Chapter-01

Introduction

1.0 Introduction:

Similar to many developing nations, Bangladesh's small and medium sector enterprises (SMEs) constitute some 90% of all businesses and play an important role in the country's economic growth and employment.1 This study investigates the nature and extent of the relationships between the complexity of Bangladesh's Value Added Tax (VAT) legislation, the costs of compliance with VAT in Bangladesh, and non-compliance (either intentional or unintentional) with the VAT legislation by Bangladeshi SMEs. These results could be important as it appears that SMEs are under-represented in terms of their contribution to Bangladesh's VAT revenue collection, which if other foreign studies2 are relevant could be due in part to compliance costs. The current study is the first to empirically examine the relationships between the complexity of VAT legislation, compliance costs and non-compliance for SMEs in Bangladesh context. The study involved firstly a series of focus group interviews involving different types of SMEs taxpayers in Bangladesh. This was then followed by survey through a purposive sample of SMEs taxpayers in Bangladesh. The results suggest that a majority of the compliant SMEs taxpayers listed complexity in VAT law and compliance costs as the two important factors influencing VAT non-compliance in SMEs. On the other hand, non-compliant taxpayers emphasized more about the positive relationship between taxpayers and VAT officials for compliant behavior. The likelihood of audits, penalties and sanctions were found to have less effect on VAT non-compliance for non-compliant taxpayers. In comparison, such monitoring and penalties would apparently improve compliant behavior by compliant taxpayers. The findings of this research have practical policy implications, in that they can assist policy makers and administrators in their understanding of the potential interrelationships between legislative and regulatory complexity, the costs of complying with VAT legislation, and non-compliance with VAT legislation by SMEs. Having a robust and functioning VAT system is seen as an important attribute for a developing economy, so these findings may be important not only for Bangladesh, but also similar developing economies.

1.1 Statement of the Problem:

Now a day's business is very competitive so every organizations area looking for talent and extravert employee who belong to higher degree of adaptability quality. Business quality students are the main part of the organization. So to operate the business successfully we have to focus on the organization's VAT and AIT Maintaining. It is the process where an organization can choose the right people for the right job. It is critical process because in this process there are many factors included.

1.2 Rational of the Study:

It is noted that the internship program has been becoming an integral part of the Master of Business Administration (MBA) course with the passage of time. Internship program has provided greater opportunity not only for the fulfillment of the requirement of MBA course but also provide practical knowledge about respective industry and business side. It is totally make link age between theoretical and practical knowledge. Moreover, for the sake of better understanding and for convenience of the different stakeholders the rationale behind the internship programs stated here under. In addition, impact brief about the respective group and the company in particularly as below:

- To understand a company operations in order to theoretical vs. practical knowledge.
- Too familiar with related industry and business operational procedures for the fabricated the practical knowledge in order to theoretical business expertise.
- Appraise about the basis of management in general sense of related industry.
- Make aware about the operational philosophy and system of the company.

1.3 Objectives of the Study:

General Objective

The overall study's objective was to establish the factors affecting VAT compliance among SMEs in Bangladesh County focusing on traders in Dhaka Town.

Specific Objectives

i. To examine the effect of availability of tax information on value added tax compliance among traders in Dhaka town.

ii. To establish the effect of tax penalties and fines on value added tax compliance among traders in Dhaka town.

iii. To assess the effect of non-compliance opportunities on value added tax compliance among traders in Dhaka town.

iv. To examine the effect of enforcement on value added tax compliance among traders in Dhaka town.

Research Questions

i. What effect did availability of tax information have on value added tax compliance among traders in Dhaka town?

ii. What effect did tax penalties and fines have on value added tax compliance among traders in Dhaka town?

iii. What effect did non-compliance opportunities have on value added tax compliance among traders in Dhaka town?

iv. What was the effect of enforcement on value added tax compliance among traders in Dhaka town?

1.4 Methodology of the Study:

The overarching research problem which underlies this study is to ascertain why some SMEs comply with the VAT Law in Bangladesh, while others do not. In order to undertake this investigation, the research explores the extent of any associations between

the complexity of the VAT Law, VAT compliance costs and SME non-compliance with the VAT in Bangladesh. A mixed methods approach was adopted utilizing quantitative and qualitative methods.

Permission was obtained from the NBR to obtain lists of SMEs taxpayers that filed monthly VAT returns in financial year 2011-12. Participants were divided into three groups:

i. The SMEs taxpayers who have no non-compliance history and registered with VAT for at least three years (Referred to as Compliant VAT payers, and abbreviated to CT);

ii. SMEs taxpayers who have a completed and decided VAT non-compliance cases against them and already paid the fines and penalties imposed on them (Referred to as Non-Compliant VAT payers, and abbreviated to NCT); and

iii. NBR's VAT officials from field level to policy level and who have been working with the NBR at least for eight years (Referred to as VAT Officials, and abbreviated to VO).

The study was conducted in two stages. Stage 1 involved focus group discussions with VAT payers of the SME sector (both CT and NCT) and VAT officials. Stage 2 involved the mailing of a questionnaire, seeking qualitative and quantitative data, to both complying and non-complying SMEs taxpayers. Early versions of the survey materials were used in both a pre-test and pilot-test and the content of the survey was submitted to independent readers for checking before commencing the actual survey. Participation was voluntary and no financial incentives were given for their time. As this study used human subjects, it was necessary to ensure that ethics approval was received before commencement of the focus groups and survey.

1.5 Scope of the Study

This study was limited to establishing the factors affecting value added tax compliance among small and medium sized enterprises in Bangladesh. While there are several factors

which could be considered, this study only focused on the availability of tax information, penalties and fines, non-compliance opportunities and enforcement. The study focused on traders operating in Dhaka town. The study targeted 1,642 traders in Dhaka town. This study was carried out between July To August 2023.

1.6 Problem of the Statement

The issue of tax compliance has gained more stress by researchers in the recent couple of decades because of increasing levels of tax noncompliance and its consequence on the capacity of the government to raise revenue. Taxpayer non-compliance is a continual and growing worldwide issue that is not readily addressed, especially in most developing countries, the domestic tax bases are undermined by widespread tax avoidance and evasion (IMF 2011; McKerchar & Evans 2009). Usually, the fastest growing economies with a highly authoritative tax authority have failed to finance its activities by its own means due to non-compliance even after a series of tax system reforms (Samuel & Vismanadham 2013). Moreover, tax evasion and avoidance are problems faced by every tax system and that taxpayers exploit loopholes of tax provisions to minimize or escape tax liability (Abreha & Kahase 2014). Tax compliance can be affected by many factors such as magnitude of compliance cost, the extent of penalty, perceived fairness of the tax system, awareness level of taxpayers and perceptions of government spending (Olamide & Segun 2018). A recent study revealed that perception on equity and fairness of the tax system, perception on government spending, changes on current government policies, penalties, personal financial constraint, and referral group are factors that significantly affect tax compliance (Tilahun & Yidersal 2014). In regards to the issue of tax non-compliance requires at least some understanding of the factors that are fundamental to the individual taxpayer's decision whether to comply or not with tax laws. In fact, factors which influence tax compliance are different from country to country and also from individual to individual (Kirchler 2008). Due to this, tax compliance has been given a large emphasis by researchers because of increasing non-compliance especially tax evasion and its consequences on the capacity of government in raising public revenue while most of the previous studies are done in developed countries. Tax compliance

researches in developing countries are low in number. Therefore the purpose of the study is identifying factors that affect compliance of individual income taxpayers in the specific zones in Bangladesh.

