the exception of 2020–21, we found that only 35% to 48% of all TIN holders file their taxes, with the remainder evading taxes. Even though the number of TIN

holders and returns filed is rising daily, we can clearly see the trend if we examine the growth rates of these two variables.

Table 6.3: Growth rate of TIN holder & Return Submission

Year	Growth Rate of TIN holder	Growth Rate of return submission
2017-18	0.00%	0.00%
1018-19	16.70%	39.92%
2019-20	7.60%	7.57%
2020-21	0.87%	14.54%
2021-22	14.91%	69.21%

Figure 6.3: Growth of TIN holder vs Return Submission



The graph above shows that over the previous five years, there has been a noticeable increase in the number of TIN holders and return submissions in the years 2017–18. This is because the NBR introduced a new tax policy in that year, which requires employers to verify whether or not eligible employees have filed tax returns before

approving employee salaries as expenses. A significant number of TIN holders began filing tax returns as a result of this policy. Later, in 2020–21, NBR introduced online return submission. As the above graph illustrates, taxpayer response to this initiative was very positive.

Table 6.4: Number of TIN holder not submitting the Return

Year	Non taxpayer TIN Holder	% of Total TIN Holder
2017-18	2,005,752	64.42%
1018-19	2,083,527	57.35%
2019-20	2,242,349	57.36%
2020-21	2,033,955	51.58%
2021-22	1,300,485	28.70%

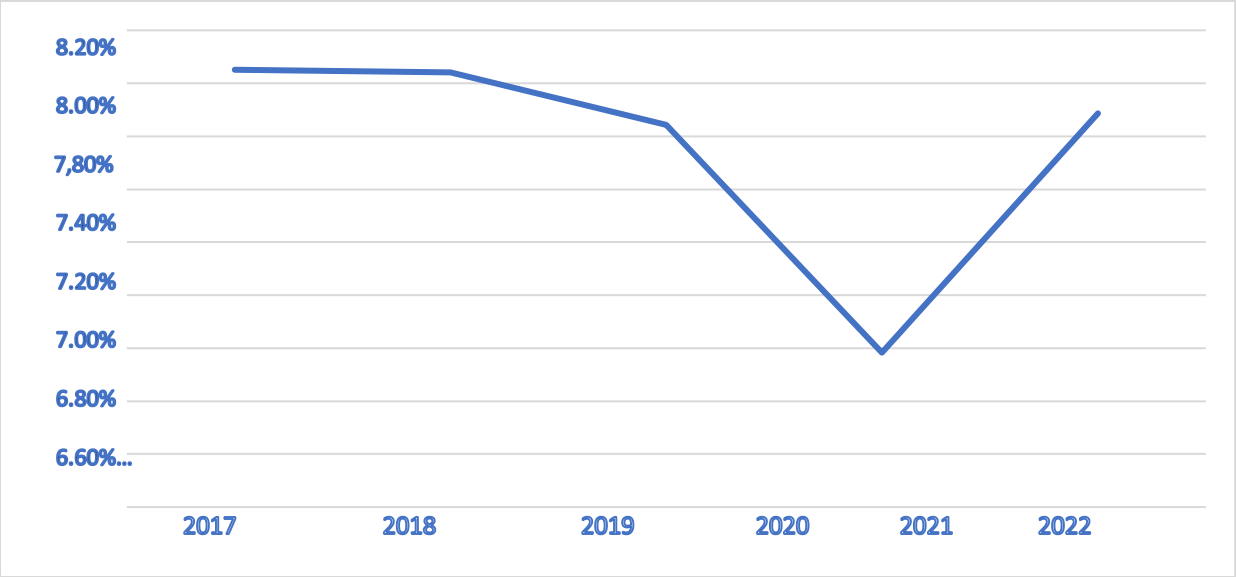
This indicates that each year, about 50% of all TIN holders fail to file their returns and, in some way, manage to avoid paying taxes, costing the government money each year. We can examine Bangladesh's tax GDP ratio over the previous five years as evidence.

Table 6.5: Tax GDP ratio of last five years

Year	Tax- GDP Ratio
2018	8.05%
2019	8.04%
2020	7.84%
2021	6.98%
2022	7.89%

Source: www.ceicdata.com

Figure 6.4: TAX-GDP Ratio Trend



The graph above shows that, with the exception of 2020, which was a COVID-19 pandemic year, the tax GDP ratio has been relatively low over the last five years, at about 8%. Even though tax revenue collection is rising, the percentage is still too low when compared to GDP growth, so it is still not very satisfactory. Because this indicates that, in accordance with GDP growth, we are producing and earning more, which increases our tax burden, but we are also dodging these taxes, which costs our government money.

