



# Dynamics of Tax Evasion: An Explorative Study in a Tax Circle of Bangladesh

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MPPG (9th Batch)

**October 2020**



**South Asian Institute of Policy and Governance (SIPG)**  
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Bangladesh

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Thesis submitted to the  
South Asian Institute of Policy and Governance (SIPG) Program  
in partial fulfilment for the award of  
**Master in Public Policy and Governance**

**October 2020**



**South Asian Institute of Policy and Governance (SIPG)**  
**North South University, Dhaka, Bangladesh**

## **Dedicated to**

This paper is dedicated to my beloved children, who have been slightly deprived in terms of love and care of their father during my study and stay outside my country

## Declaration

I hereby declare that the dissertation entitled " Dynamics of Tax Evasion: An Explorative Study in a Tax Circle of Bangladesh" submitted to South Asian Institute of Policy and Governance Program (SIPG) at North South University, Dhaka, Bangladesh for the Degree of Master in Public Policy and Governance, is an original work done by me under the guidance of **Dr. M. Mahfuzul Haque, PhD, Research Coordinator, Faculty Member, South Asian Institute of Policy and Governance (SIPG), North South University, Dhaka, Bangladesh.** No part of it, in any form, has been copied from other sources without acknowledgement or submitted to any other university or institute for any degree or diploma. Views and expressions of the thesis bear the responsibility of mine with the exclusion of PPG for any errors and omissions to it.

Signature with date:

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## Acknowledgements

It is an excellent opportunity for me to study on the very contemporary and burning issue for NBR like tax evasion. The title of my research is **"Dynamics of Tax Evasion: An Explorative Study in a Tax Circle of Bangladesh"**. Foremost, I want to offer this work to Almighty God for the wisdom, the strength, and the sound health He has given upon me to complete the study. Then, I am thankful to many people in the entire journey of my research work, who provide me with guidance and motivation to move forward when I lost my enthusiasm. I like to acknowledge those significant contributions that make me capable of reaching the final stage. I would like to express my gratitude to my supervisor Dr. M. Mahfuzul Haque, PhD, for his valuable advice, conceptual ideas, consistent supports, and constructive criticisms despite his hectic schedule. I acknowledge with thanks to the member of the MPPG research committee for their thought-provoking ideas and guidance that lead to this accomplishment. I would also like to express my gratitude to all the students of the 9th batch of MPPG program for their constructive comments, supports, insights and criticism, which enormously help to enrich my dissertation. Special thanks go to the program officer and other staffs of MPPG program, North South University for their continuous supports. I gratefully acknowledge the funding source from the Norwegian government (NORAD) that enabled me to peruse one semester of my study in University of Bergen (UiB) Norway. I also owe to the faculties of the Department of Administration and Organization Theory, the University of Bergen for schooling me the Advanced Methodology for Social Research. I am highly indebted to Dr. Ishtiaq Jamil, Professor, the University of Bergen for disseminating their knowledge. I would also like to thank Mr. Hasan Muhammad Baniamin, PhD, who has significantly contributed to enrich my understanding of thinking. I would like to thank my seniors, colleagues and friends who help me to collect information during my fieldwork at NBR. Mainly, I am deeply indebted to Ms Arifa Shahana, Member, NBR at Government of Bangladesh who gave her valuable time for an interview and in-depth consultation about tax evasion.

Lastly and most importantly, I acknowledge the sacrifices and encouragements of my beloved family members for their supports in all my pursuits.

## **Abstract**

Tax evasion is considered burning issues all over the world. In a developing country like Bangladesh, the matter of handling tax evasion is more challenging. The size of the informal economy of Bangladesh is large. Despite the National Board of Revenue's (NBR's) untiring effort, the progress of reducing evasion of taxes is still unsatisfactory. Individuals, business and corporate firms use various measures to evade tax using loopholes in the current tax system in Bangladesh. Studies from different countries indicate that it is usual for about half of the possible tax revenues to remain uncollected due to tax evasion.

Tax evasion is a sophisticated and overall hidden behavior, but it has significant social and economic consequences. Different factors could influence the taxpayer's decision to evade tax or not. The decision to comply with tax laws or to evade tax depends on various internal and external factors with regard to the taxpayer, and this may differ from person to person.

The economic deterrence theory is used for this study. It states that some influencing factors are determining the cost and benefits of evasion of the tax such as the rate of tax, the probability of detection and imposing penalties for fraud, are influenced the taxpayer behavior.

This study aims to draw more significant insights on the dynamism of evasion of tax in Bangladesh and to explore the factors affecting the evasion of tax in Bangladesh over the period. Secondly, the study also attempts to explore the challenges to address the evasion of tax, and ensure the proper inflow of revenue collection for the national exchequer of Bangladesh. This is an explorative research based on primary data collected through a survey using a direct interview method with a formal and structured questionnaire. Based on purposive sampling, 23 respondents were selected for the interview, and the respondents are from Dhaka city of Bangladesh. The study uses descriptive analysis method to identify the factors and to establish the relationships it used multivariate and univariate analysis. The study confirms that taxpayer behavior is influenced by factors determining the benefits and costs of evasion, such as the tax rate, the probability of detection and penalties for fraud. It also indicates that the corrupting practices of tax advisors and tax officials, inefficient

tax auditing system, lack of proper record-keeping system, very low punishment practices and low risk of getting caught are the factors that influence the tax evasion in Bangladesh. It further reveals that low-quality services in the tax payment system and corruption by tax authorities are significantly associated with the tax evasion in Bangladesh. To reduce the tax evasion and increase the tax revenue, the study puts forward some recommendations such as awareness building among the taxpayers, counselling to the taxpayers, tax deducted/collected at sources, non-harassment of the taxpayers, digital processing & flow of financial information, severe panel measure for evasion of tax, effective enforcement & collection measures and efficiency of tax administration personnel, employing effective technology-based tax administration, increasing the knowledge level of tax system-employees.

**Keywords:** Tax, Income tax, Tax revenue, Tax Morale, Tax Compliance, Tax evasion

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## **List of abbreviation and Acronyms**