1.7 Limitations of the Study

- Sometimes the authorities aren't caring to provide necessary information.
- Information was not up to dated.
- To get appropriate information the instrumental facilities were not enough.
- Some limit actions like lack of information necessary books, and missing records are the barrier of making accurate study.
- The worker of the organization were not available all the time as they were busy with their jobs, so it leads me a little time to consult with them.
- Short times pan.
- No Proper gelidness.

Chapter-02

Empirical Evidence on Relationships between Tax Compliance and Other Variables

2.1 Complexity, Compliance Costs and Non-compliance of VAT

Simplicity is one of the commonly accepted key tenets of any sound taxation system. Simplicity – or conversely, reducing complexity – in a taxation system cet. par. reduces compliance costs, administrative costs, and thereby taxpayer uncertainty. Such an outcome could lead to improved levels of voluntary compliance. Highlighting the importance of simplicity in a tax system, the report of The Australian Government Tax Road Map stated:

Simplicity is the major aim of the Governments tax reform. A tax system buried in red tape and complexity will reduce investment, stifle innovation and risk taking and ultimately reduce productivity and economic growth. Complexity in the tax system will reduce the time an individual or company has for other pursuits, and detract from further participation in the work force. It also makes the system unfair, as it imposes a higher burden on lower income households.

Miller points to three main types of complexity inherent in many taxation systems: technical complexity, compliance complexity and structural complexity. The first two types of complexity in particular would appear to be problems in Bangladesh, given the general population's relatively low educational standards and low levels of financial literacy. Complexity is a universal problem and has been cited as the most serious problem by the United States of America (USA) income taxpayer. Excessive complexity increases filing and administrative costs and it has impact on voluntary compliance, although several studies have failed to document such a relationship.

2.2 Perceptions of Government

Spending The problem of tax compliance is as old as taxes themselves. Characterizing and explaining the observed patterns of tax noncompliance and ultimately finding ways to lessen it are of obvious importance to countries (Andreoni et al 1998). Very few studies have been done on the effect of government spending on compliance behavior of taxpayers (Palil 2010). Taxpayers, and especially those who pay high amounts of tax, will

be sensitive to what the government spends their money on (Tadesse & Goitom 2014). Since taxpayer's perceptions are important in determining their compliance behavior, the government should spend tax revenue in a careful manner, because the spending pattern of the government causes different levels of compliance (Palil 2010). There is a positive and significant relationship between perceptions of government spending and tax compliance (Niway &Wondwossen 2015).

2.3 Tax Penalty

The tax rate and penalty structure determine the financial value of tax compliance, which leads to the taxpayers' compliance behaviors. In addition to that, taxpayers judge the cost that occurs when remaining as a defaulter, penalties occurred for fraud and benefits of not paying taxes, and determine not to pay taxes if the benefit of noncompliance exceeds the costs (Sapiei & Kasipillai (2013; Walsh 2012). If a taxpayer is required to file an income or excise tax return and fails to timely do so, a late filing penalty may be assessed (Oladipupo & Obazee 2015). Lederman (2003) argues that penalizing tax evaders can cause others to feel sure that they are doing the right thing. In addition, Park and Hyun (2003) in their study found that penalizing taxpayers when caught encouraged taxpayers to report the true income they earn. This result shows a positive relationship between penalty and tax compliance.

2.4 Compliance Cost

There is a wide perception by the taxpayer that tax is a burden especially the small and medium enterprises (Vihanto 2000). Therefore, the cost of compliance to taxation plays a key role in determining taxpayers willing to pay tax. Tax compliance cost investigations can provide useful feedback on how to reduce compliance costs and risks for small businesses. Surveys conducted in countries like South Africa, the Republic of Yemen, Ukraine, and Peru that measured the burdens on business which helped fine-tune the design of reforms to lower costs for businesses and improve their competitiveness (Coolidge 2010). High compliance costs can result in tax avoidance, tax fraud, and prevent investment coming into the country by way of diminishing competitiveness of the

country in terms of taxation attractiveness (Atawodi & Ojeka 2012). According to Eragbhe and Modugu (2015), they have surveyed to evaluate the cost of tax compliance in Nigeria, but ultimately they found that the cost of tax compliance comprises internal compliance cost, external compliance cost and several incidental costs including psychological cost. In a study carried out on tax compliance and simplifications by (OECD 2014) established that compliance costs tend to increase with the number of taxes that an entrepreneur is subject to, the complexity of the tax rules, the frequency of submitting tax returns and the number of levels of government involved in levying and collecting taxes.

2.5 Tax Rate

Even though the effect of tax rate on tax compliance is still unclear and questionable, Clotfelter (1983) stated that cutting tax rates is not the mere way of reducing tax 40 evasion, while Kirchler (2008) views tax rate as an important factor that determines compliance decisions. An increase in tax rates will discourage tax compliance while reducing tax rate doesn't reduce tax evasion (Torgler 2007). The relationship between tax compliance and tax rates and concluded that taxpayer's decision either to comply or not, regardless of tax rates (Kirchler 2008). However, tax rates were negatively correlated with tax compliance (Ajzen & Fishbein 1980) while in line with this Palil (2010) concluded that higher tax rate would lead to lower compliance. The study revealed that the tax rate has a positive and significant influence on income tax compliance (Ali 2018). Moreover, it also revealed that the rate of tax penalties has a positive effect on tax compliance behavior (Yunus et al 2017). In addition, Masud et al (2014) found that there is a significant negative correlation between tax rate and tax compliance.

2.6 Fairness of the Tax System

Tax fairness is a concept of having an equitable tax system. Fairness of the tax system is believed by the taxpayers and tax authority as one of the significant determinants of compliance decisions (Amina & Saniya 2015). There are mixed results on the impact of fairness on tax compliance. For instance, perceived inequity in the tax system does not contribute to tax evasion, but it is used to rationalize noncompliant behavior (IMF 2011). If the taxpayers feel that their tax burden is higher than other people within the same

income group; their tax compliance probably decreases (Warneryd & Walerud 1982). Individual taxpayers do not live alone in this world and they have to interact with others in their daily life. Thus, the influence of one person on another in their compliance is an important part of their continuous existence in society. Perception of peers not to comply with the tax laws resulted in the taxpayers' non-compliance action (Hai & See 2011). Decisions to comply or not are sometimes influenced by family members, relatives and friends (Ajzen & Fishbein 1980). A Behavioral research states that peer groups have a strong impact on behavior, preferences and personal values of the individual person (Puspitasari & Meiranto 2014). However, another study found that there is no significant correlation between taxpayer non-compliance and knowing non-compliant peers (Green 2003).

Chapter-03

Literature Review

3.1 Literature Review

Tax compliance has been defined as compliance with reporting requirements, meaning that the taxpayer files all required tax returns at the proper time and that the returns accurately report tax liability in accordance with the internal revenue code, regulations and court decisions applicable at the time the return is filed (Roth et al 1989). An alternative definition has been offered by James and Alley that considers tax compliance in terms of the tax gap (Tadesse & Goitom 2014). This is the difference between true individual income tax liability and that finally collected on a voluntary basis or by enforcement action. Generally, compliance can be understood as acting in accordance with the law and noncompliance is deviation from the law. Based on the above expressions the definition of tax compliance can be shortly refined as the desire or willingness of the taxpayers to act in accordance with the tax law and the voluntary effort they exercise to pay their tax liability on a timely basis.