Percentage of comparison tax revenue GDP of different country:

Serial number	Country	Percentage
1	Bangladesh	7.9
2	India	7.7
3	Pakistan	5.7
4	Japan	12.5
5	Nepal	19.1
6	Australia	26.2
7	Netherland	29.9
8	New Zealand	31.7
9	Norway	37.0

Source: ceicdata.com

The majority of Bangladeshis desire a range of services, including work, healthcare, and education. They also desire the nation's development. But never considered the source of the funding. The National Board of Revenue (NBR) reports that as of August 2022, there were 78.05 lakh TIN holders in Bangladesh, down from 75.90 lakh in June.However, only 25–30% of TIN holders consistently file tax returns. In the same way that individuals in our nation are attempting to evade and avoid paying taxes, income tax attorneys are also offering advice on this topic. Additionally, dishonest tax officers are assisting them in evading and avoiding taxes and are providing them with bad advice. This is the manner in which our nation is becoming a corrupt haven. Bangladesh.

[3]Chapter 9 Remedies of Tax Avoidance

Mitigating tax avoidance involves employing a range of legal, administrative, and policy measures. Here are various strategies to address tax avoidance:

a) Enhance Tax Legislation:

Regularly update tax laws to eliminate loopholes and respond to emerging issues. Develop clear and comprehensive legislation that minimizes room for interpretation.

b) Implement Anti-Avoidance Measures:

Introduce specific provisions in tax laws targeting transactions or arrangements designed solely to minimize tax liabilities. These may include General Anti-Avoidance Rules (GAAR) and Targeted Anti-Avoidance Rules (TAAR).

c) Increase Tax Transparency:

Improve transparency by mandating greater disclosure of financial information, especially for multinational corporations. This could involve country-by-country reporting and public disclosure of key tax-related details.

d) International Collaboration:

Cooperate with other nations to share information and combat cross-border tax avoidance. Collaborative efforts can help address disparities in tax laws that create opportunities for avoidance.

e) Enhance Transfer Pricing Regulations:

Strengthen and enforce transfer pricing rules to ensure transactions between related entities occur at arm's length, preventing profit shifting to low-tax jurisdictions.

f) Address Digital Economy Challenges:

Adapt tax laws to account for challenges posed by the digital economy. This may include implementing measures such as digital service taxes or revising international tax frameworks for digital businesses.

[3] Kleven, Henrik Jacobsen. "How can Scandinavians tax so much?" Journal of Economic Perspectives 28, no. 4 (2014): 77-98. doi:10.1257/jep.28.4.77.

g) Conduct Risk-Based Audits:

Perform audits based on risk assessment, focusing on high-risk industries and areas prone to tax avoidance. Targeted audits can be more efficient in identifying and addressing evasion.

h) Whistleblower Protection:

Establish and enhance programs that protect whistleblowers, encouraging individuals to report tax evasion without fear of reprisal. This can help uncover hidden avoidance schemes.

i) Invest in Tax Administration:

Allocate sufficient resources and provide training for tax authorities to enhance their capacity for enforcement and audit activities. This includes investing in technology for improved data analysis.

j) Public Awareness Initiatives:

Educate the public and businesses about the importance of tax compliance and the consequences of tax avoidance. Raising awareness can foster a culture of tax adherence.

k) Reward and Penalty Systems:

Implement systems that reward compliant taxpayers and impose increased penalties on those found guilty of tax avoidance. This can incentivize compliance.

l) Utilize Data Analytics:

Harness data analytics and technology to identify patterns and anomalies in financial transactions, facilitating the identification of potential instances of tax avoidance.

m) Regular Compliance Audits:

Conduct routine and random compliance checks on businesses and individuals to ensure continuous adherence to tax laws.

n) Review and Monitor Incentives:

Evaluate and monitor the effectiveness of tax incentives and exemptions to ensure they achieve their intended purposes without creating opportunities for abuse.

It's crucial to recognize that addressing tax avoidance is an ongoing process, requiring a combination of legal measures, effective enforcement, and international cooperation, tailored to the specific economic and regulatory context of each country.

[4]

[4] Alm, James, Todd Cherry, and Michael Jones. "Taxpayer information assistance services and tax compliance behavior." Journal of Economic Psychology 24, no. 6 (2003): 577-595. doi:10.1016/S0167-4870(03)00016-4.

