
# Reasons Behind Low Tax Revenue Contribution to the GDP of Bangladesh

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## ABSTRACT

The research attempts to identify the reasons behind the low tax-to-GDP contribution in Bangladesh. The study used primary data sources collected from 417 respondents by administering a semi-structured questionnaire among Taxpayer's Identification Number (TIN) holders using google form. Data for the study were analyzed using descriptive statistics such as frequency, mean, standard deviation, and percentile. The empirical result suggests that corruption, administrative weakness on effective tax and VAT collection, the scope of money laundering, widespread evasion by rich groups, provision of whitening black money, poor relationship between taxpayers and tax authorities, tax evasion due to lack of technical expertise, lack of awareness on civic responsibility of tax obligation, complex tax law, cash transactions in business, etc. are the primary reasons behind low tax-to-GDP contribution in Bangladesh. The research adds value to the existing knowledge of public finance and provides a message to policymakers. The researcher cannot collect responses from many tax officials using the questionnaire, and no opinion is taken from the policy level authority of the National Board of Revenue (NBR). This is one of the pioneer studies that identified the causes of low tax-to-GDP contribution in Bangladesh based on first-hand data.

## 1.0 Introduction

South Asian countries have been less successful in widening their tax base, strengthening tax administration, and improving compliance (Gupta, 2015). Petty corruption significantly reduces citizens' tax morale in 29 Sub-

Saharan countries (Jahnke & Weisser, 2019). Structural factors such as a large share of agriculture, low literacy, and large informal sectors have hindered tax collection in South Asian countries (Gupta, 2015). Different challenges and constraints, such as limited administrative resources and expertise, weak tax administration, widespread evasion, corruption and coercion, low taxpayer literacy and morale, and negative attitudes toward government faced by policymakers and revenue authorities in developing economies (McKerchar & Evans, 2009). Less successful in broadening the tax base, improving compliance, simplifying and strengthening tax administration, initiating more comprehensive governance and regulatory reforms, and modernising economies are the main reasons for low tax revenue in South Asian countries (Gupta, 2015). Low average tax revenue, the inability to tax top incomes, and the low contribution of taxes on property are the limiting factors to make the effectiveness of taxation in promoting equality in Latin America (Martorano, 2018).

Characteristics of developing countries are a significant share of agriculture in total yield and employment, large informal sectors and professions; many small establishments, a small percentage of wages in real national income, a small share of total consumer spending made in large, modern establishments (Levi, 1988, cited in John, 2006). The rich do not pay taxes is the general perception in Nigeria, which has worsened the situation (Odusola, 2006). The characteristics of developing countries reduce the possibility of depending on personal income tax and make them more dependent on indirect taxes such as foreign trade taxes, resulting in a lower level of tax collection (John, 2006). Insufficient staff with appropriate skills, low public-sector wages, lack of latest equipment and facilities, unclear and complex tax and allied laws, improper law enforcement for evasion and corruption, poor information collection, and taxpayers identification are common unfavourable factors in the tax systems of the developing countries (Bird, 1989; Kaldor, 1955, cited in John, 2006). The private cost of evading taxes is often insignificant compared to personal gain due to the weak enforcement systems, as detecting non-compliance is low in developing countries (Yogo & Njib, 2016). Therefore, public finance solutions that work well in developed countries are not necessarily suitable for developing economies (Pirttilä & Tarp, 2019).

Low-income countries rely more on taxing companies than individuals (Khujamkulov, 2016). Tax evasion is facilitated by corruption, and corruption is facilitated by tax complexity (Tanzi, 2017). There are lessons for reducing tax evasion that is also relevant for reducing crime (Alm & Liu, 2017). Corruption is negatively linked to overall tax revenue, and most of its components are influenced mainly by how corruption interacts with tax compliance (Baum, Gupta, Kimani, & Tapsoba, 2017). Corruption is damaging to the social contract because it weakens the legitimacy of the state and results in low tax compliance levels (Schlenther, 2017). Tax corruption ultimately depends on the willingness of tax officials on the one hand and taxpayers or their intermediaries on the other to engage in the corrupt activity (Tjen & Evans, 2017).