3.2 Theories Relating to Tax Compliance

Tax compliance has been developed by various scholars to show how various conditions enhance the level of tax compliance. Such as, optimal tax theory is that the government likes to collect a given amount through taxation. Emanuele (2012) illustrates that this theory includes several models that concentrate on the characteristic of a tax system. Further, these models aim to achieve an equilibrium level of taxes raised by the government to achieve their revenue targets. In addition to that, these models are formulated to meet certain principles of the good tax system such as equity, stability, flexibility and transparency (Emanuele 2012). Political legitimacy theory illustrates that tax compliance is largely influenced by the extent to which their citizens trust their government (Tyler 2006; Kirchler 2008). Further, according to Persson (2008) emphasized that building national identity is more successful than they become major opponents of politics. The tax moral theory indicates tax morale which is an individual factor that motivates a person to comply with his or her tax obligations. Many studies have found out that tax evasion can be attributed to tax morale (Mocetti & Barone 2008). This theory further stated that taxpayers are more likely to comply with tax obligations if

their friends, relatives and acquaintances comply with these obligations. Also, taxpayers will evade taxes if they feel that other people are getting away with tax evasion. That means if a society concentrates on tax evasion, such a society would encourage tax evasion (Waweru 2004). Theory of planned behavior is an important theory that presents within the scope of social psychology and tries to explain human behaviors. This theory was developed by Ajzen and Fishbein (1991) and it is just the improved form of the Theory of reasoned action suggested by them to explain conscious behaviors. According to this theory, behaviors of the individuals within the society are under the influence of several factors, originate from certain reasons and emerge in a planned way (Benk et al 2002). Nevertheless, the ability to perform a particular behavior depends on the fact that the individual has a purpose towards that behavior. Fiscal exchange theory illustrates that the government can enhance the level of tax compliance by providing goods and services to its people more efficiently and effectively (Moore 2004). Further, which also provides a good link between the taxpayers and the government (Moore 2004). Therefore, it is more justifiable to assume that taxpayers' behavior is influenced by either their level of satisfaction or level of dissatisfaction with the provision of public goods and the services. The Allingham and Sandmo theory expresses that the government tries to prevent tax evasion through undertaking a series of actions such as putting extra penalties, undertaking tax audits etc (Kirchler 2008). A taxpayer will decide to evade his or her tax obligations when he or she feels that the cost of evading tax is too low. Taxpayers would also evade tax when he or she feels that the cost of compliance is high. Economic deterrence theory states that taxpayers' behavior is influenced by a range of factors such as tax rate, penalties etc. According to (Becker 1968) which implies that when the strength of the tax audits and the penalties are high then, very few people will try to avoid taxes. On the other hand, when the strength of the tax audits are less and the penalties are low then, expected to evade the taxes is very high. Further, this theory is highly adopted by tax administrators when developing suitable strategies. The theory of crime states that people are rational actors who behave in a manner that will maximize their expected utility.

Chapter-04

Methodology Of Research

4.1 Research Methodology

This study is a cross sectional design with quantitative approach. The actual revenue collection target for the financial year 2022-2023 was set at BDT 87,190 crore and BDT 62,340.42 crore was collected, of which 44.51% was in fifteen zones of Dhaka and it has reached a total of 73.22% when the large taxpayers and the central survey zone were combined (NBR 2018). On the one hand, as Dhaka is the capital of Bangladesh, on the other hand, the highest rate of revenue collection in the country is within this jurisdiction, thus, these tax zones have been considered for this study. The target population of the study is individual income taxpayer's of the fifteen zones of Dhaka. According to the National Board of Revenue authority of Dhaka administration, the total individual taxpayers 740,925 where self-assessment assessed 724,063 and general assesses 16, 862 were submitted annual return during the financial year 2017-2018 (NBR 2018). This study selects these categories because they are required by law to maintain and submit books of accounts to the tax authority within the stipulated time. The sample is selected by following the method of proportional allocation under which the sizes of the samples from the different strata are kept proportional to the sizes of the strata. For the purpose of the study sample size is determined by using formula (Krejcie & Morgan 1970):

s = X2 NP(1-P) / d2 (N-1) + X2 P(1-P)

Where s = required sample size

X^2 =the table value of chi-square for 1 degree of freedom at the desired confidence level (3.841)

N = the population size

P = the population proportion (assumed to be 0.50 since this would provide the maximum sample size)

d = the degree of accuracy expressed as a proportion (0.50)

Therefore sample size is determined to 385 universal selfassessment return submitted taxpayers and general procedure return submitted 376 to which the questionnaire was distributed. This study has followed a convenience sampling method. This sampling method has also been conducted in the context of Malaysia (Ser 2013), the USA and Hong Kong (Chan et al 2000). Convenience sampling method has the advantage over reliability, time and budget constraint. The sample is allocated to each zone according to

the population weight. The study has used primary data collected by using structured questionnaires. The survey was conducted during the period of 1st August to 23th September, 2023. The questionnaire is composed of closed ended questions designed on mostly a Likert scale. Questionnaires were delivered to people of various income levels. Questions were pre-coded during the survey questionnaire, data processing and analysis. The quantitative data were subsequently entered into STATA for analysis.

4.2 Model Application

Sometimes response categories are ordered but do not form an interval scale. There is a clear ranking among the categories, but the difference among adjacent categories cannot be treated as the same. Responses like these with ordered categories cannot be easily modeled with classical regression. Ordinary linear regression is inappropriate because of the non-interval nature of the dependent variable-the spacing of the outcome choices cannot be assumed to be uniform. Ordinal logit and probit models have been widely used for analyzing such data (Green 2003). Some polychotomous dependent variables are inherently ordered. Although the outcome is discrete, the multinomial logit or probit models would fail to account for the ordinal nature of the dependent variable (Green 2003). The ordered probit and logit models have come into fairly wide use as a frame-work for analyzing such responses. Because of its mathematical convenience and interpretation simplicity the researchers have employed an ordered logit model. Therefore, the model for the determinants of tax compliance of self-assessment income taxpayers is: TxCom = f {Tr, ComCst, FTxs, Plty, Pgs, Eref, e} Where:

TxCom=Tax compliance for ordered Likert Scale
Tr=Tax rate
ComCst=Compliance cost
FTxs=Fairness of the tax system
Plty=Penalty
Pgs=Perceptions of Government spending
Eref=Effect of referrals
e=Classical random error term
Thus, the regression equation is shown as follow:

$$TxCom = \alpha 0 + \alpha 1Tr + \alpha 2ComCst + \alpha 3FTxs + \alpha 4Plty + \alpha 5Pgs + \alpha 6Eref + e$$

4.3 Focus group discussions

The power of focus group discussions as a research tool lies in its group dynamics. Advantages such as synergy, snowballing, stimulation, spontaneity and serendipity can occur as part of a focus group. As a fast and cost-effective technique for eliciting views and opinions, focus group has been found appropriate for obtaining insights into target audience perceptions. Discussions were conducted with focus groups of SME taxpayers about their perceptions of why some SME taxpayers comply with the VAT Law in Bangladesh, and others do not. The focus group were conducted in Dhaka, the capital city of Bangladesh because of the respondents, location. A total of 45 participants participated the focus group discussions consisting of 15 from compliant taxpayers were business owners and 4 were Director VAT of the enterprises), 15 from the non-compliant taxpayers were business owners and 3 were VAT consultants from the selected enterprises) and 15 from tax officials were Joint Commissioners of VAT and 6 were Second Secretaries of VAT from the NBR). For many of them, the topic being researched was a matter of great interest for its potential to contribute to the improvement of the Bangladesh's tax culture and they also considered it an opportunity to share their opinion on the different aspects of VAT with a researcher. However, a couple of VAT officers declined to participate in the discussions as they thought that they should not talk 'on the record' to a researcher.