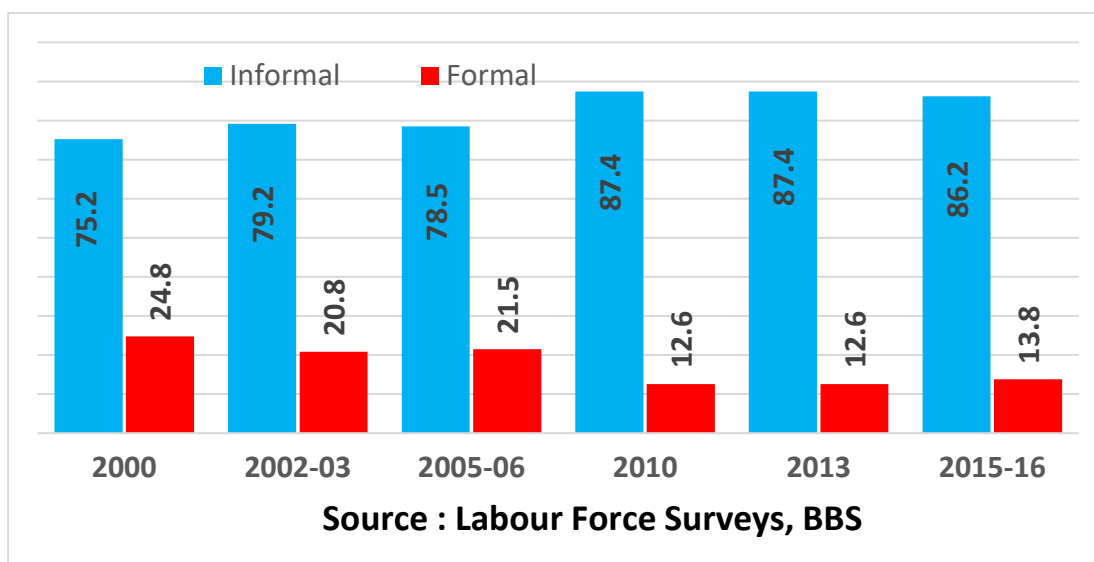
ACT	Assistant Commissioner of Taxes
ADB	Asian Development Bank
BCS	Bangladesh Civil Service
CT	Commissioner of Taxes
DCT	Deputy Commissioner of Taxes
FBCCI	Federation of Bangladesh Chambers of Commerce and Industry
GDP	Gross Domestic Product
HIPCs	Heavily-Indebted Poor Countries
IT	Information Technology
IJCT	Inspecting Joint Commissioner of Taxes
ICT	Information and Communication Technology
IFC	International Finance Corporation
IMF	International Monetary Fund
IRD	Internal Resource Division
ITP	Income Tax Practitioners
LICs	Low Income Countries
LTU	Large Taxpayers Unit
MoF	Ministry of Finance
NBR	National Board of Revenue
NID	National Identification Number
PSS	Political Science and Sociology
SRO	Statutory Regulatory Order
TDS	Tax Deducted at Source
TIN	Taxpayers' Identification Number
VAT	Value Added TAX
WB	World Bank

## **Chapter – 1: Introduction**

### **1.1 Introduction:**

Bangladesh, as a developing country, is committed to increase revenues in the form of tax and to achieve discipline in fiscal matters towards domestic resource mobilization. National Board of Revenue (NBR) is the regulator for tax management in Bangladesh. It is an attached department in the Internal Resources Division (IRD) of the Ministry of Finance (MoF) of Bangladesh government. NBR is accountable to formulate and endless re-appraisal of policies and laws relating to a tax matter. It plays an important role as a negotiator to formulate and sign tax treaties with foreign governments. It also participates in the inter-ministerial discussions on different economic issues considering the interest of revenues in the light of existing fiscal policies and tax laws. To make Digital Bangladesh and to become middle income country, the NBR of Bangladesh has initiated some reforms in its taxation system. This reform pertains to administration and policy. NBR is responsible for increasing the tax base as well as to ensure the revenue supply to the Government.

The net flow of aid was more than 6 percent of GDP in the year of independence. It continues up to the early 1990s. But the net flow of aid declined over the period and reduced about to 2 percent in the year 2014. Bangladesh has reduced its foreign aid dependency from year to year. It indicates that Bangladesh has become self-reliant by mobilizing domestic resources. “In recent years, Bangladesh has received less foreign aid as a percentage of GDP than either Heavily-Indebted Poor Countries (HIPC) or other Low-Income Countries (LICs)” (Hasan, 2011). Foreign remittance have increased from \$10.72 billion in 2009 to \$18.32 billion in 2019 and domestic demands have led Bangladesh to maintain the GDP at a steady level of 7% or so. Despite the economic progress, domestic resource mobilization through tax has been less satisfactory. According to NBR, Bangladesh government is highly dependent on indirect taxes and customs duty (VAT, SD and import duty). And this high dependence on indirect taxes and customs duty (i.e. VAT, SD and tariffs) is regressive – where the poor are losing a higher proportion of their income compared to the rich people. This system interrupts the criterion of "fairness" in taxation where the fairness ensures the dissemination of tax compliances as observed.



**Figure 1: Informal Vs Formal Jobs in % of Total employment**

In Bangladesh, the informal or black economy plays an important role both in employment generation and in production and distribution of goods and services. The informal sector activities are mostly small in size and transient in nature. The challenges for NBR is to deal with the informal economy of Bangladesh. Because this informal economic activity has strictly limited revenues from taxation, it also significantly affect to ensure established tax base in Bangladesh. From the above information, it is observed that 86.2% of the total economy of Bangladesh was informal in the year 2015-16. So, if NBR should address the informal economy for collecting more revenue for the Government.

Every tax officials should have an idea about the situations and factors for evading tax. “Dealing with the problem of tax evasion requires an understanding of the factors underlying taxpayers’ decision about whether to pay or evade taxes” (Merima Ali, 2013). Every year, a gap between budgeted revenue and collected revenue is a huge threat for our economy which obliges the Government to borrow loan thus the economic development is affected badly (Shakila, November, 2019).

This study attempts to draw insights on the dynamics of evasion of tax and challenges with regard to detection and enforcement. There are many pieces of research in the field of policy implementation, but very few on tax evasion. The concern of this study is to identify the low trend of Tax-GDP ratio in Bangladesh for more than a decade and to find impeding socio-economic factors for higher tax mobilization.

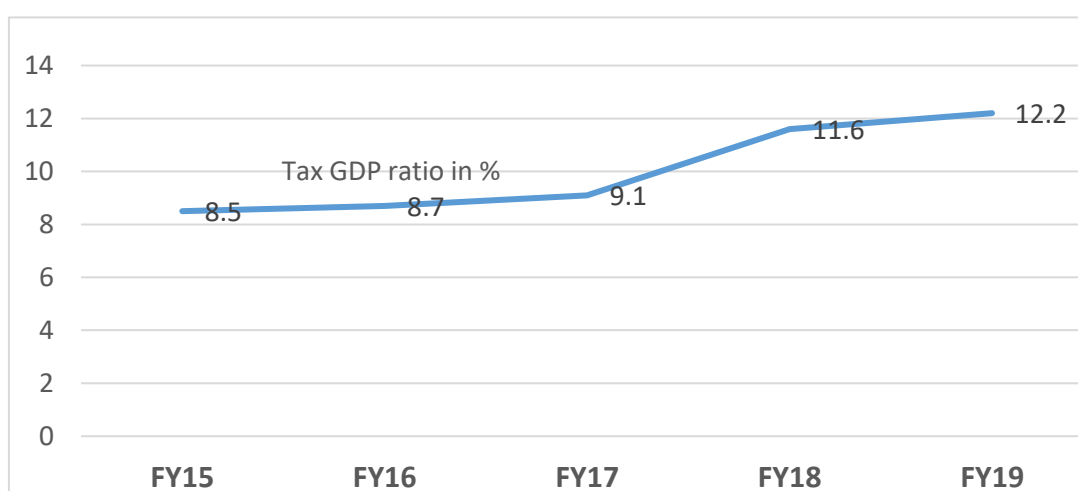
## **1.2 Rationale/Background of the Research:**

The Tax-GDP ratio is a ratio of an economy's revenue collection from tax relative to its gross domestic product (GDP). The tax-GDP ratio of Bangladesh is the lowest in the South Asian region and far below the average of the developing country. In his article published on the Financial Express, observed by (Mazid M. A., 2019) that the main causes of high tax evasion in Bangladesh are higher tax rates, multiple tax rates for different groups of taxpayers, the complexity in the tax laws, corruption among taxpayers and collectors and inefficiency of tax authorities. If the tax GDP ratio of a country becomes higher or more, there is a probability of collecting more tax revenue of that country. Every country is trying to increase the tax GDP ratio to mobilize domestic resources. The tax-GDP ratio among the south Asian countries are shown below:

**Table 1: Tax GDP ratio of South Asian Countries**

Country	Tax GDP (%)	Country	Tax GDP (%)
Nepal	20.7	Sri Lanka	12.4
Maldives	27.8	Afghanistan	9.3
Thailand	14.8	Bhutan	12.4
India	11.2	Bangladesh	9.1

Source: Tax GDP ratio of South Asian Countries for 2017, The World Bank Group (2019)



Source: The Centre for Policy Dialogue (CPD), 2019

**Figure 2: Tax revenue as share of GDP (%)**



From the above graph, it is observed that the tax-GDP ratio of Bangladesh is increasing, but its growth rate is very slow. The Tax-GDP ratio of Bangladesh for the last five years are shown in the above graph.

