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An Overview of Tax Reforms in Bangladesh: Corporate Perspective

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Abstract- Tax reform is an issue of endless political debate in all developed and developing countries. The discussion on tax reform revolves around the issues relating to designing an appropriate tax base, strengthening tax administrations, and ensuring efficiency, equity, and progressive taxation. In Bangladesh, a lot of reform initiatives have taken in the last four decades. This study is an attempt to review those initiatives by highlighting corporate matters as there is hardly any research work on those issues in the context of Bangladesh. Content and document analysis and interview methods are used to carry out this study. The study finds that the outcome of those reforms is mixed and in some cases, noteworthy achievements are evident, as for examples, the establishment of Large Taxpayers Unit (LTU) and Central Intelligence Cell (CIC) and digitalization of the tax process, while remarkable weaknesses are still prevailing in enforcement, audit, and compliance. Revenue implication of tax reforms displays that the trend in the direct tax collection is increasing moderately, and the overall tax- GDP ratio is showing very slow progress. We recommend a new all-inclusive reform effort covering all the upcoming challenges in the field of corporate taxation as no comprehensive reform effort has been undertaken for nearly a decade.

Keywords: tax reform; corporate tax; tax-GDP; tax administration; tax incentives, tax depreciation.

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Mohammad Munayem Chowdhury [α] & Syed Zabid Hossain [σ]

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I. Introduction

The taxation system of any country is designed considering mainly the macroeconomic goals which include redistribution of income, creation of employment, sustainable development and at the same time ensuring social justice. It is influenced by economic theory, economic structure, government fiscal policy, equity, budget gap, and the targets for accelerated economic growth and poverty alleviation. Legal and administrative set up of any tax system is continuously changing due to changes in the socio-economic arena. In the world of tax, change is the only constant (Cestnick, 2007). There are two types of changes that take place in any tax regime from time to time- one is in every fiscal year through Finance Acts (FA), and another one is structural changes or reform in the field of laws, processes, and administration. Tax reforms in Bangladesh have been performed in a fragmented way and at a very slow pace. Some comprehensive approach of tax reforms has been started from the 1990s mainly due to the conditionality of aid agencies. Those reforms were intended to improve the tax-GDP ratio by extending the tax base, and to simplify the administrative procedure and function to help achieve those broad goals.

Bangladesh is yet to generate expected revenue from taxes for financing public expenditure. Though the tax-GDP ratio is improving slowly, it is still remarkably low (9.06 percent in FY 2016-17) as compared to other developing countries. In Bangladesh, direct tax plays an indispensable role in the volume of tax revenue as it was about one-third of the total tax collection in 2016-17. In Bangladesh, the composition of direct tax revenue was around the three-fifths from 'companies', and was about two-fifths from 'other than companies' in FY 2016-17 (Annual Report 2016-17, 2019). This situation suggests, corporate tax is the key provider of direct taxes and thus policymakers need to know how this tax-related issues have been changing over time and what reform initiatives have yet been taken in this field and to what extent those reform initiatives have been useful in terms of socio-economic development, equity, and justice.

This study has reviewed tax reform initiatives in Bangladesh, in brief, highlighting the corporate issues and related administrative reforms. Thus the objectives of the study are to identify the corporate tax reform initiatives that have been taken in Bangladesh till 2017 and then validate those reform efforts through examining mentionable outcomes in terms of corporate tax revenue and lastly to trace some challenges of the direct tax system of Bangladesh.

The remainder of the paper is wrapped up in five sections. The second section presents the materials and methods of the study. The third section deals with the review of the existing literature. The fourth section presents an overview of tax reforms in Bangladesh with a special focus on corporate issues. The fifth section summarizes the reform initiatives already have implemented in this field. The sixth section validates those reform efforts by showing some revenue implications of tax reforms. The seventh section identifies some shortcomings and challenges of tax reforms and then presents some recommendations and finally the conclusion.

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II. Materials and Methods

It is an exploratory research, and as such content and document analysis methods are used to accomplish this study. Sources of data are tax reform reports, finance acts, S.R.O.s, budget speech, tax code, rules and regulations, guidelines and official websites of NBR, websites of different ministries and regulatory agencies of Bangladesh. Some relevant scholarly articles have also reviewed for this study. To substantiate our documentary findings, some informal interviews have also been conducted with NBR officials, Chartered Accountants, and some academicians, who have firsthand knowledge of corporate tax reforms in Bangladesh.

III. Literature Review

In the context of Bangladesh, a few articles have found on tax reforms, which are mostly based on secondary sources of information and discussed mainly the difficulties and weaknesses of the existing income tax system, the urgency, and scope of reforms and suggestions for reforms. But there is hardly any research highlighting corporate matters. In this section, some articles have been reviewed in Bangladesh context as well as in sub-continental context those are presented below:

Ahsan (1995) conducted a study on tax reform in Bangladesh and identified some limitations of the tax system in Bangladesh and made some suggestions to overcome the same. The limitations are very small amount of revenue, high indirect to direct tax ratio, high dependence on import tax, narrow indirect tax base, virtual exemption of agriculture sector from the tax net and less progressive tax system. He suggested that long term revenue growth is unlikely to take place unless and until personal and corporate incomes are adequately taxed. So the designing of the overall tax system is of critical importance. Similarly, Alam and Masud (2007) have identified some achievements, weaknesses, and challenges of income tax on personal and legal entities and made some recommendations for improvement of the income tax system in Bangladesh. Another study in Bangladesh perspective found that six factors are responsible for tax non-compliance, which are tax evasion, lack of awareness, official harassment, and complexity of tax laws, lack of social benefits, and other reasons. Empirical findings through regression analysis confirmed that each of these factors has significant effects on revenue loss in Bangladesh (Rahman & Rahman, 2010). A different study investigated the effectiveness of three coercive and three persuasive instruments among large corporate taxpayers registered with the Large Taxpayers Unit (LTU) of Bangladesh and found that coercion or persuasion are less likely to improve tax compliance when used separately than when used jointly, although coercion seems the more influential between the two (Akhand, 2012). Another study explored the political economy of tax reform in Bangladesh over a few decades to clarify the complicated factors that are responsible for abnormal effective and continuous resistance to noteworthy reforms. The study exposed the necessity of recognizing deep routed formal and informal institutions and micro-level stimulus that shape the arrangement of short-range reforms to understand tax outcomes. The study found that the Bangladesh tax system is extremely casual, mostly manual and marked by towering discretion, dishonesty, and informality. The existing system serves the core interests of influential political, economic, and bureaucratic elites. The existing tax regime endorses low and conventional tax rates for corporate entities and other forms of businesses, offers extensive discretion to the tax administration and also ample scope for them to involve in dishonest practices, and acts as an essential media for political elites to raise money and distributes economic benefit (Hasan & Prichard, 2013). Another paper highlights the problems of sustainable growth faced by entrepreneurs in Bangladesh. There are varied problems that hinder industrial growth in the country, but the major bottleneck is the adverse tax system and the annoyance of high import duty on raw materials. The study suggests for reconsideration or full removal of existing government duties and tax on imported raw materials to avoid an additional burden on industrial productions, and this will enhance the volume of corporate tax revenue (Khan, Khan, & Khan, 2008). The modernization of the National Board of Revenue (NBR) is an urgent need for Bangladesh as such donor agencies have been putting extra pressure on the government. In this context, a study found that the modernization of NBR has been undertaken several times under the leadership of international consultants and financed by donor agencies. However, the results have been discouraging in most of the cases. The study suggests involving insiders to bring about changes in the modernization process of the NBR. Otherwise, the modernization of NBR would be a far cry (Quayum, 2011). A study on the corporate response to direct tax reforms revealed that, with a reduction in the statutory tax rate (STR), there is an increase in the share of taxes incorporate GVA (Gross Value Added) particularly since the financial year 2003-2004 and concomitantly the volume of corporate tax revenue to GDP as a whole. Though the behavior of Indian companies is somewhat different from Foreign Direct Investment (FDI) companies in terms of adopting avoidance practices, both have shown improved tax compliance. Thus it can be concluded that the reduction in STR has helped the government to have a better share in corporate income (Rajakumar, 2014). Another paper in Indian context disclosed Indian tax reform account from the mid-1970s to the present time and found that huge progress has taken place in the last 30

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years judged by the standards of economic efficiency, equity, built-in revenue elasticity, and transparency. The research pointed out some key areas for further reforms after reviewing the results of completed reform initiatives (Acharya, 2005). A study in the Ghana context examined the links between the tax reform and revenue performance and found that the tax reform has had a significant positive influence on the productivity of both the personal tax revenue and the overall tax system. The tax reform has succeeded in terms of generating more tax revenue, augmenting the efficiency of the tax administration, and improving equity in the tax system. It has also removed market distortions and reinforcing economic incentives (Kusi, 1998). Thus there is hardly any research on tax reforms in Bangladesh with enough stress on corporate issues. Finding a clue from this gap, the present study has been planned to investigate the corporate tax reform initiatives that have undertaken in Bangladesh so far.

IV. Tax Reforms in Bangladesh

As stated earlier tax reform is a continuous process. The quarter-century between 1965 and 1990 had witnessed an extraordinary strong wave of tax reforms as many countries throughout the world (including developing economies) reduced their reliance on taxes on foreign trade and goods and services, and introduced value-added taxation (VAT) and rationalized individual and corporate taxes, to some extent in response to the necessities of increasing global economic integration (Acharya, 2005). In response to global changes, Bangladesh took some reform initiatives and the first was the Taxation Enquiry Commission (TEC), which suggested to replace the old and outdated Act and as a result, a new Income Tax Ordinance was adopted in 1984. After that, the World Bank reform initiative called for broadens the tax base for indirect taxes and as a result, VAT was introduced, RRC was formed, and many other projects were undertaken to reform the tax system of the country. These initiatives were mainly to broaden the tax base, enhance progressivity, equity, the ratio of direct tax to indirect tax, decentralization of tax administration, IT integration and automation of the tax system to increase the tax-GDP ratio and sustainable economic development. Some reform initiatives are continuing and some have already been completed. In the following section we will review those reform initiatives in brief:

a) *Taxation Enquiry Commission (TEC), 1976 (Ministry of Finance, 1979)*

The first taxation reform initiative was taken by Taxation Enquiry Commission (TEC) on October 23, 1976, headed by the then Bangladesh Bank governor, M. Nurul Islam. The main objective of the commission was to appraise taxation connected laws and regulations and conducts an opinion survey of taxpayers to suggest a comprehensive tax reform. The key findings and recommendations of the commission are provided below:

Bangladesh economy was agrarian and rustic and consequently, the tax base was very narrow. Even the urban trade was barely related to any sophisticated accounting and auditing system. All large industries were in the public sector. A very few industries and commerce, mostly small, were in the private sector and that followed the accounting and auditing norms to a great extent. The TEC recommended a simple, rational and wide-ranging progressive tax system.