Because very few participants were fluent in English language, the discussions were conducted mainly in Bangla the common language especially among SMEs. The discussions were recorded for transcription and any identifying names or references were removed from the transcription. The confidentiality and anonymity of the recorded data was confirmed by coding the participant and not using the participants' names. The findings of the focus groups are presented later in this article.

4.4 Survey development

Focus group discussions with VAT payers' and VAT officials helped to improve the wording of, and the meaningfulness of the survey questions (to both researcher and respondents) in the subsequent questionnaire mailed to taxpayers of both compliant and non-compliant. The completion of focus group in this way also served to maximise response rates and ensure that meaningful data are recorded at Stage 2 of the study.52 In Stage 2 a questionnaire was mailed to compliant and non-compliant SME taxpayers, with a view to gathering both quantitative and qualitative information on factors affecting VAT non-compliance, and to gather data necessary for the estimation of VAT compliance costs. The questionnaire was designed using mainly closed-ended questions in order to gather numerical data, in the form of information which could be verified against documentation (such as, the value of fees paid to professional advisers); in categorical form (such as, tax rates applicable to different product categories); or in integer format (such as, taxpayers' ratings of their perceptions on a 1-6 Likert scale). Other open-ended questions were also included in the questionnaire, to enable the gathering of information which was not readily reducible to numerical form. These types of questions included those relating to taxpayer's perceptions of the integrity of the VAT officials; suggestions for improving the ways in which VAT in Bangladesh is designed or administered; and suggestions for the other reforms of law and practice. A summary of the English version of survey questionnaire is presented in Appendix A. Another version was also distributed that was written in Bangla, the official language of Bangladesh.

Before the final survey was undertaken 20 questionnaires were sent to SMEs taxpayers as a pilot survey to determine if the drafted questions were easily understandable to the respondents or not. After a two week period, eight completed responses were received, a response rate of 40%. After the pilot test and refinement of the survey instrument, a total of 500 questionnaires were then distributed to SMEs VAT payers from June 2013 to September 2013. The SME VAT payers were selected based on purposive sampling from NBR's taxpayers list. Out of this total, 200 questionnaires were distributed to non-compliant taxpayers group and remaining 300 questionnaires were distributed to compliant taxpayers. Two reminders were sent to the taxpayers to improve the response

rate. Finally the usable responses were 240 (152 from compliant taxpayers and 88 from non-compliant taxpayers). Giving an overall response rate was 48%, representing 51% response rate from CT and 44% response rate from NCT

Since VAT extends to the whole of Bangladesh, mail survey data were collected from the target population resident in the business regions of city corporation area, district town and Upazilla area. A summary of the participants' characteristics is shown in Table 1. Most of the respondents of mail survey were well qualified in terms of academic qualifications, 35% holding a Masters and 38% holding a bachelor degree. 50% of the respondents were from manufacturing business unit and an average of 45% were a sole proprietorship business. Regarding the manner of keeping accounting records, 43.1% from compliant group and 34.1% from non-compliant group of respondents in the mail survey indicated that their systems were fully manual. The rest noted that either their accounting systems were fully or partially computerized or their external accountants or tax advisors kept their accounting records.

Table 1: Summary of participants' characteristics

Characteristics	Compliant (N=152) n (%)	Non-Compliant (N=88) n (%)
Location of business / enterprise		
City corporation area (Dhaka)	33 (21.7)	35 (39.8)
City corporation area (Other)	60 (39.5)	26 (29.6)
District town	33 (21.7)	15 (17.1)
Upazilla area	26 (17.1)	12 (13.6)
Primary business / enterprise		
Manufacturing	75 (49.7)	44 (50.0)
Construction and real estate	16 (10.6)	12 (13.6)
Wholesale, retail trade, hotels and restaurants	28 (18.5)	19 (21.6)
Professional services	3 (2.0)	4 (4.6)

Transport, storage and communication	18 (11.9)	2 (2.3)
Others	11 (7.3)	7 (8.0)
Business form		
A sole proprietorship	63 (42.6)	40 (45.5)
A cooperative	1 (0.7)	0 (0.0)
A partnership	10 (6.7)	8 (9.1)
A private limited company	65 (43.9)	35 (39.8)
A share company	2 (1.4)	3 (3.4)
Others (public limited company)	7 (4.7)	2 (2.3)
VAT related record keeping practice		
A manual / paper system	65 (43.1)	30 (34.1)
A partially computerized system	58 (38.41)	39 (44.3)
A fully computerized system	18 (11.9)	18 (20.5)
Tax adviser / external accountant	10 (6.6)	1 (1.1)
Average monthly VAT paid in 2022-2023(in BDT)		
Under 400,000	45 (29.6)	28 (31.81)
400,001 to 500,000	23 (15.1)	15 (17.1)
500,001 to 600,000	10 (6.6)	4 (4.6)
600,001 to 700,000	3 (2.0)	5 (5.7)
800,001 to 900,000	3 (2.0)	2 (2.3)
900,001 to 10,00,001	19 (12.5)	5 (5.7)
More than 10,00,001	49 (32.2)	29 (33.0)
Education level		
Junior high school	0	0
SSC	0	1 (1.14)
HSC	19 (12.5)	14 (15.90)
Certificate	2 (1.32)	3 (3.41)

Diploma	11 (7.24)	7 (7.95)
Bachelor degree	58 (38.15)	33 (37.50)
Masters degree or above	60 (39.47)	24 (27.27)
Others (CA, LLB, MBA, PHD)	2 (1.32)	5 (5.68)

4.5 Availability of Tax Information

The study examined the effect of availability of tax information on value added tax compliance among traders in Dhaka Town. The study noted that a majority of the traders believed that the availability of tax information affected their VAT compliance. The study discovered that even though tax information available to the traders was given free of charge, the traders on average were still not highly conversant with tax laws. The study found the information available to these traders had not be simplified or tailored strictly to their needs on average. The study also found that on average, the traders were not regularly informed on every change in tax laws by the KRA tax officials. Hence, on average, most traders in Dhaka Town remained uninformed about crucial issues related to VAT despite the complexity of this tax system which affected their compliance levels. Most of the traders remained ignorant of the VAT system. The regression analysis showed that the availability of tax information had a significant positive impact on the level of VAT compliance among the traders an indication that if adequate tax information was made available to the traders, the levels of VAT compliance among them were expected to increase significantly.

4.6 Penalties and Fines

The study also sought to establish the effect of tax penalties and fines on value added tax compliance among traders in Dhaka Town. The study established that the majority of the traders perceived tax penalties and fines to be a key factor that affected their VAT compliance levels. The study found that indeed, the traders on average paid their taxes because they considered the amounts of penalties and fines imposed as very high and also found the tax rates set to be high and hence, the interest accrued when they failed to comply. The study also discovered that the traders on average paid VAT taxes out of the fear of being detected and believed that KRA was seriously enforcing the set penalties

and fines. As a result, the traders on average considered the costs of not paying their taxes very. The study observed that generally, the traders in Dhaka Town were well aware of the costs related to tax penalties and fines imposed by the government on tax cheats and that they feared being punished for not complying with set tax laws. Based on the regression analysis, the study noted that the VAT compliance levels among the traders were positively and significantly affected by the imposition of tax penalties and fines. These findings underscored the deterrence role of penalties and fines.