National Board of Revenue (NBR) is changing its service delivery procedure through the uses of technology, upgrading its human resources as well as improving the attitude of tax officials. Current Government policy aims at expansion of the income tax base and to extend the tax office at the level of every Upazila (Sub-district). The number of Taxes Zone is expected to be increased from 31 to 63 for monitoring and collecting taxes in the field level. Government policy aims to make the tax administration more goal-oriented, job-oriented and taxpayer-friendly. Different unit in NBR such as the tax intelligence, investigation and enforcement unit; digital tax management unit; tax deduction management unit; tax information unit; international tax unit; taxpayer service, public relations and infrastructure unit and tax dispute resolution unit will be set up gradually to make the NBR effective. The present Government of Bangladesh has intended to raise the tax GDP ratio to 15 percent by 2021.

Tax evasion is considered as common phenomena all over the world. It is a great problem in a developing country like Bangladesh. Despite the National Board of Revenue's (NBR's) untiring effort, the progress of reducing evasion of taxes is still unsatisfactory. Individuals, business and corporate firms use various measures to evade tax using loopholes in the current tax system in Bangladesh. "In most of the developing countries, including Bangladesh, governments have been facing difficulties to expand their tax base due to raising evasion of tax for financing to make delivery of services ease" (Magesa, 2014). In Bangladesh, There are 163 million of population, among them only 1.8 million of individuals and corporates are submitted their tax return and paid their income tax for the assessment year 2018-2019, which is slightly more than 1% of its population (NBR Website). This information and fact reflect the harsh reality of the tax-evasion situation in Bangladesh. So, it is necessary to understand the factors for evading tax to formulate policies relating to taxation. Thus, this study focuses on influencing factors, processes and mechanisms which are usually involved in the evasion of tax in Bangladesh.

### **1.3 Statement of the problem:**

The tax-gap is the gap between the amounts of tax should be levied, and the amount of tax levied. “One of the reasons for the tax gap may be different tendencies in the tax evasion behavior of taxpayers” (Gumus, 2013). In Bangladesh, the tax gap seems to be the same as the amount of tax evasion.

Nowadays, tax evasion takes place all over the world. It should be treated as an impending problem in most of the developed, developing and under-developing country. It has different forms. “Tax evaders may not declare income; may underreport income, sales, or wealth; may over-report deductible expenses; may smuggle goods or assets, or may undertake other deception. The variety of tax evasion is genuinely remarkable, and Taxpayers are always finding new ways to reduce their burden purposely” (SHOME, 1993).

It is observed that most of the countries, the lion share of income belongs to the top 10% of the households where the bottom 40% of the household has a very insignificant percentage of share of income. The scenario is also different in the city, urban and rural area. The below table shows the income group of Dhaka city, other urban and rural areas with their share of income. It is observed that top 10% of the income group belongs to 46.2 of the total income where the bottom 40% of the income group holds only 13.4% of the total income. So, the income group should be considered to handle the evasion of tax.

**Table 2: Income group with share of total income in Bangladesh**

<b>Income Group</b>	<b>Variables</b>	<b>Dhaka City</b>	<b>Other Urban</b>	<b>Rural</b>	<b>All Bangladesh</b>
Bottom 40%	% of share of total income	10.5	16.0	18.2	13.4
Middle 50%	% of share of total income	33.9	48.0	50.1	40.4
Top 10%	% of share of total income	55.7	36.0	31.7	46.2

Source: PPRC Governance and Economy Survey, 2015

Income tax is treated as a significant source of government earnings. The main uses of taxed money for any country are to deliver the required goods and better services to its citizens. “Taxes are used to spend on education, building and maintaining roads

and highways, public transportation, and public welfare programmes such as social security, unemployment benefits, public housing, health, safety, fire protection, and so on. Tax money also uses for the daily operating expenses of the Government, such as the salaries of government employees and interest owed on government debt” (Haider, November 17, 2018 ). The government needs money to provide a better life to the public. It is assumed that domestic resource plays a key role for nourishment and development of a nation. Bangladesh must have the goal to reduce dependency on foreign aid or bank loan for achieving self-sufficiency through tax revenues.

To understand the behavior of taxpayers is crucial. So, it is an art for every tax administration to achieve a proper balance between service delivery to the taxpayers and the enforcement of the tax laws by promoting voluntary compliance. If the tax administration is successful in making the taxpayers understand that tax evaders will be detected and punished adequately, it will encourage the taxpayers about voluntary compliance. “Taxation and the provision of public goods and services are interpreted as a contractual relationship between taxpayers and the Government” (Moore, 2004). Tax evasion occurs among all societies, all classes of the community, among the professionals, industrial groups, and all economic system. Various internal and external factors are influencing the taxpayers to comply with tax laws or to evade tax. There are many studies about tax evasion done in developed countries, but very few research has been done in developing countries like Bangladesh on why people are evading tax. Therefore, it is needed to determine and compare the reason for tax evasion in Bangladesh.

#### **1.6 Objectives of the Study:**

This study aims to draw greater insights on the dynamism of evasion of tax in Bangladesh, and to explore the factors affecting the evasion of tax. Secondly, the study also attempts to explore the challenges to address the evasion of tax, and ensure the proper inflow of revenue collection for the national exchequer of Bangladesh.

#### **1.6 Research Question:**

- What processes and mechanisms lead to tax evasion in Bangladesh?
- What factors are responsible for influencing tax evasion in Bangladesh?

### **1.7 Methodology and Data Collection:**

Since tax evasion takes in the form of collusion and in a secretive way, a qualitative study is suited best from the purpose of this study. But most of the data collected for the study are quantitative in nature. So, Mixed method having both quantitative and qualitative are suited best for the study. *“Qualitative methods offer a dynamic approach to research, where the researcher has an opportunity to follow up on answers given by respondents in real-time, generating valuable conversation around a subject – something which isn’t possible with a structured survey”* (Qualitative research: What is it and why should you use it?, 2017).

Quantitative methods emphasize objective measurements and the statistical, mathematical, or numerical analysis of data collected through polls, questionnaires, and surveys, or by manipulating pre-existing statistical data using computational techniques (Babbie, 2010). Data will collect from secondary sources and archival resources. And rapid assessment techniques such as key informant interviews are used to collect secondary data. Secondary sources for content analysis will be used, such as various newspapers, magazines, and books will be used to collect secondary data. Additionally, different working papers, journals, articles and web-based contents will be helpful to enrich the literature of the study. Initially, the scope and methodology of the study will be presented to the experts’ and stakeholders’ meeting, and there will be a provision for incorporating the feedback and recommendations from them. Several expertise, experience persons were interviewed for their views and perceptions of our tax system, especially the tax evasion matters and its importance in revenue mobilization.