The corporate tax rate was 60 percent (30 percent income tax and 30 percent super tax). The commission recommended for amalgamation of income tax and super tax into a single tax to be called 'corporate tax' and the rate to be 35 percent, 55 percent and 60 percent based on the level of income of the corporate entities.

The TEC observed that a wide array of allowances and exemptions lessened the tax base that necessitates high marginal tax rates to ensure sufficient revenue and as such the TEC recommended for establishing a broad tax base with comparatively lower rate schedule but providing smaller exemptions and allowances that have a strong positive influence on savings and capital formation. The commission also observed that whenever an assessee incurred a loss in any year under any of the heads of income stated in this Act shall be entitled to have set off of loss against her/his income, profits or gains under any other head within the succeeding six years but there was no provision for carrying back of losses.

As regards tax incentives for business, the commission reviewed the existing incentives for investment as granted under the Income Tax Act. There was a total exemption of income from tax, deductions of allowable expenses and allowances made from the total income to arrive at taxable income. The commission thought those incentives as sufficient for the industrial development of that time and recommended for continuation.

Tax administration: The TEC suggested that –a) The tax administration needs to be strengthened with more authority, status, logistics and compensations; b) Actions need to be taken to build confidence and reliance of the taxpayers on tax administration so that tax evasion could be reduced significantly; c) Frequent inspection and audit to be conducted to overcome the missing and misplacement practice of tax files, returns, statements, challans (tax payment vouchers), etc. d) Form a special bench in the high court division of the supreme court for hearing and rapid disposal of the tax reference cases.

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b) *World Bank's report on tax reforms in Bangladesh (The World Bank, 1989)*

The World Bank carried out a study on the taxation system of the country titled ''Bangladesh: An Agenda for Tax Reform'' and submitted the final report three-volume and seven chapters in December 1989. Volume three includes the direct tax along with corporate tax. The major findings and recommendations regarding corporate tax are presented below:

General findings and suggestions: Through examining the macroeconomic situation and tax base, tax collection pattern, the report disclosed certain weaknesses of the taxation structure of the country, which were- (i) very low tax- GDP ratio (7.9 percent only in 1984-85), (ii) the ratio of direct tax to total tax revenue was also very low (21.8 percent), (iii) the ratio of domestic indirect tax revenue to total indirect tax revenue was also very low (35.2 percent only), (iv) the tax system was extremely dependent on import taxes (50 percent of total tax revenue), which were comprised of customs duties, sales taxes on imports, development surcharge, license fees and regulatory duty, (v) more than 97 percent of domestic indirect taxation comes from excise taxes, (vi) tax revenue from personal and company income accounted for 15 percent of total tax revenue or about 1.2 percent of GDP, and (vii) there was absence of an impartial tax system due to the presence of huge tax incentives and exemptions. The World Bank recommended for formulating a medium to long term strategy for changes of a specific policy to defeat the weaknesses of the existing taxation regime.

Basic Rules and Tax Rates: The budget of the FY 1988-89 reduced corporate income tax rates: Non-industrial companies 55 percent, industrial companies 45 percent, and publicly traded companies 40 percent. There was a standardized tax rate (15 percent) for intercompany dividends. If the holding period of an asset was less than two years then the capital gain on the sale proceeds of that asset was taxed as normal revenue income; the rates were reduced as the investment period increases, attaining the lowest rate of 15 percent after 15 years.

Depreciation: Historical cost was the basis for depreciation and the declining balance method was applicable to most assets. The deprecation rates were dissimilar across assets, but in most of the cases the rates were in between 15 to 30 percent.

Carried forward of losses: Business losses may be carried forward but not carried back against taxes already paid. Moreover, foreign business losses incurred by a resident company may be set off against domestic income.

Investment Incentives: Two forms of major investment incentives were available in Bangladesh. The first was a tax holiday and the second was an accelerated depreciation allowance (ADA). First one involving full exemption of business income for a specified period (4 to 12 years based on location). The exemption, however, does not apply to capital gains or inter-company dividends. In the case of ADA, the rates of the first-year depreciation allowances for plant, machinery, and furniture vary from 80 percent to 100 percent depending on location. These incentives were not granted on a selective basis that is why the commission recommend to conduct a study as a matter of priority to ascertain the extent to which industrialization and regional development can be attributed to the extraordinarily generous tax incentives currently available and to set them against the considerable revenue losses and possibilities of abuse to which tax holidays gave rise.