4.7 Non-Compliance Opportunities

The study also assessed the effect of non-compliance opportunities on value added tax compliance among traders in Dhaka Town. The study found that a majority of the traders viewed non-compliance opportunities as a significant determinant of VAT compliance among them. According to the study, the tax compliance choices among the traders were based on perception. The traders on average recognized that the chances of being caught by KRA in case they failed to declare actual incomes that they received were high and the tax agency had the capacity to scrutinize any unlawful actions particularly tax evasion and fraud. The study also established that even though the traders believed that it was not easy to manipulate their VAT returns without detection, they still believed that on average, there were many opportunities for not paying value added taxes. The study further established that non-compliance opportunities had a negative significant effect on VAT compliance among the traders.

4.8 Enforcement

The study further examined the effect of enforcement on value added tax compliance among traders in Dhaka Town. Majority of the traders were of the view that enforcement affected their VAT compliance levels. The study found that on average, the traders complied with their VAT obligations due to the probability of getting caught and the level of audit by KRA officers and KRA officers normally issued threats to those who do not pay taxes. The study noted that relationship between tax enforcement and VAT compliance among the traders was positive and significant an indication that tax enforcement had a positive significant effect on VAT compliance levels among these traders.

4.9 Areas for Further Study

As a result of the study findings and the limitations faced by the researcher the following studies are recommended:

Factors affecting value added tax compliance among small and medium sized enterprises in Nairobi town so that results can be compared. Further, the study recommends a study on the factors affecting value added tax compliance among large enterprises and the influence of an integrated tax collection system on compliance levels.

Chapter 5

Findings and Discussion

5.1 Findings and Discussion

Following findings are based on The VAT and Supplementary Duty Act, 2012 and the changes made by the Finance Act, 2019 and the VAT rules thereon which are given effect for the implementation of the new VAT laws in Bangladesh.

5.2. Value Added Tax Laws in Bangladesh

Rules and regulation enacted in the following laws are taken into consideration to impose Value added Tax on goods and services:

1) The VAT and Supplementary Duty Act, 2012: The VAT and Supplementary Duty Act, 2012 has 139 sections, numerous subsections, and three schedules containing the necessary provisions for the purpose of imposing Value Added Tax.

2) Value Added Tax Rules: The National Board of Revenue prepared the relevant rules followed in the administration of the VAT Act.

3) Finance Act: To give effect to the various proposals in the annual budget covering the areas of direct and indirect taxes, Finance Act is issued. It contains various applicable tax rates and amendments to the Value Added Tax Act & Rules.

4) SRO (Statutory Regulatory Orders): According to the Value Added Tax Act, NBR can issue certain circular as and when necessary. The provisions of these SROs are also to be considered as the time of imposing VAT.

5) VAT Case Law: In the course of assessment proceeding, the judgment given by the courts regarding the interpretations of any provisions of the VAT Act may also act as guidance to the assessing officers and the assesses in similar relevant circumstances.

5.3. Key Changes to the VAT Law

The Value Added Tax and Supplementary Duty Act 2012 was enacted in December 2012 after three years of preparations for completing the draft with inputs from international and national experts and extensive consultations with the business community. At the time of enactment of the law, it was understood that effective implementation of the new law will require three years of preparations in terms of automation of the VAT administration and restructuring of the VAT administration along functional line. In the event, due to delays in automation and resistance from the business community, a new VAT Law has been introduced after seven years. However, the new VAT law is a compromise outcome entailing fundamental and sometimes arbitrary changes to the original VAT Act 2012 as part of government's understanding or political compromise with the business community represented by the Federation of Bangladesh Chamber of

Commerce and Industries (FBCCI). The new VAT law was made fully effective from July 1, 2019 bringing changes through Finance Act, 2019. First, the most important change is with respect to introduction of multiple VAT rates. Under the amendments in 2019 to the new VAT Act 2012, the government moves away from a uniform 15 percent VAT rate envisaged in the VAT and Supplementary Duty Act 2012 and instead introduced many VAT rates: 15 percent at the import stage; 10 percent at domestic manufacturing stage; 7.5 percent at wholesale stage; 5.0 percent at retail stage; and several other truncated rates stated in Schedule 3—on selected products primarily to limit price pressures arising from the changes made under the new system. One saving grace is that, domestic manufacturer, wholesalers and retailers may still opt for the original 15 percent VAT rate with full input tax credit, if they consider that advantageous from their business point of view. Many countries have multiple VAT rates but that generally ranges between 3 - 5 rates and are applied at different rates on different products and services taking into account socio-economic and health-related issues. But Mansur (2019) simply states that Bangladesh is now an individual country in the world where different VAT rates will be applied to same products at different stages of processing or sales. Secondly, the second most important change is elimination of input tax credit. Domestic manufacturers and other suppliers will not be able to take input tax credit who are paying VAT at rates different from the 15 percent rate. The decision to eliminate the input tax credit provision for supplies at rates different from 15 percent is understandable because if input tax credit is allowed, in many instances there will be refund of taxes to the manufacturers and other suppliers entailing substantial revenue loss for the government. The input tax credit will generally exceed the VAT on the output at every stage of production and sales as long as downstream VAT rates are lower than 15 percent. A fully operational input credit system is not possible under the multi-rate and multi-stage VAT rates system as designed and implemented in Bangladesh. Thirdly, reliance on advance collection of VAT at the import stage has further increased under the new VAT law. Fourthly, a manufacturer manufacturing at one place and selling through multiple places shall not be entitled with central registration. If entities selling goods or services are not identical or similar they cannot pay VAT centrally with ease. The original 2012 VAT Act intended to reduce dependence on supplementary duty and also lower the level of domestic protection by reducing the long list of items subject to supplementary duty (SD) and applying the SD rates equally on both domestic and imported goods and services. In the event, the new VAT law maintained the discriminatory nature of SD by applying it primarily on imports. As a result, instead of reducing the degree of protection offered through SDs, the level of protection further increased. Besides, The National Board of Revenue continues to make changes in the law to fine tune it and fulfill the demands of the business

community as the VAT wing of the NBR issued so many statutory regulatory orders, special orders, general orders, and directives amending the provisions of the law.

5.4. Key Changes to the Vat Administration

In order to put in place an automated VAT system, the National Board of Revenue (NBR) initiated a comprehensively designed VAT online project with financial and technical support from the World Bank. The VAT online project aimed at ease of doing business through fully automated registration system, fully automated on-line VAT return submission, and fully automated VAT payments through VAT registered person's bank account. VAT and Turnover Tax taxpayers have to be re-registered and issued a new business identification number. Many monotonous features in the present law have been abolished by removing the requirements for taxpayers to receive price approvals from tax officers, deposit VAT in the government treasury, and attach to the VAT return copies of individual VAT invoices and payment confirmations. Electronic Cash Registrar (ECR) and Point of Sales (POS) machines for shops, hotels, resorts and other trading units in district towns have been made mandatory in order to ensure deposit of VAT collected from consumers to the Government treasury. Taxpayers will receive a much higher level of service and assistance, including access to a centralized Contact Center, a small business advisory visitation program, and a variety of electronic services.