Increases in property taxes in low-income or middle-income countries might have limited or detrimental effects on long-run GDP growth rates (Mcnabb, 2018). The tax system of Bangladesh is informal, flexible, and corrupt but remains opposed to change as it delivers low and conventional tax rates to businesses, has a wide chance for corruption in the tax management, and is a vital medium for fundraising by political leaders and rent sharing to their privileged group (Hassan & Prichard, 2016). The current revenue challenges for Bangladesh are- a narrow tax base, taxing the digital economy, MNCs tax avoidance and international tax rules, flawed third party tax information reporting system, and poor tax culture (Ahmed, 2019). The tax knowledge gap creates a distance between taxpayer and tax authority and generates apathy for compliance (Ahmed, 2019a). In Bangladesh, income tax evasion is high, undermining income equality and development finance (Khan, Kamal, & Talukdar, 2019).

## 2.0 Objective of the Study

The study's main objective is to investigate the reasons behind the low tax revenue contribution to the GDP of Bangladesh.

## 3.0 Rationale of the Study

The study will enrich the literature on public finance, and the findings would be valuable for the policymakers of public finance and implementation level authorities to increase tax revenue contribution to the GDP of Bangladesh.

## 4.0 The Methodology of the Study

This is empirical research based on primary data collected through administering semi-structured questionnaires among TIN holders in Bangladesh.

## 4.1. Population and Sample

There are 46 lac Taxpayer's Identification Number (TIN) holders in Bangladesh (Hossain, 2019), but the number of taxpayers is only 20-22 lakhs (GOB, 2020 p. 12). So the population is considered 22 lakhs.

According to Krejcie and Morgan's table, to determine the sample size of the finite population, the study required a sample size of 384 as a large population. Therefore, the researcher collects data from 417 respondents.

## 4.2. Questionnaire Development

A questionnaire was developed to measure the level of positive or negative attitude towards some facts on a 1-5 point Likert scale, where numeral 1 meant for 'highly disagree' and numeral 5 for 'highly agree', 'disagree', 2, 'neither agree nor disagree', 3 and 'agree', 4 in between them. It should mention here that some potential reasons behind low tax revenue contribution to GDP were included in the questionnaire. The questionnaire was first developed in a word file thorough review of available literature on the internet, both at home and abroad. Then opinion was taken from five academicians cum researchers. The feedback was used to finalise the questionnaire. The final questionnaire was developed in the google form.

## 4.3. Data Collection

Primary data was collected from 417 taxpayer respondents. The questionnaire link (google form link) was sent to about 4,500 potential taxpayers, at least 2nd class employees of government services and equivalent level in the private sector, from 15 June to 27 July 2021 using the personal Messenger, WhatsApp, and email of the researcher to collect primary data. It should mention here that I had selected participants from different universities, bankers, college teachers, tax officials, government service holders, and members of alumni associations considering all divisions of Bangladesh. In addition, well-known to the researcher was requested to share the link with their dearest friend and colleague who are a taxpayer with a request to provide data. The response received until 31 July 2021 was included in the research database. The response rate is about 10 per cent. It was challenging to collect data from unknown taxpayers except for university teachers. So all personal link was used to collect data.

4.4. Data Analysis Techniques

The research used descriptive statistics to measure the respondents' level of agreement with the potential reasons behind the low tax revenue contribution to Bangladesh's GDP. Mean, median, mode, and per cent of respondents who agreed and highly agreed with the statement are presented in a table with a brief discussion of the process.

5. Analysis and Discussion

The mean, median, mode, and percentage of respondents whose scores>3 are presented here to identify the reasons behind the low tax revenue contribution to Bangladesh's GDP. In the descriptive analysis, twenty-two statements are categorised into four groups such as socio-economic condition, tax law, tax administration, and practices.

The mean tax-to-GDP of Bangladesh (7.91) is lower among SAARC countries except for Afghanistan (7.80). The mean tax-GDP ratio of Bangladesh is mentionable lower than Bhutan (11.39), India (10.39), Maldives (10.60), Nepal (13.32), and Sri Lanka (12.51). The mean ratio of Bangladesh is mentionable below the South Asian countries (10.31), lower-middle-income countries (12.01), and far behind high income (15.67), OECD members (15.73), and World (14.79) average.