Tax administration: The WB recommended an integrated package of organizational changes in the administrative structure of NBR, its auxiliary organizations, and field-level units both for the direct and indirect taxes. It recommended for appointment of four more members in the NBR, two for indirect taxes and two for direct taxes with a concomitant to rearrange the tasks of the existing members; (b) strengthening the Directorate of Research and Statistics, and (c) reallocate and rationalize work under different sections of the NBR. It also recommended for the establishment of a separate directorate for Inspection, Training, Survey, and Investigation (Complaints) along with the inclusion of taxpayers' education under the directorate of the survey. The directorate of Investigation should be accountable for tax evasion related matters and be staffed by executives from the direct and indirect tax administration to promote coordination between the two divisions of the administration.

c) *Revenue Reform Commission 2002 (Ministry of Finance, 2003)*

The Government formed a Revenue Reform Commission (RRC) on July 2, 2002, considering the emerging changes in the economy due to changes in the macroeconomic indicators and heading toward the market economy. The major findings and recommendations related to income tax in the final report of the RRC are given below:

Overall taxation system: The commission suggested raising the tax-GDP ratio at 12.61 percent by FY 2012 at an annual growth rate of 0.45 percent. The commission also suggested broadening the tax base and improving the quality of revenue administration and expanding the area of mandatory Taxpayer's Identification Number (TIN) requirements.

Tax rate: Corporate income tax rate should be reduced to the level of the higher marginal personal income tax rate of 25 percent for publicly traded companies, 35

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percent for non-listed traded companies, and 40 percent for bank and nonbank financial companies.

Dividend tax: Dividend distribution tax of 10 percent on companies should be abolished as well as dividend income of shareholders should be kept tax-free.

Investment incentives: The commission suggested raising the minimum investment threshold at taka one million to be eligible for any kind of tax allowances. However, incentives may be allowed to small and cottage industries with other schemes. The commission also suggested abolishing the tax holiday facilities and introducing a uniform reduced tax rate for the preferred industrial sectors. Simultaneously, accelerated depreciation allowances should sustain. A viable industrial unit may enjoy either accelerated depreciation allowance or uniform reduced tax rate.

Exemptions and allowances: The commission recommended for moving back the tax exemption from house property income under any trust or other religious or charitable organizations. The commission also recommended for retaining the exemptions regarding: a) Contribution to benevolent, cultural and socioeconomic activities approved by the NBR; b) Tax rebate for the companies declaring 20 percent or more dividend should be sustained, and c) Existing tax exemption on capital gains should also be sustained.

Administrative Reforms: The commission recommended for oversimplification of the administrative dealings to ensure transparency and accountability in the tax administration. There should be a well-built reward and punishment system. A universal self-assessment should be applied for all cases. The corporate books of accounts should be prepared following International Accounting Standards (IAS) as adopted by the Institute of Chartered Accountant of Bangladesh (ICAB).

d) Reforms in Revenue Administration (RIRA)

The overall objective of the project was to build an up to date tax system and an effective tax administration that could facilitate and improve voluntary compliance of tax laws. More specifically the program should seek to increase tax revenue by improving efficiency and responsiveness of tax administration through institutional and procedural reforms, improving the simplicity and integrity of tax services, HR reforms, strengthening collection, audit and enforcement measures, and improving taxpayer services. Under this project, LTU and CIC have been initiated (devex, 2007).

e) Strategic Development Plan (SDP)

The NBR undertook numerous reform projects to attain the set goals of enhancing the Tax- GDP ratio through mobilizing domestic resources to support higher public investment in infrastructure and social sectors for accelerated economic growth and poverty reduction (NBR, 2009). In this direction, a Strategic Development Plan (SDP) was promoted by the GOB in 2005 to achieve superior transparency and accountability from both the tax officials and the taxpayers. Under the SDP following goals have been set:

i) Enhance the targets for revenue collection through modernizing tax administration and simplifying procedures; ii) Develop a well thought out and transparent legal and regulatory system; iii) Identify areas to deal firmly and fairly with noncompliance; iv) Develop an efficient tax administration staffed with a highly-skilled, motivated, and professional workforce; v) Promote a taxpayer service culture and improve involvement of the civil society; vi) Develop an up to date IT-based tax administration that is efficient, effective, and transparent.

f) Modernization and Automation Project (MAP)

The actions within SDP have led the origination of the modernization and automation Project (MAP) of NBR with the support of different donor agencies. The Modernization and Automation Project (MAP) of NBR was originated within SPD with the support of different donor agencies. The MAP commenced in mid-2005 with a desire to be implementing over a three and a half year period. The main objective of the MAP was to strengthen institutional capacity to contribute towards superior policy management and better functioning of tax administration. Under this project, NBR would undergo massive changes in its outlook and vision to collect taxes more efficiently and enhance revenue mobilization considerably.

g) Tax Administration Capacity and Taxpayers Service (TACTS)

The GoB, with support from the Department for International Development (DFID) of the UK, has implemented a five-year project named Tax Administration Capacity and Taxpayer Services (TACTS) to enhance Income tax revenue collection through improving the level of tax compliance and tax base. It was built on the DIFD-funded Reforms in the Revenue Administration (RIRA) project which established two more administrative units- Large Taxpayer Units for Income tax and VAT in Dhaka as well as a Central Intelligence Cell (CIC) to investigate and prosecute tax evasion. TACTS would focus on strengthening taxpayer services to increase taxpayer trust and voluntary compliance (devex, 2009).

h) Strengthening Governance Management Project (SGMP)

The SGMP was started in 2011 with the object of initiating online tax filing and digitalization of tax return, establishing taxpayers' information and service centers, increasing connectivity, and introducing database management. Though the duration of the project was from July 2011 to December 2015, it is

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continuing. The project is financed by the GoB and the Asian Development Bank (NBR, 2015).

i) Comprehensive Modernization Plan (CMP)