**Relevant sampling:** Convenience sampling method will be used for this study to select the sample size, which is mostly used in any qualitative research. According to Wikipedia *“Convenience sampling is a type of non-probability sampling that involves the sample being drawn from that part of the population that is close to hand”*. 10 (Ten) cases will be selected as a sample/ unit of analysis from tax circle – 95, taxes zone – 5, Dhaka of Bangladesh for in depth analysis. The circle where the cases will be selected deals with individuals and corporate taxpayers. And the selected cases include corporate & individuals’ taxpayers.

Tax circle – 95, taxes zone – 5, Dhaka of Bangladesh has 2428 registered taxpayers among them 1017 are individual taxpayers, and 1411 are corporate and firm taxpayers. More than Tk. The circle collects BDT. 1,000 million as government revenue. Some group of companies, its directors and some real estate firms are the taxpayers of this circle. Most of the returns are submitted on a self-assessment basis, and acknowledgement receipts are provided as early as possible. Every year some portion of the cases are selected for audit and reassessed them.

### **1.8 Scopes and Limitations of the Study:**

Tax evasion is a problem faced by every tax system. Hence one cannot possibly undertake a study on tax evasion concerning all tax system. This study will therefore be restricted to how tax evasion takes place in Tax Circle -95 of Taxes Zone -5, Dhaka of Bangladesh. And the number of case analysis for the study is 07 (seven) of that circle. The selected circle deals with individuals and corporate taxpayers. The selected cases will be a combination of corporate & individual taxpayers. So, the selected case will be the true representative of taxpayers. Though the selected cases will have all heads of income and include all types of a taxpayer which will lead to validate and reliable the study. This restriction is due to time, finance, manpower and logistics. These are constraints outside the control of the researcher. This study is also limited to the necessary data available on-demand from the office of the Deputy Commissioner of Taxes of that circle of National Board of Revenue.

### **1.9 Organization of the study:**

This research paper is organized with six chapters:

The introductory and first chapter of this study provides a blueprint of the investigation. This chapter includes the introduction, background of the study, statement of the problem, objectives of the study, research questions, methodology and limitations of the study.

The second chapter covers the literature review/conceptual framework, definitions of relevant concepts, theoretical discussion of the study in relation to the deterrence theory and the Extension of the Economic Deterrence Model developed by Ken Devos (2014) which guide the study and provide the framework for analysis of this study. This chapter also discusses the variables and their indicators along with the operational definition of variables.

Third chapter discusses the details of the research methodology. It includes the relevance of the choice of methodology, units of analysis, details about sample size, why particular respondents are chosen, data collection methods for quantitative and qualitative study, analytic strategy used to analyze the collected data, the validity and reliability of the study, and limitations and ethical considerations of the research, etc. The Fourth chapter comprises an overview of my study area as well as the income tax department and the factors affecting the evasion of tax. The efforts of NBR in addressing the evasion of tax in terms of rules and regulations will be discussed here. The discussion about the institutional arrangements in the context of evasion of tax is also covered in this chapter.

The Fifth chapter includes the presentation of data, analysis of data and findings from taxpayers and tax officials in relation to the analytical framework of the study. All types of collected data (through a questionnaire, case studies and reports) will be analyzed through graphs, tables, charts, etc.

The Sixth chapter covers the presentation of key empirical findings of the research by the research questions, the theoretical implication of the significant findings of the study, key findings of this study, the key variables found to be appropriate in this study, identified research gap found to be covered by this study, the generalization of findings according to the context of Bangladesh and finally the conclusion.

## **Chapter – 2: Review of the Literature**

### **2. Introduction:**

The previous chapter focused on the introduction and background of the study with the specific research questions, which also highlights the research objective, methodology and limitation of the study. This chapter is dedicated to the discussion on the conceptual framework, definitions of relevant concepts and theories towards developing an analytical framework. On the basis of the analytical framework of this study, the variables and their indicators along with the operational definition of variables are discussed.

### **2.1 Conceptual Framework/ Literature Review:**

Theory can produce the hypotheses of a study, and these hypotheses are tested through empirical evidence. "Social science theory is a comprehensive and rational assumption regarding the answer to a research question, together with a statement concerning why the proposed answer is acceptable" (King, 1994).

Studies suggest that the behavior of taxpayers for evasion of tax are depending on many factors. Allingham and Sandmo (1972) is a pioneer in the arena of the evasion of tax. The literature relating to the evasion of tax has been considerably extended for further study. They recognized both the stagnant and dynamic aspects of evasion of tax. They highlighted the relationship between incentives to evade taxes and incentives to supply work effort. Furthermore, they disclosed that the taxpayers' income declaration depended on the actual income of the taxpayers, the rate of tax, the rate of the penalty and the possibility of auditing. They clarified their outcome as follows: "When actual income varies, the fraction declared increases, stays constant or decreases according as relative risk aversion is an increasing, constant or decreasing function of income" (Allingham, 1972, pp. 323-328). They concluded that there is a reverse relationship between the rate of tax and the evasion of tax. Any increase in the tax rate increases the chance to evade more taxes, whereas the taxpayers are encouraged to pay their taxes if there is a decrease in the tax rate. On the other hand, if the taxpayers pay more taxes, the taxpayer becomes less wealthy. Their study also indicated that if any country increase the rate of penalty for evading tax, there is always a possibility to declare the actual income by taxpayers. If there is a rising possibility of detection, there is possible to declare the sizable income.

Some literature work was written by Clotfelter (1983); Crane & Nourzad (1990); Alm, Jackson & Mc Kee (1992); Pommerehne & Weck-Hannemann (1996) and Saracoglu (2008) have emphasized that if a country increases the tax rate, it will lead to increase the tendency for evasion of tax. They have been identified as a positive relationship in their literature between the level of income and the evasion of tax. If the income level of an individual increase, their behavior for evasion of tax also increases (Crane & Nourzad, 1990; Becker, Büchner & Sleeking, 1987). It is observed that the same scenario is common in Bangladesh. However, Dubin, Graetz, and Wilde (1990) conclude that “there is a strong direct relationship between real per capita income and reported taxes per return”, and the empirical results of Alm, Jackson, and McKee (1992) specify that “higher income leads to higher compliance”. Johns and Slemrod (2008) discover that “the ratio of underreported tax to true tax highest for lower-income taxpayers”. It can be said in other ways, where there have lower-income of taxpayers, there has lower compliance from taxpayers. This outcome indicates that the persons who have low-income are expected to hide their income. However, Feinstein (1991) has not found any noteworthy relationship between income and the evasion of tax. Richardson (2006) found that the taxpayers who get their income from wages and salaries have less possibility to evade their tax. Spicer and Becker (1980) did not find any important correlation among tax evasion, tax penalties, and the detection probability. Likewise, (Alm, 1992) did not capture any noteworthy relationship between the rate of the penalty and the evasion of tax. Bagdigen and Erdogan (2010) give emphasis that if we raise the rate of penalties, it will lead to a decrease in the evasion of taxes by taxpayers.

Jackson and McKee (1992) and McClelland and Schulze (1992) pointed out that If there is a rise in the number of tax audits, It leads to a decline in the evasion of tax.

Vito Tanzi and Parthasarathi Shome (1993) found that tax evasion varies by sector (agriculture, commerce and industry), organization of production (small trader or large company), and type of economic agent (salaried, self-employed, or capital). They also pointed that if there is an effective and rapidly imposed penalties to pledge the evasion of tax, it has a great impact on its degree and spread. This observation and issues are very much related to the study of tax evasion in Bangladesh.