## 5.1. Reasons Related to Socio-Economic Condition

There were six reasons for the low contribution of tax revenue to GDP (table 1) related to the country's socio-economic condition in the questionnaire. More than three-fourths (76.0 per cent, mean 4.11, median 4 and mode 5) of the respondents believe that 'lack of awareness on civic responsibility of tax obligations among the taxpayers' is the obstacle to the increasing contribution of tax revenue to GDP in Bangladesh. In addition, more than three-fifths of the respondents agreed with 'the large size of the informal economy or shadow economy (64.0 per cent, mean 3.77, median and mode 4)' and 'the majority of the population are under the agricultural income group (61.1 per cent, mean 3.64, median and mode 4)' are the reasons of low tax revenue contribution to GDP.

Table 1. Reasons Related to Socio-Economic Condition

| S/N | Causes of Low Tax Contribution to GDP | Strongly disagree | Disagree | Neither Agree nor Disagree | Agree | Strongly agree | Mean | Median | Mode | % >3 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Low literacy rate | 26 | | | | | | | | |
| (6.2) | 73 (17.5) | 152 (36.5) | 100 (24.0) | 66 (15.8) | 3.26 | 3 | 3 | 39.8 | | |
| 2 | A large number of the rural population | 25 (6.0) | 64 (15.3) | 100 (24.0) | 143 (34.3) | 85 (20.4) | 3.48 | 4 | 4 | 54.7 |
| 3 | Lack of awareness on civic responsibility of tax obligations among the taxpayers | 7 (1.7) | 28 (6.7) | 65 (15.6) | 129 (30.9) | 188 (45.1) | 4.11 | 4 | 5 | 76.0 |
| 4 | The majority of the population are under the agricultural income group (historically, agricultural income is an under-taxed sector) | 17 (4.1) | 60 (14.4) | 85 (20.4) | 151 (36.2) | 104 (24.9) | 3.64 | 4 | 4 | 61.1 |
| 5 | The large size of the informal economy or shadow economy | 4 (1.0) | 32 (7.7) | 114 (27.3) | 171 (41.0) | 96 (23.0) | 3.77 | 4 | 4 | 64.0 |
| 6 | Narrow tax base | 19 (4.6) | 78 (18.7) | 117 (28.1) | 143 (34.3) | 60 (14.4) | 3.35 | 3 | 4 | 48.7 |

Source: Author's Analysis of Primary Data.

### 5.2. Reasons Related to Tax Law

There are four reasons behind the low contribution of tax revenue to GDP (table 2) related to the tax law in the questionnaire. About three-fourths of the respondents agreed with three reasons for low tax revenue contribution to GDP out of four relating to tax law. About three-fourths of the respondents agreed with 'in some cases, tax laws are problematic even for the individuals learned on tax (mean 4.04, median 4 and mode 5)', 'tax laws are complex to understand for the taxpayers (mean 3.96, median 4 and mode 5)', and 'complex tax payment procedures (mean 3.92, median 4 and mode 5)' as the leading causes of low tax revenue contribution to GDP in Bangladesh. About half of the respondents agreed with 'frequent changes in tax laws (mean 3.42, median and mode 3) as a reason for the low tax contribution.

Table 2. Reasons Related to Tax Law

| S/N | Causes of Low Tax Contribution to GDP | Strongly disagree | Disagree | Neither Agree nor Disagree | Agree | Strongly agree | Mean | Median | Mode | % >3 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Tax laws are complex to understand for the taxpayers | 15 (3.6) | 36 (8.6) | 64 (15.3) | 136 (32.6) | 166 (39.8) | 3.96 | 4 | 5 | 72.4 |
| 2 | In some cases, tax laws are problematic even for the individuals learned on tax | 11 (2.6) | 20 (4.8) | 71 (17.0) | 154 (36.9) | 161 (38.6) | 4.04 | 4 | 5 | 75.5 |
| 3 | Frequent changes in tax laws | 21 (5.0) | 62 (14.9) | 132 (31.7) | 124 (29.7) | 78 (18.7) | 3.42 | 3 | 3 | 48.4 |
| 4 | Complex tax payment procedures | 16 (3.8) | 39 (9.4) | 65 (15.6) | 139 (33.3) | 158 (37.9) | 3.92 | 4 | 5 | 71.2 |

Source: Author's Analysis of Primary Data.