In March 2011, the NBR undertook a comprehensive modernization plan encompassing all components of NBR reform efforts under one plan with the hope of achieving the intended goals over the next five years. NBR attempted to review and modernize both tax policy and tax administration and as such nine strategic areas were selected for reforms within five years. Those selected areas were -

i) Tax policy reforms; ii) Integrated revenue management program- business process reform; iii) Integrated revenue management program- automation of the tax processes; iv) Redefining the status and regulatory power of NBR; v) Restructuring NBR according to function and size; vi) Strategic communication and taxpayer outreach, education and assistance; vii) Enforcement improvement program; viii) Human resources and institutional development program; and ix) Infrastructure development program (NBR, 2011). New tax code has been drafted under this project but still in the process of reviewing and finalizing.

j) Tax Reform initiatives in Bangladesh at a glance

Reform initiatives	Focus	Recommendations
Taxation Enquiry Commission, 1976	To review taxation related laws and survey the opinions of different segments of the taxpayers and suggest comprehensive tax reforms.	Broaden the tax base, increase tax- GDP ratio, abolish super tax on companies, strengthen tax authority and formulate an easier legal framework.
World Bank initiatives for tax reforms in Bangladesh, 1986 (The final report titled Bangladesh: An Agenda for Tax Reform)	To identify the weaknesses of the taxation structure and to formulate medium and long term strategies for strengthening the taxation system.	Increase tax-GDP ratio, increase the share of direct tax to total tax, broaden the tax base, reduce high dependence on import taxation and take the integrated package for organizational change.
Revenue Reform Commission, 2002	To improve internal resource mobilization, structure, and management of revenue collection to build a self- reliant economy.	Increase tax-GDP ratio, broaden the tax base, improve the quality of revenue administration, reduce the corporate tax rate, and abolish tax holiday and dividend distribution tax.
Reforms in Revenue Administration 2002 (RIRA)	To build a modern tax system and an effective tax administration that facilitates and improves voluntary compliance with tax laws.	Increase communication with taxpayers, improve the professionalism of tax officials, programs to deal with corruption and evasions, revise legislation and reorganize the NBR.
Strategic Development Plan (SDP)	To ensure transparency and account ability from both tax officials and taxpayers.	Increase revenue collection targets through modernizing tax administration and simplifying procedures. Develop a sound and transparent legal and regulatory system.
Modernization and Automation Project (MAP)	To strengthen institutional capacity to contribute to better policy management and improved functioning of the tax administration.	Improve the effectiveness of the LTU, audit, and enforcement; introduce contemporary tax and VAT policies and procedures and reinforce statistics and research efforts.
Tax Administration's Capacity and Taxpayers Service (TACTS)	To strengthen business processes piloted in the LTU's across the country and focus on intensifying taxpayer services to increase their trust and voluntary compliance.	Increase efficiency, professionalism, and effectiveness of the LTUs intensify internal audit and inspection in LTUs and make the CIC stronger.
Strengthening Governance Management Project (SGMP)	To promote online tax filing and digitalization of tax return as well as establish taxpayers' information and service centers.	Make provision for online return and digitalization of return submitted offline. Improve networking and connectivity, and automation of the office procedure. Database management and online report generation.
Comprehensive Modernization Plan (CMP)	To include all components of NBR reform efforts under one plan and to review and modernize both tax policy and tax administration.	Reform in tax policy, business process and automation of the tax processes. Restructuring the NBR consistent with the functions and size. Improve strategic communication and taxpayer outreach, education, and assistance.

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V. Major Reforms Implemented in Income Tax

After thoroughly reviewing the reports of different reform initiatives, examining the Finance Acts, Budget speech and annual reports of NBR major reforms executed during the last four decade in the area of income tax (especially emphasizing the corporate part) can be classified in the following manner:

a) Reforms done in the policy and procedure

Main reforms that have accomplished in the field of income tax in Bangladesh are introduction of Taxpayer's Identification Number (TIN), Business Identification Number (BIN), Universal Taxpayer's Identification Number (UTIN), simplification of self-assessment procedure, widen the scope of withholding tax, emphasize audit operations, tackle tax evasion by enacting anti-avoidance and transfer pricing rule in the income tax ordinance, take precise steps to modernize taxation system, and inclusion of the provision for advance payment of tax, presumptive taxation, provision for minimum tax, charge of additional tax, consideration of TDS as final settlement and agreement for avoiding double taxation with 33 countries.

b) Reforms done in the field of corporate matters

Tax rate and classification of companies: The tax rate for all categories of companies has been rationalized and gradually reduced over the years. In 1972, the income tax rate was at 30 percent on general income and a super-tax at 30 percent on the dividend income and capital gains were mandatory for all companies. In 1980-81, the provision for the super tax was stopped and the companies were divided into three categories and the separate tax rate was declared for each category- a) industrial undertakings using local materials- 50 percent b) industrial undertakings using imported raw materials- 55 percent and 3) other companies- 60 percent. The tax rates were gradually reduced in the subsequent few years. In 1993-94, the corporate taxpayers' categories were revised as- a) publicly traded b) non-publicly traded and c) others including banks, etc. and the rates were determined at 40, 45 and 50 percent respectively. The rates were again reduced in subsequent years and in 2010-11, which were 27.5, 37.5 and 42.5 percents respectively. Besides, a separate category was declared for the mobile operator from 2007-08. The tax rates for this category were 35 percent for publicly traded companies and 45 percent for non-publicly traded companies from FA2010-11. Another two new categories were declared in 2011 and 2012, which were cigarette manufacturing companies and merchant banks and the tax rates were 42.5 and 37.5 percent respectively. The tax rates were again reduced in 2015 and the rates for all the five categories stated above were (1) for other companies, the rates were 25 percent for publicly traded and 35 percent for non-publicly traded companies, (2) for banks and financial institutions, the rates were 40 and 42.5 percents respectively for publicly traded and non-publicly traded companies, (3) for merchant banks, it was 37.5 percent, (4)for cigarette manufacturing companies, it was 45 percent, and (5) for mobile phone operator companies, the rates were 40 percent for publicly traded and 45 percent for non-publicly traded companies. These classifications and rates are in effect up to 2018-19.