5.5. Effect of the Changes

In most respect the new VAT Law deviates fundamentally from the VAT Act of 2012 and is very similar to the VAT Act of 1991. First, the number of items subject to rates other than 15 percent under the new law are listed in Schedule 3 of the VAT Act by amendment. The list is very similar to the list of products subject to truncated base or tariff value based system under the VAT Act of 1991. Second, similar to the 1991 law, the new VAT law does not allow input tax credit for those firms which are producing/supplying items listed in Schedule 3 of the new VAT Act. In many cases, the new law has become worse than the old law (Uddin, 2020). Multiple rates will make the tax system much more complicated and hence difficult to administer and create more room for tax evasion and shifting by tax-payers, which will eventually result in loss of revenue (Mansur, 2019). The multiple VAT rates will also create problem with transparency in accounts. Most VAT registered persons who are engaged in wholesale and retail trade would opt for lower VAT rates and waive input tax credit in order to avoid transparent books of accounts. Under the new VAT system, if Bangladeshi manufacturers sub-contract components of the production process to other firms such sub-contracting will be considered a new manufacturing activity/process causing additional 10 percent tax on the subcontracted component which cannot

be adjusted by the parent firm against its output tax. In the process, horizontal structure of production—with large factories and companies sub-contracting part of the production processes to smaller ones—will become non-viable and production process will become increasingly vertical going against the global norm (Mansur, 2019). The changed law appears to be not in conformity with the objective and spirit of standard central VAT registration. Most of the manufacturers here, are manufacturing at one place and selling through multiple places. At present, if a manufacturer is a limited company having one head office with a separate manufacturing place and 10 sale-centres, it needs 12 VAT registrations. Thus it unreasonably limits the scope of central registration (Rouf, 2021). Now there is no way that commercial importers would be able to adjust the advance VAT by selling the products in the domestic market, and accordingly they will simply increase prices by this amount and pass on this tax to buyers and create cascading of taxes. Even for most manufacturers it will be difficult to adjust this advance tax against their output tax. Progress with VAT automation process has gone through periods of ups and downs. Although the VAT Law 2012 envisaged a completely automated taxpayer-friendly system of tax administration and registration and payment systems in reality NBR is very far from that. This automated system is not ready as yet and only VAT registration process has been automated and online return submission process has been tested with large taxpayers. The other key element of improving VAT revenue collection was the introduction of Electronic Fiscal Devises (EFD) at every VAT outlet and its effective monitoring with a view to increase compliance with the new VAT system. The idea is good, but if we review the past performance of NBR with Electronic Cash Register (ECR) system we should be doubtful about the EFD introduction as well. ECRs were supposed to be introduced at least 10 - 15 years ago. It was mandated by law for many types of VAT-registered enterprises, but there was no follow-up and no compliance (Mansur, 2019).

5.6. Discretionary Powers in Bangladesh VAT Regime

Committed to the principle of the rule of law as well as to equality before the law, Bangladesh operates under the doctrine of the separation of powers with separate legislative, executive, and judicial powers vested respectively in the Parliament, the Executive Government, and the Judiciary. The Parliament has the fundamental power to impose tax as, according to Article 83 of the Bangladesh Constitution, “No tax shall be levied or collected except by or under the authority of an Act of Parliament”. Within the framework of the provisions of the constitution, it is through the express legislation of Parliament that a great deal of authority has been delegated to the Executive Government, including the tax authority. Discretionary powers have been granted by the Act to the following three sets of actors:

1) The Government represented by the Internal Resources Division under the Ministry of Finance.

2) The NBR, the apex body for the formulation and implementation of tax policy.

3) VAT officials at different hierarchical levels.

The functions of these three sets of actors overlap with each other. While the VAT officers act as the agents of the Government and the NBR, the functions of the Government and the NBR differ only in the procedure of discharging their responsibilities. The first two actors are in fact two facades of the same body. Regarding the nature of discretions, it can be said that the discretionary powers granted to the Government and the NBR are ultimate powers as they are not subject to review other than by their own volition. In the case of Bangladesh's VAT regime, the amount of secondary legislation in the form of SROs, rules, general orders, and notifications is innumerable. Many taxpayers and VAT practitioners allege that to find a valid legal provision for a certain matter is tantamount to wandering in a maze comprised of a plethora of rules, orders and notifications—some still valid, some rescinded, some substituted by others (Saleheen, 2013). Last but not the least, the use of discretionary powers in tax law has been found to prompt too much litigation. Litigation filed by aggrieved taxpayers has been identified as a serious bottleneck in the collection of tax revenue in Bangladesh.

5.7. Political Limitations to Domestic Resource Mobilization

Strong political commitment to tax reform is lacking in Bangladesh, and the disconnection between field-level tax officials and tax-evading businesses has further undermined tax reform efforts from both within and outside the NBR. The VAT Act of 2012 was drafted by the NBR with technical assistance from the IMF and IFC in an effort to improve the tax system—specifically the elasticity of the VAT and the efficiency of its administration. Once finalized, the new VAT was signed into law by Parliament in December 2012, with the aim to make it effective on July 1, 2015, a date set as one of the IMF's program conditions. As the IMF program lapsed and as the Bangladeshi government's financial position improved with the central bank's reserves exceeding eight to nine months of goods and services imports, the government lost interest in the IMF program. When the NBR was willing to implement the VAT at last and the finance minister was fully committed to it, as well, Bangladesh's government once again postponed the new VAT law by two years, to FY20. This move was because of strong resistance and political lobbying by the Federation of Bangladesh Chamber of Commerce and Industries (FBCCI) and was further influenced by the general elections of December 2018. Although the government was interested in getting more revenue through an improved VAT system, the election cycle and its associated

political considerations ultimately postponed the effect of law and thus later on leads major deviation from the Act of 2012 under the protest from businesses, particularly from the FBCCI (Mansur, 2020). The reform activities in Bangladesh illustrate an environmental dependency model where the changes occur in response to the political and economic environment in the context of which the tax policy makers operate. Hence tax reform in Bangladesh appears to be mainly the product of bureaucratic politics who seeks to protect their position by minimizing the political cost of tax program while preventing a budget shortfall.

5.8 Encouraging Trends

Over the years, a number of efforts were made to strengthen tax revenue mobilization and improve the country's tax structure (Mansur, 2020). In 1991, Bangladesh embarked on the major tax reform initiative by introducing the VAT system and simultaneously, significant reduction of import tariffs occurred. Prior to these reforms, trade-based taxes dominated the tax structure in Bangladesh, but after the introduction of the VAT in 1991, the share of VAT revenue increased substantially, growing to 29 percent in the decade 2004-2014 (Table 2). Revenue lost from trade-based taxes was compensated through the expansion of VAT coverage of many services, as well as to the wholesale and retail levels.

Table 2. Evolution of VAT revenue, 2000-2017.

In relation to GDP (%)		In relation to total Revenue (%)		
	2000-2002 Mean	2014-2017 Mean	2000-2002 Mean	2014-2017 Mean
Tax Revenue	7.47	9.99	79.30	85.88
VAT	2.41	3.41	25.62	29.32

Sources: Ministry of Finance and the National Board of Revenue (NBR).

Furthermore, despite the predominance of discretionary powers in the decision-making process in the Bangladesh VAT regime, there are a couple of encouraging trends. First, the Bangladesh VAT law grants the taxpayers—existing or potential—the right to appeal against any decision of any VAT officer. The first step of the appeal process is limited to departmental ambit: appeal to the Commissioner (Appeal) in the case of a decision given by an officer below the rank of commissioner, and appeal to a VAT Tribunal in the case of an appeal against the decision of a commissioner. After exhausting the departmental appeal procedures, the aggrieved can go to a court of law. The second emerging trend is the introducing of Alternative Disputes resolution (ADR) provisions for dispute in income tax, VAT and customs which facilitates the taxpayers to settle their differences with the help and guidance of a facilitator.