## 5.3. Reasons Related to Tax Administration

There are four reasons behind the low contribution of tax revenue to GDP (table 3) related to tax administration in the questionnaire. More than seventy to eighty per cent of respondents are agreed with all of the reasons for low tax revenue contribution to GDP. More than four-fifths of the respondents agreed with 'administrative weakness on effective tax collection (83.0 per cent, mean 4.29, median and mode 5)', and 'administrative weakness in the prevention of VAT evasion (81.5 per cent, mean 4.23, median 4 and mode 5)' as the reasons of low tax revenue contribution. In addition, more than three-fourths of the respondents agreed with a large volume of tax evasion due to a lack of technical expertise (76.3 per cent, mean 4.02, median and mode 4)' whereas more than seven-tenth of the respondents agreed with 'inadequate number of trained and qualified accountants in tax (70.7 per cent, mean 3.93, median and mode 4)' as the reason of low tax contribution to GDP in Bangladesh.

Table 3. Reasons Related to Tax Administration

| S/N | Causes of Low Tax Contribution to GDP | Strongly disagree | Disagree | Neither Agree nor Disagree | Agree | Strongly agree | Mean | Median | Mode | % >3 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Administrative weakness on effective tax collection | 8 (1.9) | 16 (3.8) | 47 (11.3) | 121 (29.0) | 225 (54.0) | 4.29 | 5 | 5 | 83.0 |
| 2 | Administrative weakness in the prevention of VAT evasion | 4 (1.0) | 9 (2.2) | 64 (15.3) | 151 (36.2) | 189 (45.3) | 4.23 | 4 | 5 | 81.5 |
| 3 | A large volume of tax evasion due to a lack of technical expertise | 5 (1.2) | 17 (4.1) | 77 (18.5) | 183 (43.9) | 135 (32.4) | 4.02 | 4 | 4 | 76.3 |
| 4 | Inadequate number of trained and qualified accountants in tax administration | 8 (1.9) | 27 (6.5) | 87 (20.9) | 157 (37.6) | 138 (33.1) | 3.93 | 4 | 4 | 70.7 |

Source: Author's Analysis of Primary Data.

## 5.4. Reasons Related to Practices

The questionnaire included eight reasons behind the low contribution of tax revenue to GDP (table 4) related to present practices. Most of the respondents (90.9 per cent, mean 4.61, median and mode 5) believe that 'corruption' is the leading cause of low tax revenue contribution to Bangladesh's GDP. About four-fifths of the respondents agreed with 'scope for money laundering (81.1 per cent, mean 4.26, median 4 and mode 5)', 'widespread evasion reduces the tax contributions from the rich group (79.9 per cent, mean 4.19, median 4 and mode 5)', 'provision of whitening black money (78.6 per cent, mean 4.12, median 4 and mode 5)', 'poor relationship between taxpayers and tax authorities (77.4 per cent, mean 4.15, median 4 and mode 5)' as the major causes of low tax revenue contribution to GDP. About seven-tenth of the respondents agreed with 'cash transactions in business lead to tax evasion (71.8 per cent, mean 3.94, median and mode 4)', and 'taxpayers prefer to evade tax at any cost than to pay taxes (70.3 per cent, mean 3.96, median 4 and mode 5)' as the cause of low contribution.