Deductions from business income: Bangladesh has adopted an itemized system of deduction and the tax-deductible items are mentioned in section 29, 30, 30A of the Income Tax Ordinance 1984. The general rule is all expenses relating to the business operations of a corporate entity and incurred during the relevant income year are allowed as deductions. However, bad debts are not an allowable deduction but some specific provisions for accrued expenses in the relevant income year are allowed as deductions and prepaid expenses can be carried forward and deducted in the relevant income year. Similarly, liabilities for expenses that remain unpaid are added to income in the fourth year but allowed as a deduction in the year of payment.

Investment incentives: Just after independence there was a necessity for rapid economic development that is why the then govt. was tolerant about deductions and tax exemptions. They had to introduce different tax incentives like- initial, special, accelerated depreciation and tax holiday package and provided those without setting any selection criteria. In the 90s, the govt. liberalized the trade regime and introduced VAT and shifted the focus of revenue mobilization through foreign trade taxation to domestically based indirect taxation in compliance with the recommendations by the WB and the IMF. The government identified the importance of the corporate sector and has considered a variety of tax incentives for quick industrialization of the country. Gradually different kinds of tax incentives in the form of tax holidays, tax deductions, rebates, accelerated depreciation, investment, and reinvestment allowances are granted to industries, such as tax holidays, tax deductions, rebates, accelerated depreciation, and investment and reinvestment allowances have been provided sector-wise and location wise. There are export processing zones, special economic zones and Hi-tech parks and power generation companies in Bangladesh and for them, there are various incentive schemes. In Bangladesh, tax incentives are given under section 45/46 of ITO 1984 and different SROs issued by the tax authority.

An alternative to the tax holiday facility mentioned for the industrial undertaking u/s 46B is reinstated on machinery and plant for new industrial entrepreneur between July 01, 2014 and June 30, 2019,

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as follows: 50 percent for 1st year, 30 percent for 2nd year and 20 percent for 3rdyear. Accelerated depreciation is not allowed for creating a physical infrastructure facility under section 46C. Tax holiday and accelerated depreciation are mutually exclusive [paragraph 7(2) (d) and paragraph 7A (1) (a) and 7B (2) (d) of Third Schedule].

Normal depreciation: Bangladesh has adopted the declining-balance method of depreciation and under the declining-balance method, the depreciation rate is applied to the written-down value of an asset, and the allowance gradually decreases over the years. Bangladesh also has adopted the itemized system of depreciation where depreciable assets are listed in the depreciation table, and the useful life and rate of depreciation on each asset are given separately. Normal depreciation allowances are varying asset wise from 2 to 20 percent.

Set-off and carry forward of losses: Firms can carry forward losses for a maximum period of 6 years, but cannot be carried back. Where loss is assessed in any head of income, the company is entitled to set off the loss against its income assessed in other heads of that particular year. Companies can also carry forward unabsorbed tax depreciation for an indefinite period. While loss from speculation businesses and loss on capital gains cannot be set off against income from other heads. Loss from foreign sources of Bangladeshi corporate entity cannot be offset against Bangladesh's profits of that entity. However, unabsorbed trading losses and capital losses can only be carried forward for up to six successive years.

c) Reforms done in Tax Administration

The organizational structure has been reformed through the establishment of functional tax units (LTU and CIC) and income tax audit cell, intensification of legal measures to prevent non-compliance, adoption of alternative dispute resolution (ADR) system, reform tax appellate tribunal, and arrangement of special bench in the High Court Division of the Supreme Court as well as establishment of tax information and service center and data forensic lab to find out and control transfer pricing and tax evasion by local and multinational companies (MNCs).

Reforms done in administrative functions: Cutback discretionary powers of tax officials, curtail time limit for administrative activities, discourage the personal appearance of taxpayers in the tax offices, initiate service of notice to inform taxpayers, and initiate a trouble-free refund process are some achievements in this field.

Modernization and digitalization of tax environment: Introduction of e-TIN, e-BIN, e-Filing, and e-Payment facilities in some tax zones and introduction of online tax calculator are some achievements of reform initiatives.

Reforms to ensure taxpayers services: Awareness building through publication of taxpayer's instructions/leaflet, arrangement of some motivational actions, celebration of national tax day, introduction of income tax fair and recognition to the taxpayers by awarding, *'kaar Bahadur'* title to the best taxpayers as well as introduction of 'Citizen Charter' and issuance of tax card as a recognition of tax payment are some milestones in this field.