To determine the level of tax evasion, it is necessary to know the size of the resources of tax administration, the target groups ( whether it is large enterprises or all taxpayers) and the efficiency of utilization of the resources (collection costs). The easiness of paying taxes (compliance costs), the tax administration-taxpayer relationship (good public relations rather than the spreading of fear), and the tax collection methods (withholding, minimum taxes and presumptive taxes) are playing a vital role in determining the level of tax evasion. "Tax evasion is connected with the accounting concepts of tax liabilities" (SHOME, 1993) . For influencing the evasion of tax in developing countries like Bangladesh, the most significant factors is the taxpayers' feelings towards the Government. (VENTER, 2011) Concluded that the taxpayers will refrain from paying their taxes if they are not satisfied with the spending priorities of the Government. Gemmell and Ratto (2012) explored the relationship between taxpayers' responses and random audits. They have compared this relationship between randomly selected audited cases and non-audited cases. They found that the taxpayers whose cases were audited, they have less subsequent compliance. In their study, Snow and Warren Jr. (2005) found that if we raise the number of audited cases and impose more penalties for tax evaders, it will lead to a rise in the evasion of tax. So, there is a contradictory conclusion among scholars.

Buehn and Schneider (2012) established a time series of evasion of tax for 38 OECD (Organization of Economic Cooperation and Development) countries from 1999 to 2010. In their study, they reflect that self-employment and indirect taxation are the driving forces of the evasion of tax. The following factors affect the levels of evasion of tax such as mentality about Tax, tax morale, civic duty, and law-abiding citizens. For example, Kirchler (1997) and Feld, Torgler, and Dong (2008) stressed that if the taxpayers have a positive mentality about the taxation, the tax morale has a negative influence on evasion of tax. Dell' Anno (2009) reports that "the tax morale depends on taxpayers' intrinsic attitudes toward honesty and social stigma. Social stigma represents the reputational cost. And a decrease in reputational cost tends to increase tax evasion". Bayrakli, Saruc, and Sagbas (2004) express that if the other people know the behavior of tax-evasion, it will result in embarrassment cost, which tends to decrease the evasion of tax. In the literature, there is a controversial effect of demographic factors on the evasion of tax. Some studies offer that there is an

important relationship between the evasion of tax and demographic factors, whereas other studies do not find any meaningful correlation between them. For example, Spicer and Becker (1980) illustrate that between male and female taxpayers, male taxpayers have more tendency to evade tax. McGee and Tyler (2006) emphasize that it is not acceptable behavior for female taxpayers to evade tax with compare to male taxpayers. Feinstein (1991) give emphasis that the taxpayers having their own business are much more expected to evade more taxes compare to ordinary taxpayers. He also finds that the taxpayers who are at the age of 65 years or older have the fewer possibility of evading taxes. And the taxpayers who are married are more expected to evade taxes.

Frey and Feld (2002) studied about the relationship between the behavior of tax officials' and tax morale in reference to the perspective of evasion of tax. They find that the tax morale will be increased if tax officials are polite and courteous to their duties toward the taxpayers. Richardson (2006) studies about the relationship between the evasion of tax and the complex structure of taxation. He discovers that there is a positive relationship between them. If there is a lower level of complexity in the tax structure, there is a possibility to less evasion of tax across the countries. Riahi-Belkaoui (2008) studies about the bureaucracy and taxation behavior of the taxpayers. He concludes that if there is a tendency to rise bureaucracy, there is a chance to rise the evasion of tax. In summary, we can conclude that there are many factors contributing or affecting the behavior of taxpayers for evading tax. However, the degree of each factor's effect on the behavior of taxpayers for evading tax, it may vary on their cultural & institutional settings differences.

From the above discussion and studies relating to tax evasion, it is assumed that there are some common factors including high tax rates, the tax burden, income level, sources of income, probability of detection, penalties for fraud, government expenditures, services to public, mentality about tax, voluntary compliance, tax morale are responsible for evading tax. Demographic factors such as age, gender, educational qualifications and marital status of taxpayers, the taxation system, the tax administration, bureaucracy, and democratic system of the country also influence the taxpayers to pay or evade their taxes.

## **2.2 Definitions of the relevant concepts:**

It is very much essential to have a clear idea about the relevant concepts of the study. This section of the chapter gives a clear idea of the terminology used throughout the study. "Tax means the income tax payable under the ordinance includes any additional tax, excess profit tax, penalty, interest, fees or other charges livable or payable under this ordinance"- under section 2(62) of the Income Tax Ordinance, 1984

Income Tax is levied on the taxable income of a person or entity as per the provision of the income tax ordinance 1984 of Bangladesh.

"Tax Evasion is a universal phenomenon. Tax evasion is a willful and deliberate violation of the law to escape payment of tax which is unquestionably imposed by the law of the tax jurisdiction" (Adebisi, 2013).

'Tax evasion is an act of avoiding tax payment illegally with the violation of tax laws of any specific country" (Akdede, 2006); (Sandmo, 2005). It is the nonparticipation action of tax payment.

"Tax morale is defined as the intrinsic motivation to pay taxes and as the totality of non-pecuniary motivations and factors for tax compliance which fall outside the expected utility maximization" (Luttmer, 2014).

"Tax compliance is a person's act of filing their tax returns; declaring all taxable income accurately; and disbursing all payable taxes within the stipulated period without having to wait for follow-up actions from the authority" (Singh, 2003).

## **2.3 Identification of Theory**

The commonly uses theoretical approaches of tax compliance are the economic deterrence theory and the broader behavioral theory (Frey, 2002, p. 7). The behavioral theory comprised of social and fiscal psychological theories. The use of deterrence theory model was mainly dominant in the examination of tax evasion (Frey, 2002, p. 7).

It has been recognized that the different tax systems struggle with the challenge of non-compliant taxpayers and the use of the economic deterrent theory was the most favoured in dealing with the tax collection challenge (Hasseldine, 1991, p. 299); (Franzoni, 1999, p. 52). The economic deterrent theory assumes that taxpayers are moral in profit-seeking, and their actions are motivated by the calculation of costs and

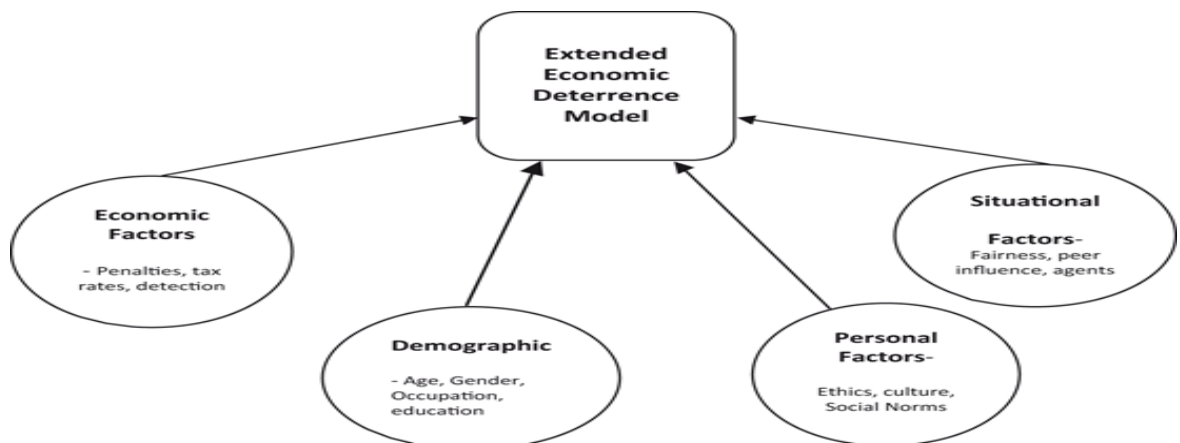
the opportunities they get. The deterrence theory or approach plays a vital role in improving tax compliance. It obeys the basic principles and methods of taxation which are necessary for a sound tax system to promote fiscal adequacy.

