The Illusive Goal of Domestic Revenue Mobilisation

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Core findings from the White Paper

1. **Persistently Low Tax-to-GDP Ratio**: Bangladesh's tax-to-GDP ratio remains one of the lowest in the world, at 7.5%. **Reforms Struggle as Political and Business Elites Protect the Status Quo**

2. **Dominance of Indirect Taxation and underutilized capacity to tackle inequality**: 40% of revenue comes from VAT. Despite the economic growth, limited progress in personal and corporate income taxes collection. **The underutilized capacity to collect more direct taxes also affected the country's ability to tackle inequality.**

3. **Narrow Tax Net and Fragmented automation**: Despite over 1 crore registered taxpayers, only 43 lakh filed returns in FY2023-24. **The half-hearted automation of the National Board of Revenue's (NBR) tax collection system is a major barrier to effective revenue generation**

4. **Policy Chaos through Exemptions**: High tax exemptions without any analysis and mostly driven by political and business influence (about 6% of GDP). World Bank analysis suggests that there is potential to collect more than three times the current VAT revenue if policy and compliance gaps were addressed. **Frequent ad hoc changes to tax laws through Statutory Regulatory Orders (SROs) have worked against transparency and predictability, distorting trade and reducing revenue. Halving tax exemptions could double education funding and triple health allocation.**

5. **Frequent Shortfall in Revenue Targets**: Persistent inability to meet ambitious revenue collection targets. The annual average shortfall over FY18 to FY22 was Tk 749 billion (2.4% of GDP). **Rather than an evidence-based approach to revenue forecasting and target setting, it is the Finance Division which arbitrarily sets annual revenue target without any meaningful consultation with the NBR**

6. **Capacity constraints:** NBR faces **significant capacity constraints**, lacking autonomy, human resources and expertise in tax policy analysis. Current process for appointing the NBR Chairman presents significant challenges to the effective administration and governance of the institution

An update on the policy context and actions

- White paper findings and recommendations are being considered by **NBR Reform Advisory Committee**

- **A task force formed by NBR** is working on identifying the prevailing distortions in the **income tax act.**

- **NBR Reform Advisory Committee** submitted its interim report to NBR

- Started working to separate tax policy from tax administration

- **Reviewing SROs to rationalize exemptions**

- **Reducing discretionary power** of NBR

- NBR is working on undertaking projects for integrated automation system

- **Medium to long term revenue strategy (2025-2034)** being finalized by NBR with a focus on the broad goals of end-to-end automation, raising tax-GDP ratio, improving voluntary tax compliance, closing the gap between actual and potential tax revenues, ensuring uniformity of practice and uniformity of law, and improving integrity and transparency.

Recommendations for the budget and beyond

Upcoming budget should provide clear directions and provisions for:

- Establishing an evidence-based mechanism to impose any tax/vat/duties etc.
- Investment in Automated Compliance and Enforcement System
- Funding for Risk-Based Audit Systems
- Infrastructure Development for Digital Tax Management System and inter-agency data sharing
- Establish a Tax Exemption Review Mechanism
- Advanced Analytics and Surveillance Tools

Recommendations for the budget and beyond

Short Term Measures (1-2 years)

- Enforce tax-linked access to public services.
- Make e-TDS compliance mandatory to improve collection accuracy.
- Strengthen compliance for TIN holder with automated systems.
- Introduce risk-based automated audits.
- Automated tax deduction and refunds to increase trust.
- Separate policy and administration function in NBR.
- Ensure longer tenures for NBR leadership with NBR experience.
- Increase taxpayer education and awareness.

Medium Term Measures (3-5 years)

- Restructure tax offices for greater efficiency.
- Implement faceless tax assessments
- Expand the registered taxpayer base.
- Introduce a universal tax identification number at adulthood
- Rationalize corporate tax rates.
- Systematically review and rationalize tax exemptions.
- Strengthen NBR capacity with staff expansion and training
- Promote fiscal decentralization.
- Implement national invoice automation system for VAT
- Enhance digital interoperability with other agencies

Long Term Measures (5+ years)

- Create multi-year roadmap for direct tax reforms
- Fully digitize tax administration
- Introduce modern property tax system
- Implement customs modernization to facilitate trade and reduce cost.
- Design comprehensive wealth tax system
- Strengthen monitoring and surveillance for tax evasion
- Mainstream the informal economy and discourage cash transactions

Thank You

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