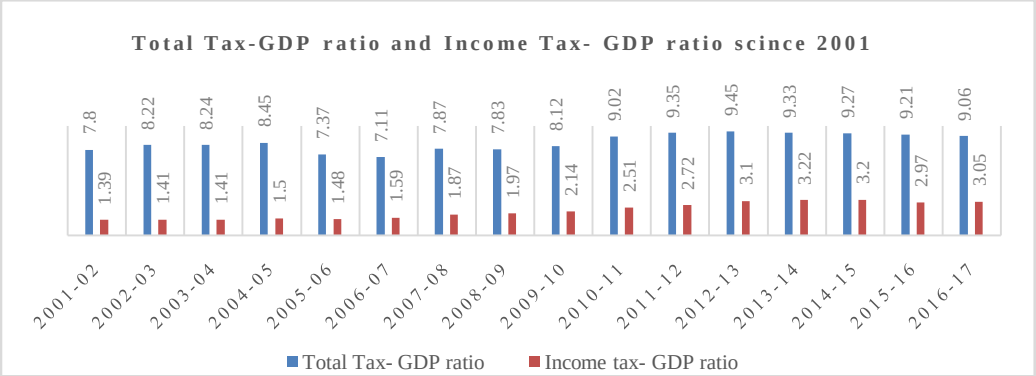
VI. Revenue Implications of Tax Reforms

Tax reforms are proposed as revenue-neutral exercises, the usual effect of a considerable decline in tax rate can reduce total tax revenue if there is no corresponding increase in the tax base (Rao, 2000).In Bangladesh, the share of total tax revenue from direct taxes showed a considerable increase as a share of GDP over the past few years. But, it is uncertain to what extent the increase in total tax revenue is due to the increase of salary in the public sector, how much of this is caused by better compliance arising from lower marginal tax rates and how much as a result of administrative measures. Some charts are presented below to identify the trend of direct taxation in Bangladesh:

a) Trend in Tax-GDP ratio

In each reform initiative there was a suggestion to increase the Tax- GDP ratio. In the Revenue Reform Commission(RRC) report, there was a target increase of tax-GDP ratio at 12.61 percent by FY 2012 with an annual growth rate of 0.45 percent. However, the achievement was lag behind the actual, it is still in a single digit. In the Comprehensive Modernization Plan (CMP), the target Tax-GDP ratio was13 percent by 2016. The following chart shows that there is a steady increase in Tax- GDP ratios over the period but these ratios could not achieve the set targets of different reform initiatives.

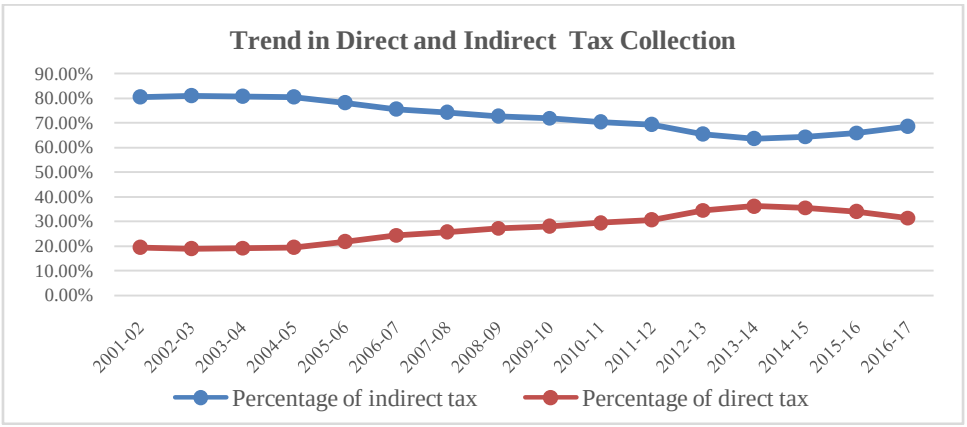
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Source: Data for this graph are collected from NBR's Annual Report 2016-17.

b) Trend in the direct and indirect tax collection

Similar to other developing countries, Bangladesh has initiated a progressive tax policy to boost up the share of direct tax to total tax revenue and the ratio of direct to indirect tax. In Revenue Vision 2021, the target contribution of direct tax should be more than half of the total tax revenue by FY 2020-21.The subsequent line chart reveals the trend of direct to indirect tax collection during 2001-02 to 2016-17. It is evident that the contribution of direct taxes is increasing and the contribution of indirect taxes is decreasing over the years which are to some extent in line with the set target as well as progressivity of the taxation system.

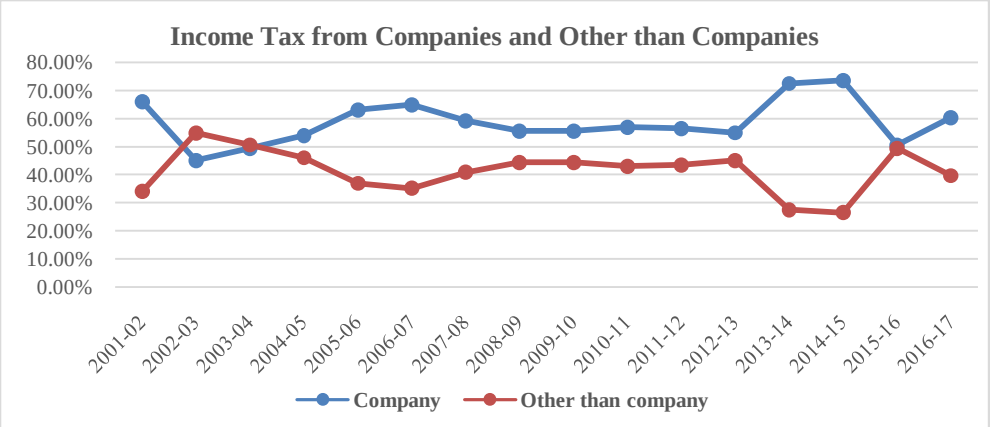


Source: Data for this graph are collected from NBR's Annual Report 2016-17.