“The theory of deterrence relies on three individual components: severity, certainty, and celerity. The more severe a punishment, it is thought, the more likely that a rationally calculating human being will desist from criminal acts. To prevent crime, therefore, criminal law must emphasize penalties to encourage citizens to obey the law. The punishment that is too severe is unjust, and punishment that is not severe enough will not deter criminals from committing the crime” (Yusuf, 2019).

The economic deterrence theory states that some influencing factors are determining the cost and benefits of evasion of the tax such as the rate of tax, the probability of detection and imposing penalties for fraud, are influenced the taxpayer behavior.

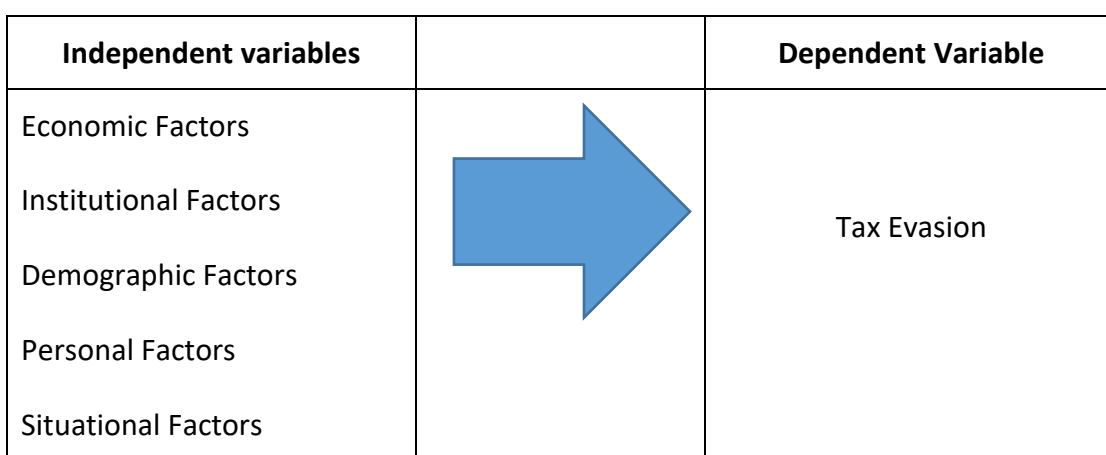
### **2.3 Analytical Framework**

Based on the economic deterrence theory, Ken Devos adopted Extension of the Economic Deterrence Model in the study of taxpayer compliance in his article published on factors Influencing Individual Taxpayer Compliance Behavior. The examination of six economic variables has been predominant throughout the literature (i.e. penalties, tax rate, income level, complexity, probability of detection and sentencing). It is undertaken to test the relationship of these variables with taxpayer compliance to know whether they act as a deterrent to non-compliance (Devos, 2014). Besides, it is recommended that an analysis of other factors such as demographic, personal and situational would further increase the measurement of deterrence.



**Figure 3: Devos K. (2014) Extension of the Economic Deterrence Model**

From the above model, it is observed that all the factors are influencing the taxpayers to evade tax. For example, Women have higher tax morale than men, whereas older people have higher tax morale. On the other hand, Self-employed persons have lower tax morale than employees, whereas better-educated persons have higher tax morale. Institutional factors such as Legal Issues, Enforcement and service from Tax officials may also play a significant role in understanding the dynamics of tax evasion in a country like Bangladesh. Based on the literature review, economic deterrence model and theoretical background, the analytical framework of the study are developed as below:



#### **2.4 Dependent Variable and Indicators**

The following indicators measure the dependent variable of tax evasion.

Dependent Variable	Indicators	Measured by
Tax Evasion	Tax Morale Tax Compliance	'Tax morale' can be measured by behavior of the taxpayers such as keeping adequacy of the return and reporting with integrity, making disclosures, demonstrating fairness. 'Tax compliance' means the payment of tax on time, and as the provision of law. Public commentary and societal belief system also influence tax compliance.

## **2.5 Independent Variable and Indicators**

The following indicators measure the independent variable of tax evasion.

<b>independent variable</b>	<b>Indicators</b>	<b>Measured by</b>
Economic Factors	<ul style="list-style-type: none"> <li>✓ Penalties</li> <li>✓ Tax Rates</li> <li>✓ Detections</li> </ul>	Rate of Audit
Institutional Factors	<ul style="list-style-type: none"> <li>✓ Legal Issues</li> <li>✓ Enforcement</li> <li>✓ Service from Tax officials</li> </ul>	Income Tax Ordinance and Rule, 1984
Demographic Factors	<ul style="list-style-type: none"> <li>✓ Age</li> <li>✓ Gender</li> <li>✓ Occupations</li> <li>✓ Educations</li> </ul>	The annual report published by NBR
Personal factors	<ul style="list-style-type: none"> <li>✓ Ethics</li> <li>✓ Culture</li> <li>✓ Social Norms</li> </ul>	Morality
Situational/Psychological Factors	<ul style="list-style-type: none"> <li>✓ Fairness</li> <li>✓ Peer influence</li> <li>✓ Agents</li> </ul>	Intentions to Comply

From the above two tables, we see that there are four independent variables, and each has some indicators which influence the morality and compliance level of taxpayers to evade tax. On the other hand, the dependent variable is tax evasion which is measured by enforcement mechanism, services provided and trust level of the tax department as well as the Government. If enforcement is not adequate, services are not taxpayers friendly, and trust level on Government is less, it leads to less tax morale and less tax compliance by the taxpayers. Where there are less tax morality and less tax compliance, there is more possibility of evasion of tax.

## **2.6 Conclusion:**

This chapter discussed the conceptual framework, theoretical aspects and analytical framework of the study. The primary purpose of this chapter was to develop a conceptual and analytical framework to know the factors of evading tax. The variables are selected based on 'the economic deterrence theory' and 'extended economic deterrence model'. It is shown in the analytical framework that the factors had an influencing role in the decision-making process of the taxpayers to pay or to evade taxes.

## **Chapter – 3 Research Methodology**

### **3. Introduction:**

The previous chapter focused on the conceptual framework, theoretical aspects and analytical framework of the study. This chapter is an attempt to address the methodological issues based on which the research is conducted. First of all, the chapter furnishes the description of research design and then deals with the justification for selecting the study areas of the research. Subsequently, the chapter sketches out the data collection methods from those study areas by describing the research instrument, research setting in terms of organization and participant and ethical consideration of this study, etc. The qualitative data are collected from two different segments of respondents to know the context of tax evasion and to explore the challenges of addressing tax evasion elaborately. The details demographic profiles of the respondents for the qualitative study are briefly described here. This chapter also illustrates the analytical strategy used to find out the answer of the research questions linking with the objectives of the study. It also spreads light on the quality matters of the research approaches through the validity and the reliability tests along with the illustrations of the methodology of the study.