Chapter 10 Conclusion

The primary objective of tax policy reform is to enhance revenue mobilization through the expansion of the tax base and the reduction of tax evasion. In this particular scenario, there exist multiple alternatives to enhance the collection of tax money. Many economists argue that the existing tax system is inadequate in incentivizing a sufficient number of persons to fulfill their tax obligations and effectively address the issue of tax evasion within the context of our socioeconomic culture. As a consequence, a limited number of individuals who are potentially liable for income taxes actually fulfill their obligations, with tax evasion being notably widespread among individuals with the greatest levels of income. The phenomenon of tax evasion can be attributed to various factors, including but not limited to the utilization of legal tax exclusions and loopholes, the presence of political affiliations, instances of corrupt practices, the intricacy involved in tax assessment and collection processes, inadequate efficacy of tax audits, and the imposition of high marginal tax rates. Therefore, it is imperative to assess the comprehensive tax policy of Bangladesh and undertake a complete restructuring of the tax system with the aim of mitigating tax evasion, considering the escalating economic inequality prevalent in this developing country. In order to undertake a comprehensive analysis, it would be imperative to conduct an in-depth evaluation of the existing tax statutes and regulations, encompassing the Finance Act of 2016 as well as the Income Tax Ordnance and Rules of 1984. Furthermore, there is an increasing necessity to reconfigure the fiscal system and its management, which entails the resolution of tax loopholes, to sustain the ongoing trajectory of economic expansion. This should be aligned with the promotion of a culture characterized by efficiency, diligence, and, notably, professionalism within the country's tax office.

Bibliography:

1. Rashid, M. H. U., Ahmad, A., Abdullah, M. S., Ahmmed, M., & Islam, S. (2022). Doing Business and Tax Evasion: Evidence from Asian Countries. *SAGE Open*, 12(4)

2. Richardson, G. (2006). Determinants of Tax Evasion: A Cross Country Investigation. *Journal of International Accounting Auditing and Tazation,* 15(2), 150-169

3. Sarkar, S. H. (2022). Effects of Income Tax Reform on Assessee and Government Revenue in Bangladesh. *Emperor International Journal of Finance and Management Research*, VIII(2).

4. Shaheen, M. (2014). Implementation of Income Tax Regulation in Bangladesh: Contemporary Trends and Issues. *The Chittagong University Law Journal*, V19

5. Slemrod, J. (2007). Cheating Ourselves: The Economics of Tax Evasion. *Journal of Economic Perspectives,* 21(1), 25-48

6. Tsakumis, G. T. & Curatola, A. & Porcano, T. M. (2007). The Relation between national Cultural dimensions and tax evasion. *Journal of International Accounting Auditing and Taxation*, 16(2), 131-147

References:

1. Ahmed, A., & Rahman, M. (2017). Determinants of tax evasion in Bangladesh: A study on individual taxpayers. *Journal of Finance and Banking Research*, 3(1), 13-23.

2. Carvalho, H. L. M. & Avila, L. A. C. (2022). Tax governance: A study of its effects on tax evasion. Brazilian Business Review, 19(4), 454-474

3. Castaneda, V. M. (2018). Tax determinants revisited: An unbalanced data panel analysis. *Journal of Applied Economics,* 21(1), 1-24S

4. Chowdhury, M. M. & Hossain, S. Z. (2019). An Overview of Tax reforms in Bangladesh: Corporate Perspective. *Global Journal of Management and Business Research*, October 2019

5. Hassan, M. & Prichard, W. (2016). The Political Economy of Domestic Tax Reform in Bangladesh: Political Settlements, Informal Institutions and the Negotiation of Reform. *The Journal of Development Studies*, 52(12), 1704-1721

6. Hasan Rashedul (2014). The Tendency Toward Tax Evasion in Bangladesh. *World Journal ofSocial Sciences*, 4(3), 149-161

7. Islam, W.U. & Siddique, H. M. A. (2017). Determinants of Low Tax Revenue: Apanel Data Analysis. *Billetin of Business and Economics,* 6(1), 28-34

8. Khlif, H. & Achek, I. (2015). The determinants of tax evasion: a literature review. *International Journal of Law and Management*, 57(5), 486-497

9. Jewel, M. M. H., Amin, M. A. & Fouji, M. H. (2019). An Appraisal of Dimensions Responsible for Tax Evasion in Bangladesh. *The Comilla University Journal of Business Studies*, 6(1), 2413-3116

10. Mohabbat M. N., Rahman, M. K. & Darda, M. A. (2018). Tax Avoidance and Evasion Practices in Bangladesh: A study on Dhaka City. *Research Journal of Finance and Accounting*, 9(20), 2222-2847

11. Piancastelli, M. & Thirlwall, A.P. (2020). The Determinants of Tax Revenue and Tax Effort Developed and Developing Countries: Theory and New Evidence 1996-2015. *Nova Economica,* 30(3), 871-892

12. Picur, R. & Belkaoui, A.R. (2006). The impact of bureaucracy, corruption and tax compliance. *Review of Accounting and Finance*, 5(May), 174-180

Primary Sources:

1.www.coursehero.com
2.www.nepjol.info
3.digital.library.umsystem.edu
4.es.slideshare.net
5.uia.brage.unit.no
6.du.sc.bd
7.www.nbr.co.nz
8.dokumen.tips
9.touraonang.com
10.www.mayerbrown.com
11.repository.nwu.ac.za
12.mafiadoc.com
13.invenio.nusl.cz
14.www.studymode.com
15.kups.ub.uni-koeln.de