c) Trend in tax collection from corporate entities and other than the corporate sector

Corporate tax plays a vital role in the total amount of direct tax collection. About three-fifths of the total direct tax revenue is collected from the corporate sector (sixteen-year average is 58.63 percent, calculated by the researchers). Though it is very hard to explain the causes of an unusual increase in the share of corporate tax in 2014 and 2015, the reasons may be attributable to the following events. In FA 2014, sec 35 of ITO was amended to meet the stipulations of Bangladesh Accounting Standards (BAS) and Bangladesh Financial Reporting Standards (BFRS). Introduction of Alternative Dispute Resolution (ADR), the inclusion of cigarette manufacturing companies and merchant banks in the company category and formulation of transfer pricing rules in 2012 may have contributed to the increase of the volume of corporate tax among other measures. However, in 2015, the corporate tax rate was reduced by 2.5 percent for publicly and non-publicly traded companies and for bank and nonbank financial institutions.

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Source: Data for this graph are collected from NBR's Annual Report 2016-17.

VII. Shortcomings, Challenges, and Recommendations

As stated earlier there were a good number of reform initiatives since the independence of Bangladesh, still there remains quite a few alarming features in the tax regime. The tax-GDP ratio is yet to arrive at the anticipated level. Even though the coverage under direct tax has shown significant improvement over the period, much remains to be addressed to build an efficient tax administration and a progressive tax structure. Bangladesh government is using generous tax holidays and tax exemptions to attract investment for rapid industrialization of the country. Most remarkable is that the government is sometimes influenced by the influential political lobby. The common limitations are high indirect to direct tax ratio, high reliance on import tax than income tax, narrow tax base, low tax-GDP ratio, etc. Besides, regulatory enforcement and compliance, audit and collection efforts, and revenue administration are weak that reflect the capacity constraints and resistance from a group of influential vested interests. Frequent court rulings on tax cases have weakened the tax revenue collection efforts.

Designing and implementing an appropriate policy framework are the major challenges to Improving the efficiency of the tax administration. In the case of corporate income tax, it is imperative to broaden the tax base by minimizing tax concessions and preferences. But the reality is that the government has been increasing tax incentives continuously to make the tax system more complex and to produce a wide gap between the nominal and effective corporate tax rates. As the corporate entities have started to use tax incentives excessively, for revenue reasons, the government has started charging the minimum tax under the provision of section 82C of Income Tax Ordinance 1984. Thus one limitation is sought to be remedied through another and this step has complicated the tax system further. In this backdrop, complete rethinking is necessary while reforming the tax system in Bangladesh.

Some recent issues regarding corporate income tax need to be addressed with due diligence so that expected tax revenue can be collected from this sector. A remarkable progress is that transfer pricing and anti-evasion rules are recently included in the law. Those should be implemented firmly with no discrimination. Thin capitalization rules (more debt in the corporate capital structure) should be discouraged so that no corporate entity can claim excess interest expense as a deduction. It is highly essential to design a suitable tax incentive structures for priority sectors in light of the National Industrial Policy-2016 and considering regional disparity. The tax authority should also increase the audit activities to unearth revenue leakage and tax evasion. It would be helpful to evaluate the contribution of different sectors to corporate tax revenue including public sector companies. There are 3,462 public limited companies, 161,894 private limited companies and 860 foreign companies registered with the Registrar of Joint Stock Companies (RJSC) till December 2018 (Office of the Registrar of Joint Stock companies and firm, 2018) but only 75,144 companies are paying tax (Annual Report 2016-17, 2019). So there is a huge gap between registered companies and companies paying tax. Coordination among NBR, RJSC, and ICAB can help improve this situation among other measures.

VIII. Conclusions

Several reform initiatives were undertaken in the last four decades, some of those were comprehensive and some were designed to achieve a specific objective. Of them, TEC, World Bank's initiative, RRC, and CMP were covering the whole gamut and others were for the modernization and simplification of the tax system. After the CMP in 2011, there was no major reform effort in the field of direct taxation. Recently VAT Act has been finalized and put into effect but the direct tax code 2012 is still in the darkness. Though reform

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initiatives have already been up to the mark in some field, but the overall outcome of reforms are not satisfactory in terms of tax-GDP collection and other parameters. In the case of direct taxes, the revenue ratio has shown an upward trend. But, the revenues realized are nowhere near the potential and much remains to be done to improve the horizontal equity of the tax system by extending the tax net. Some business bodies like FBCCI always call for the reduction of corporate tax rate but the rate is reasonable in comparison with other South Asian countries. The inability to bring in the all registered companies into the tax net has continued to exert pressure to increase the standard exemption limit of deductions. Tax incentives should be designed to protect local import substitute industries as well as to attract FDI. Since the last eight years there is no comprehensive reform initiative, so an all-inclusive tax reform commission should be formed to address the present limitations and challenges in the tax regime of Bangladesh.

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