### **3.1 Research Design**

Since tax evasion takes in the form of collusion and in a secretive way, a qualitative study is suited best from the purpose of this study. Data will be collected from secondary sources and archival resources. And rapid assessment techniques such as key informant interviews are used to collect secondary data. Secondary sources for content analysis will be used such as various newspapers, magazines and books will be used to collect secondary data. Additionally, different working papers, journals, articles and web-based contents will be helpful to enrich the study. Primary data has been collected through a survey using direct interview method/ electronic medium of communication with a formal and structured questionnaire. Most of the questions were close-ended but have multiple options to answer. Initially, the scope and methodology of the study will be presented to the experts' and stakeholders' meeting, and there will be a provision for incorporating the feedback and recommendations from them. Several expertise, experience persons were interviewed for their views



and perceptions of our tax system, especially the tax evasion matters and its importance in revenue mobilization.

### **3.1.1. Socio Economic Status of the Sample Respondents:**

The study collects data on different aspect of the respondents to understand the socioeconomic status of the sample respondents. The study considers: gender, age, income level, educational qualification, occupation etc. in formulating research tools for data collection. The study finds that the sample is biased to male gender. Very limited number of the female taxpayer are paying tax and submitting their income tax return. It was also very difficult to influence female to talk on this issue. But in case of sampling of field level officials, the study tries to find equal number of male and female respondents. The number of female respondents in the category of income tax practitioners are very limited. As a result, the study ends up with lesser number of female as the respondent.

The age groups of the sample respondents are varied from 18-25 to more than 65 but the study finds a very narrow variation of the *age* ranges among the sample respondents.

The respondents of this study have at least graduation degree in terms of *educational level*. It is assumed that as the educated people or highly educated people are the taxpayers of the study area. Because the selected circle mainly deals with company taxpayers and its directors. Therefore, the majority of the respondents of the current study have Master/higher degree or graduate degree.

In terms of **occupational status**, the variations among the respondents at taxpayers' level are not remarkable. Most of the respondents are the directors of their company. However, the respondents are confined only within three categories: tax officials, taxpayers and tax practitioners. In case of taxpayers' category, the study tries to collect data from the mediator group like ITP/ Income tax professionals, so that the study can gather a different view or opinions from them. The key informants come from the policy level officials who are actively attached with the system of formulating policy for generating tax revenue at NBR.

### **3.2 Scope of the Study Area (Area of the Study)**

The study considers only one circle of taxes zone, Dhaka under National Board of Revenue as the unit of analysis. And the study collects data from those areas by using

different data collection techniques. 10 (Ten) cases has been selected for in depth analysis from tax circle–95, taxes zone–5, Dhaka of Bangladesh as a sample case where tax evasion was detected. The circle from where the cases are selected deals with individuals and corporate taxpayers. And among the selected cases 6 are corporate types & 4 are individual types of taxpayers. The period of study is for 4 (four) months and primary data has been collected from respondents by using a questionnaire developed through google forms. The respondents are tax officials, corporate taxpayers, individual taxpayers and income tax practitioners.

### **3.2.1 Selection of the Study Area**

The study uses convenience sampling method for selecting the study area. In case of *convenience sampling*, the *sample* are drawn from the population which is close to hand. It was tough and impossible to select the sample with other sampling technique due to this pandemic situation. There are 31 territorial taxes zone under NBR of Bangladesh. All the thirty-one (31) territorial taxes zones over the country have the same level of resources, taxpayers and facilities in terms of infrastructure related to mobilize revenues. Every territorial taxes zone have 22 circles with some types of taxpayers, logistics and resources. So one territorial circle is treated as the true representation of all other circles as well as whole of NBR. There are four (4) broad categories of respondents in this research, and these are: policymakers who are strongly attached with the system, the field level implementers, income tax practitioners and finally the taxpayers. In terms of the dynamics of tax evasion, the study deliberately selects one (1) circle of a territorial taxes zone from Dhaka as the study area to reach the individual and corporate taxpayers as respondents.

**Table 3: Categories of Taxpayers in the Study Area**

Category	Frequency	Percentage
Individual Taxpayer	5	50.00
Corporate Taxpayers	5	50.00
<b>Total</b>	<b>10</b>	<b>100</b>

**Source:** Researcher’s Synthesis

If a researcher can select the sample size more, it will give him/her more accurate information. But it was impossible to select more sample from the population due to

this pandemic situation. The researcher can't go physically to collect data from respondents due to this situation. Telephone, mobile and other electronic communications system are used to collect information as well as data. For this reason, the researcher has to select less number of respondents. This study intends to follow the 'natural experiment approach' to evaluate the status of tax evasion at NBR. To achieve this goal, the study tries to select the cases where tax evasion has been detected through which the possible effects of variables can be understood. Firstly, the study considers ten (10) different cases from one circle of taxes zones of Dhaka among them four (4) cases are relating to individual taxpayers, and five (6) cases are relating to corporate taxpayers. The cases are selected on the basis of purposive sampling. And tax evasion has been detected for all the selected cases for different reasons.

### **3.2.2 Unit of analysis**

This research is designed to draw greater insights on the dynamism of evasion of tax in Bangladesh, and to explore the factors affecting the evasion of tax in Bangladesh over the period of time. The study attempts to explore the challenges to address the evasion of tax, and ensure the proper inflow of revenue collection for the national exchequer of Bangladesh. To understand the mechanisms of the system, the research selects one circle of taxes zone, Dhaka under NBR and its head office as the cases on the basis of certain rationales; such as level of tax evasion, significance of the service, ease of access to the service etc. So, the main '*Unit of Analysis*' of this study is one circle of territorial taxes zone of Dhaka under NBR. Both types of data (quantitative and qualitative) are collected from the respondents attached with the selected unit of the study.

Considering these issues, the study consider one circle of a taxes zone, Dhaka out of 31 territorial taxes zones of Bangladesh as the unit of analysis for the current research.

### **3.2.3 Target Respondents and Sampling**

The sample size of a research is usually determined by the best possible number that is required to enable justifiable inferences (Marshal, 1996, p. 522). The quality of the research can be affected by the improper and inadequate size of the sample (Bartlett, et al, 2001, p. 43). Since tax evasion takes in the form of collusion and in a secretive way. For this study, the respondents and their numbers (N) are determined by following the principles of the '*purposive sampling*,' i.e. the investigator tries to selects

the relevant and representative samples as far as possible. Then the study follows the representative sampling based on the categories of taxpayers. Normally the circle deals with corporate and individual taxpayers. It is necessary to select both types of taxpayers as a sample for ensuring the representation of existing taxpayers. The study identifies the policy makers, the field level implementers on tax policy as the key informants for the study as they are directly involve with the system working in the sample organizations. The implementers selected from the taxes zone based on '*purposive sampling*'; so that the investigator can assemble opinions from the various levels of officials who are more or less involved with the entire processes of the revenue services. For selecting the key respondent and policy level officials, the study follows 'purposive sampling' method. In this way, the study selects the 'sample officials' based on the method named 'non-probability sampling'.

**Table 4: Target Respondents and the Sample Size for the Research**

Type of Research Method	Type of Respondents	Sample size
Qualitative	Individual Taxpayers	5
	Corporate Taxpayers	5
	Income tax practitioners	2
	Policy level officials	6
	Field level officials	5
	Case Study	10
<b>Total</b>		<b>33</b>

The identity of the sample respondents should be kept secret in accordance with the directives of Data Protection Official for Social Research. So, all the public officials who responded to the interview are clustered into two major groups: policy level officials and field level implementers rather than using their names and addresses, so that they cannot be easily identified. Accordingly, the working places i.e. name of the taxes zone of the field level implementers are not mentioned for the respondents from field level implementers. In case of quantitative data collection, the same principle has been

maintained. The study does not require the name of the respondents from whom the quantitative data are collected through questionnaires.