Chapter 6

Recommendation and Conclusion

6.1 Recommendations

The study recommends that KRA should avail all necessary tax information to traders in Dhaka Town using channels that are easily available to all traders. The study recommends that KRA should ensure that the tax information provided is made simplier and can be understood by each trader regardless of their education levels. The study also recommends that KRA should only provide information that specifically touches on the operations of the traders and there should be a one stop platform that allows them to access all relevant information in one site other than having many segments in order to reduce the cost of accessing tax information. The study also recommends that KRA uses communication channels that allow the traders to access personalized information and be able to interact freely with the KRA officials in order to ensure effective information sharing.

The study recommends that KRA officials should strive to come up with ways of improving the design of tax penalties and fines systems to make them more efficient. The measures adopted should aim at enhancing the level of efficiency in imposing these penalties and fines so that compliance levels are enhanced while minimizing the costs incurred in imposing them. The study also recommends that awareness creation in regards to the amounts of penalties and fines should be carried out more regularly to keep the traders informed of the punishment accruing from non-compliance behaviour.

The study recommends that KRA officers should ensure that they conduct thorough and consistent surveillance and monitoring of the activities of the traders in order to identify the loopholes for noncompliance behaviour which ought to be sealed. The study recommends that KRA needs to invest in systems and capacity development for its teams in order to ensure that they have the capacity to adequately detect any tax leakages due to noncompliance and be able to hold those involved accountable. The study recommends the need for KRA to embark on integrity training both for the traders and the officials in order to minimize intentional noncompliance behaviour.

The study recommends that it is necessary for KRA to integrate various enforcement tools in reminding tax payers on the need to comply with tax laws. The study

recommends for enhanced budgets towards enhancing the capacity of KRA officials to undertake efficient tax enforcement.

6.2 Conclusions

The following conclusions were made based on the study findings; It was concluded that availability of value added tax information affects tax compliance among traders in Dhaka Town. The study concluded that the traders are not adequately provided with simplified and tailor made information on tax matters by those responsible for making the information available which explains why most of them are not well conversant with tax laws. The study concluded that most of the traders in Dhaka Town are ignorant of the VAT system due to failure by the tax authority to avail the necessary information to help them make informed choices.

The study concluded that the imposition of tax penalties and fines is a sure way of increasing VAT compliance levels among traders in Dhaka Town. The study concluded that traders in this town fear the punishment imposed on non-compliance actions and are well aware of the costs related to tax penalties and fines which deters them from tax cheating.

The study concluded that non-compliance opportunities were a threat to VAT compliance among traders in Dhaka Town. The study also concluded that traders in this town still believe there are many opportunities for not remitting their value added taxes even though the probability of being detected is high.

The study concluded that tax enforcement was a key tool in enhancing VAT compliance among traders in Dhaka Town. The study concluded that enforcement measures towards value added compliance in the form of regular audits and constant threats by the tax authority were necessary in enhancing VAT compliance among the traders.

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Appendix

1. What is the location of your business/enterprise

(Tick one Appropriate Box)

- o Dhaka city corporation area
- o Other City Corporation Area
- o District Town
- o Upazilla Area
- o Other – please describe ----------

2. What is your main business/enterprise activity?

(Tick ONE appropriate box)

- o Manufacturing
- o Construction and real estate
- o Wholesale, retail trade, hotels and restaurants
- o Professional services
- o Transport, storage and communication
- o Other – please describe _____

3. What type of business form do you use to conduct your enterprise?

(Tick ONE appropriate box)

- o A sole proprietorship (individual ownership)
- o A cooperative
- o A partnership
- o A private limited company
- o A share company
- o Other – please describe _____

4. **When did your business/enterprise first register for VAT? _____**

(Year)

5. **Approximately, how long did it take for you to receive the VAT registration number from the VAT Office? _____** (Days/Months/Year)

6. **How do you keep your VAT related records?**

(Tick ONE appropriate box)

- o A manual/paper system A partially computerized system
- o A fully computerized system
- o Tax adviser/external accountant keeps the tax records
- o Other – please describe _____

7. For the 2022-2023fiscal year how much average monthly VAT did your business/enterprise pay?

(Tick ONE appropriate box)

- o Under BDT 400,000
- o BDT 500,001 to 600,000
- o BDT 600,001 to 700,000
- o BDT 700,001 to 800,000
- o BDT 800,001 to 900,000
- o BDT 900,001 to 10,00,000
- o More than BDT 10,00,001

8. What is your highest level of education attained?

(Tick ONE appropriate box)

- o Junior High School
- o SSC
- o HSC
- o Certificate
- o Diploma
- o Bachelor degree
- o Masters degree and/or higher
- o Other – please describe _____

9. In the 2022-2023fiscal year, have your business been visited by a VAT officer?

- o No
- o Yes – if yes please complete specify:
- o How long did the visit last? _____(hours)

- When was the visit:
- During the last month
- 1 to 3 months ago
- 3 to 6 months ago
- More than 6 months ago
- Do you have any comments about the visit:

_____

_____

Section 2: Compliance

10. Please indicate to what extent you agree or disagree with the following statements: SMEs COMPLY with the VAT law in Bangladesh, because…:	Not sure	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Paying the Correct amount of VAT is our civic duty						
Paying the correct amount of VAT is an important contribution to the development of Bangladesh						
Taxpayers paid the correct amount of VAT when there was greater enforcement and monitoring by VAT						
The likelihood of penalties and sanctions encourage me to comply with the VAT law.						

The likelihood of audits encourage me to comply with the VAT law						
Other – please specify _____						

11. Please indicate to what extent you agree or disagree with the following statements: **Small and medium businesses do NOT COMPLY with VAT law in Bangladesh because … :**	Not sure	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
VAT is just an expense of the business that we try to minimize						
The VAT rate is high						
VAT law and regulation is overly complex						
Businesses that do not file or pay VAT are in a much better financial position						
Businesses registered for VAT are often subject to NBR's audits and inspections						
Other aspects of business suffer due to pressure of VAT, as VAT is complicated						

The discretionary and judicial power of VAT Authority discourages me to pay VAT						
Other – please specify _____						

Section 3: Cost of Compliance

12. Do your business/enterprise employ an external adviser (eg accountant or a specialist tax adviser) to do the VAT work of your business?

(Tick ONE appropriate box)

Yes – if yes, estimate the amount you paid for the 2011/12 financial year to external advisers to complete your VAT activities (exclude other taxes):

_____BDT

No – if no, do you do it yourself?