**Table 4. Reasons Related to Practices**

| S/N | Causes of Low Tax Contribution to GDP | Strongly disagree | Disagree | Neither Agree nor Disagree | Agree | Strongly agree | Mean | Median | Mode | % >3 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Cash transactions in business lead to tax evasion | 5 (1.2) | 14 (3.4) | 99 (23.7) | 180 (43.2) | 119 (28.6) | 3.94 | 4 | 4 | 71.8 |
| 2 | Widespread evasion reduces the tax contributions from the rich group | 5 (1.2) | 11 (2.6) | 68 (16.3) | 147 (35.3) | 186 (44.6) | 4.19 | 4 | 5 | 79.9 |
| 3 | Poor relationship between taxpayers and tax authorities | 11 (2.6) | 24 (5.8) | 59 (14.1) | 119 (28.5) | 204 (48.9) | 4.15 | 4 | 5 | 77.4 |
| 4 | Taxpayers prefer to evade tax at any cost than to pay taxes | 6 (1.4) | 30 (7.2) | 88 (21.1) | 145 (34.8) | 148 (35.5) | 3.96 | 4 | 5 | 70.3 |
| 5 | The administrative cost of tax collection is high | 25 (6.0) | 56 (13.4) | 147 (35.3) | 119 (28.5) | 70 (16.8) | 3.37 | 3 | 3 | 45.3 |
| 6 | Corruption | 3 (0.7) | 4 (1.0) | 31 (7.4) | 76 (18.2) | 303 (72.7) | 4.61 | 5 | 5 | 90.9 |
| 7 | Scope for money laundering | 3 (0.7) | 13 (3.1) | 63 (15.1) | 132 (31.7) | 206 (49.4) | 4.26 | 4 | 5 | 81.1 |
| 8 | Provision of whitening black money | 13 (3.1) | 20 (4.8) | 56 (13.4) | 141 (33.8) | 187 (44.8) | 4.12 | 4 | 5 | 78.6 |

Source: Author's Analysis of Primary Data.

# 6. Conclusion

Bangladesh is a developing country and will become a developed country within 2041 under the national strategic plan Vision '41 through industrialisation and investment in human capital development (Wikipedia). However, literature support that the contribution of tax revenue to the GDP of Bangladesh is low. Early researchers mentioned different reasons for the low tax contribution to GDP in scattered ways. The study investigated the significant reasons behind the low contribution of tax revenue to the GDP of Bangladesh. The research is based on primary data sources collected through administering questionnaires among individual taxpayers of Bangladesh through google drive. The questionnaire included some 5 points Likert type close-ended questions. Primary data were collected from 417 respondents. Descriptive statistics like mean, SD and percentile were used to identify the result.

Maximum respondents (90.9 per cent) agreed that corruption is the prime cause of low tax-revenue contribution to the GDP of Bangladesh, which is under the category of practices. The finding has similarities to the result of

McKerchar and Evans, 2009. More than four-fifths of the respondents (83 per cent) believed that administrative weakness (McKerchar & Evans, 2009) in effective tax collection and VAT collection (81.50 per cent) are the top-most reasons for low tax-GDP contribution related to administration. More than four-fifths of the respondents (81.1 per cent) believed that the scope of money laundering, widespread evasion (McKerchar & Evans, 2009) by wealthy groups (79.9 per cent), and the provision of whitening black money (78.6 per cent) are the reasons for low tax-GDP contribution in Bangladesh related to practices. About three-fourths of taxpayers agreed with the poor relationship between taxpayers and tax authorities (77.4 per cent); tax evasion due to a lack of technical expertise (76.3 per cent); lack of awareness of civic responsibility of tax obligations among the taxpayers (76.0 per cent); tax laws are problematic even for the individual learned on tax (75.5 per cent) as the reasons behind low tax-GDP contribution in Bangladesh. More than seven-tenth of the respondents believe that tax laws are complex to understand (72.4 per cent); cash transactions in business (71.8 per cent); complex tax payment procedures (71.2 per cent); the inadequate number of trained and qualified accountants (70.7 per cent) and taxpayers prefer to evade tax at any cost than to pay tax (70.3 per cent) are the reasons of low tax contribution to GDP. About two-thirds of the respondents agreed that the large size of the informal or shadow economy (64.0 per cent) and the majority of the population being under the agricultural income group (61.1 per cent) are the mentionable causes of low tax revenue to GDP, which have similarity with Gupta, 2015. About half of the respondents agreed that a large number of the rural population (54.7 per cent), narrow tax base (48.4 per cent), etc. are the causes of low tax contribution to GDP. The research is able to find out the reasons for the low tax revenue contribution to the GDP of Bangladesh. It will be helpful for the academician and researcher to conduct further in-depth studies in that field. On the other hand, policymakers can take initiatives to increase tax revenue through taking suitable policies considering the findings of the study.

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