- Yes
- No

13. Please estimate your business's/enterprise's average MONTHLY cost incurred by in-house staff dealing with the following VAT activities during the 2022-2023financial year:	Estimate of average monthly BDT cost
Recording information needed for VAT	_____ BDT
Keeping all physical receipts in an organized manner (such as sales slips, invoices, receipts)	_____ BDT
Calculating VAT, completing VAT return and paying VAT	_____ BDT
Keeping the forms and registers related to VAT	_____ BDT

Preparing and making VAT monthly returns	_____ BDT
Dealing with the NBR (phone calls, emails, visits)	_____ BDT
Dealing with external VAT adviser, including providing information to them	_____ BDT
Learning about VAT law, including reading newsletters, NBR website, bulletins	_____ BDT
Preparing for price declaration documents for VAT offices	_____ BDT
Working time spent on VAT refund preparation and execution, preparing and submitting VAT refund document to NBR	_____ BDT
Preparing for the VAT audits by VAT Authority	_____ BDT
Working time spent on objections, appeal and VAT-related court appeal	_____ BDT
Other expenses – please specify _____	_____ BDT

14. Please estimate your business's/enterprise's average MONTHLY 'TIME' spent by in-house staff dealing with the following VAT activities during the 2022-2023 financial year (include time spent by owners/partners/directors/paid employees):	Estimate of average monthly hours (Use decimals for fraction of hours (ie 0.5 hours for half an hour). Only include hours once, so if you include hours under 'Recording' please do not count the same hours towards so 'Learning'
Recording information needed for VAT	_____ hours
Keeping all physical receipts in an organized manner (such as sales slips, invoices, receipts)	_____ hours
Calculating VAT, completing VAT return and paying VAT	_____ hours

Keeping the forms and registers related to VAT	_____ hours
Preparing and making VAT monthly returns	_____ hours
Dealing with the NBR (phone calls, emails, visits)	_____ hours
Dealing with external VAT adviser, including providing information to them	_____ hours
Learning about VAT law, including reading newsletters, NBR website, bulletins	_____ hours
Preparing for price declaration documents for VAT offices	_____ hours
Working time spent on VAT refund preparation and execution, preparing and submitting VAT refund document to NBR	_____ hours
Preparing for the VAT audits by VAT Authority	_____ hours
Time during actual VAT audit	_____ hours
Working time spent on objections, appeal and VAT-related court appeal	_____ hours
Other expenses – please specify _____	_____ hours

15. Please indicate to what extent you agree or disagree with the following statements: **In relation to the PSYCHOLOGICAL COSTS of VAT compliance …:**	Not sure	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
There are no psychological costs (stress/						

anxiety/sleepless nights) in complying with VAT						
Psychological costs have significantly affected the amount of time and effort that I can put into my business						
The psychological costs relating to VAT are excessive when compared to other taxes in Bangladesh						
Psychological effects influence my private cost of seeking to comply with VAT						
The VAT authority's timely information and friendly attitude towards taxpayers can reduce psychological costs						

16. Please indicate to what extent you agree or disagree with the following statements: **To COPE with the PSYCHOLOGICAL COSTS of VAT compliance ...:**	Not sure	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
I consult a psychologists or						

psychiatrist						
I self-meditate						
I take tobacco						
I take medication, such as sleeping pills						
Other expenses– please specify _____						

17. Please estimate your monthly psychological costs related to VAT in the 2022-2023 financial year? _____(BDT)

18. **If you could claim from the VAT Authority for your stress or anxiety in the 200022-23 Financial year about complying with VAT for your business, how much would you have claimed? _____**(BDT)

Section 4: Relationship between Complexity, Compliance Costs and Non-Compliance

19. Please indicate to what extent you agree or disagree with the following statements about the relationship between complexity of VAT law, compliance costs and non-compliance	Not sure	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Compliance with VAT Law is excessively burdensome and costly for SME taxpayers						
The VAT compliance costs of our business are insignificant						
The burden of compliance costs discourages the owners to fulfil VAT obligations						
Simplified VAT Law and reasonable compliance costs would increase voluntary compliance among SMEs VAT payers in Bangladesh						
Other – please specify _____						

Dissertation Report

On

FACTORS OF AFFECTING COMPLIANCE VAT IN SMALL AND MEDIUM ENTERPRISES OF BANGLADESH

Submitted By:

Name: Kazi Fazle Rabbi

ID: MBA 2203027009

Program: MBA

Major: Accounting

Semester: Summer-2023

Submitted for the partial fulfillment of the degree of
Master of Business Administration



Sonargaon University (SU)

Dhaka-1215

Date of Submission: 05/09/2023

Dissertation Report

On

FACTORS OF AFFECTING COMPLIANCE VAT IN SMALL AND MEDIUM ENTERPRISES OF BANGLADESH

Supervised By

Masud Rana

Head of the Department

Department of Business Administration

Sonargaon University (SU)

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Dhaka-1215

Date of Submission: 05/09/2023

Letter of Transmittal

5th September,2023

Masud Rana
Head of the Department
Department of Business Administration
Sonargaon University (SU)

Subject: Submission of Thesis report.

Dear Sir,

With humble honor and respect, I am submitting my internship report on "Thesis Report on "Factor of affecting compliance vat in small and medium enterprise of Bangladesh." As per partial accomplishment of the requirements for the MBA degree, this thesis has been carried out under the supervision.

This report is an integral part of our academic courses in completion of the MBA program which has given me the opportunity to have an insight into Factors of affecting compliance vat in small and medium enterprise of Bangladesh Sector of Bangladesh specially real scenario of Robin Printing and Packages Limited hope this report Reflects on the contemporary issues on the (Major Area) that are being practiced by Printing sector in our country.

In completing the report, I tried my best to blend all my knowledge and imparted every available detail and also attempted to avoid unnecessary amplification of the report.
I humbly request you to accept this report for your kind evaluation.

Sincerely,

_____

Kazi Fazle Rabbi
ID: MBA-2203027009
Department of Business Administration
Sonargaon University (SU)

Acknowledgement

I would like to mention some people with due respect and honor who assisted us, without any hesitation to complete our Internship report within the due time. Therefore, I would like to thank them all from the bottom of my hearts.

In this procedure, at first I would like to thank Almighty Allah for making it possible for us to complete our work properly within the given time. Most importantly I would like to thank my Internship Supervisor Masud Rana, who was always ready to guide me and solved all the difficulties that I faced during preparing my internship of the report.

Most importantly, I would also like to thank my parents, friends, Colleagues and other members who helped me by providing informative instructions. Without their help this project would have been difficult to complete.

Yours faithfully

Kazi Fazle Rabbi
ID: MBA-2203027009
Department of Business Administration
Sonargaon University (SU)

Student Declaration

I, Kazi Fazle Rabbi, a student of Master of Business Administration, bearing ID No MBA – 2203027009 from Sonargaon University would like to solemnly declare here that this report on : "Factor of affecting compliance vat in small and medium enterprise of Bangladesh." has been authentically prepared by me. While preparing this report, I didn't breach any copyright act internationally. I furthered declaring that, I did not submit this report anywhere for awarding any degree, diploma or certificate.

Sincerely Yours

……..

Name: Kazi Fazle Rabbi

Department of Business Administration

ID: 2203027009

Program: MBA

Letter of Authorization

Certified that this project report titled “Factor of affecting compliance vat in small and medium enterprise of Bangladesh.” is the bona fide work of Kazi Fazle Rabbi, who carried out the research under my supervision Certified further that to the best of my knowledge the work reported herein does not form part of any other project report or dissertation on the basis of which a degree or award was conferred on an earlier occasion on this or any other candidate.

……

Masud Rana

Head of the Department
Department Of Business Administration
Sonargaon University (SU)

Executive Summary

The goal of this report is to identify the concepts and theories that discussed in my educational program that can be practiced in the aspect of the accounts maintaining processing Small business in Bangladesh. I would like to give my sincere thanks to the Almighty God for granting me health, sound mind and strength to be able to pursue postgraduate diploma in tax administration. My gratitude goes to Sonargaon University of Revenue Administration for giving me the chance to use their resources in carrying out my studies. I wish to acknowledge my supervisor Mr. Masud Rana, Head of the business Faculty for his support and guidance. My family members I sincerely appreciate you in a big way for your unwavering support.

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