### **3.3 Research Approaches and Estimations**

Research approaches are plans and the procedures for research that span the steps from broad assumptions to detailed methods of data collection, analysis, and interpretation (Creswell, 2014, p. 3). Primary data are collected by using google forms through electronic mail. Data will be analyzed and interpreted by using descriptive methods.

#### **3.3.1 Data Collection Methods**

Since tax evasion takes in the form of collusion and in a secretive way. For this reason, the study uses a number of tools for collecting data from the sample areas of study. First of all, the study applies the '*document review*' as a data collection method to gather an overall idea about the extent of tax evasion and the contexts of respective study. This review helps to capture the government initiatives taken regarding the issues, rules and regulations about tax evasion and the actual legal processes of the taxation services, etc.

Tax circle – 95, taxes zone – 5, Dhaka of Bangladesh has 2428 registered taxpayers among them 1017 are individual taxpayers, and 1411 are corporate and firm taxpayers. More than BDT. 1,000 million revenue is collected by the circle every year. Some group of companies, its directors and some real estate firms are the taxpayers of this circle. Most of the returns are submitted on a self-assessment basis, and acknowledgement receipts are provided as early as possible. Every year some portion of the cases are selected for audit and reassessed them. So, this circle provide a true representation of all tax circle in Bangladesh. The study consults the following types of documents during field data collection:

**Table 5: Consulted Documents during the Field Data Collection**

<b>Hard Copies</b>	<b>Websites</b>
Income Tax Ordinance, 1984; Income Tax Rules, 1984; SRO's; Government Order; Official documents; Clarifications; Monthly Reports etc.	<a href="http://www.nbr.gov.bd">www.nbr.gov.bd</a> ; <a href="http://www.taxeszone5dhaka.gov.bd">www.taxeszone5dhaka.gov.bd</a> ; <a href="http://www.incometax.gov.bd">www.incometax.gov.bd</a>

The document review provides an overall idea about the procedures and the ground level scenario of the service in the sample offices. After that, the research conducts a questionnaire survey and interview to gather more in-depth perceptions about the situations. For each group, a separate questionnaire or interview checklist has been developed. At the taxpayers' end, most of the questionnaires are disseminated through e-mail to the respondents, and at the tax officials end, some questionnaires are conducted through self-administer process, and some are through e-mail process. In this study, purposive sampling method (non-probability) is used to select respondents so as to gather the required information. Around 20 questionnaires were delivered through e-mail to the taxpayers and income tax practitioners. Some respondents replied immediately after the survey request; some were responded after the first and second reminder. In the case of tax officials, 50% questionnaires were filled up by following the self-administered method and rests of the questionnaires were delivered electronically. The study follows the face to face interview administration method and electronic means to conduct the interviews. To get meaningful data, the researcher initially contacted to the respondents for the interview and gave an idea about the research area and then went physically/sent the questionnaire electronically for data collection.

**Table 6: Different Methods of Data Collection and their Justifications**

<b>Methods</b>	<b>Justifications</b>
<b>Documents Review</b>	To realize the government initiatives regarding taxation, rules and regulations about the system of taxation in Bangladesh, the actual legal processes of the services in the sample organization and to understand the current state of tax evasion.
<b>Interview</b>	To understand the status of tax evasion linked with policy content and to know about the reasons for tax evasion.
<b>Perception Survey with Structured Questionnaire</b>	To know the general perception of the target population about the evasion of tax.

**Source:** Researcher's Synthesis

The views of the 'taxpayers, i.e. service receivers' and 'the officials' are obtained through 'structured questionnaire' and 'interview checklist'. This method helps to gather quantitative and qualitative data in a standardized way. At the same time as this study capture the variations among the variables through the use of '*Likert Scale*' so the data have been quantified easily. Then the study analyzes those captured perceptions of the respondents through the MS Excel software. The research also collects qualitative data to examine the relations between the variables along with quantitative data. As a consequence, the study tries to pursue various methods of data triangulation to overcome the limitations of each method and tries to balance one method by others to get more inclusive, reliable and valid data.

### **3.4 Data Analysis**

This study uses some statistical tests using a few techniques of Microsoft Excel and Word to analyze the data. To interpret the data with the objectives of the research few qualitative techniques have been used in this study. Simple frequency distribution, mean, descriptive statistics, etc., are the statistical tools that have been applied to analyze data. MS Excel is suitable for analyzing data. The study also display tables, chart, and graphs to make the information understandable.

#### **3.4.1 Data Coding and Analysis**

The surveyed data for the research has been categorized and tabulated in accordance with the variables of the study to interpret with the objectives of the study. This process has been done according to the sequential activities explained by (Miles & Huberman, 1994, p. 10): data reduction, displaying and drawing a conclusion. '*Delphi method*' has been followed to reduce the '*qualitative data*' which is collected through *interview* and *open-ended questionnaires*. The study also follows the '*thematic approach*' for pinpointing the qualitative data to answer the research questions. To identify the expected themes, the researcher read and re-read the data carefully (Rice & Ezzy, 1999, p. 258). This approach helps to reduce the data to certain models and those models are analyzed linking with the objectives of the study. In case of a reduction of the 'quantitative data', firstly data are coded to make simpler for the entry in the MS Excel software. After that the reduced data are analyzed through Microsoft Excel to attain descriptive and inferential statistics of the study. Quantitative data are analyzed through frequency distribution to get the demographic

features of the respondents for the study and to get the main features in terms of involvement with tax evasion by calculating 'mean value'. The study uses tables, figures, charts, graphs, etc., to present the evidence wherever applicable.

### **3.4.2 Deductive Approach**

When any research starts with an analytical framework and formulates empirically testable propositions about a phenomenon, then it is called 'deductive approach' of research (Layder, 2011, p. 134). The current study has developed two research questions to get an answer through empirical findings. According to King et al, 1994 " Inference is the process of using the facts we know to learn about facts we do not know (p. 58) and 'causal inference' is the knowledge about the causal effects from the observed data (Ibid, P. 8). This study follows the causal inference to understand the influence of the variables on evasion of tax at NBR.

### **3.5.1 Construct Validity**

The dependent variable of the current research is the extent of tax evasion, and five independent variables have been selected for this study. Both types of variables are being operationalized through their operational definitions and the research tries to develop proper measurement indicators to test them. The extent of tax evasion is evaluated through satisfaction of the taxpayers as well as the satisfaction of service providers in the taxation system. The study is designed to explore the factors that are influencing evasion of tax. If the independent variables have any effect on tax morale, then most likely it works through the variations of these factors. Moreover, the study tries to use multiple sources of evidence and to establish a chain of evidence at the stage of data collection. At the stage of report composition, the draft report has been reviewed by the supervisor. These are the three tactics to increase the construct validity of any research (Yin, 2003, p. 36).

### **3.5.2 Internal validity**

To examine internal validity, the study applies some correlation analysis among the variables that increases the internal validity of this study. But the dependent variable (tax evasion) may be affected by other variables rather than the selected independent variables. So, the findings of the study cannot conclusively state that the changes of the dependent variable are exclusively occurred due to the variations of the independent variable.



### **3.5.3 External validity**

External validity deals with the area to which the findings of the study can be generalized (Yin, 2003, p. 37). This validity confirms the degree to which the study results can be generalized to other conditions, participants, times, and places (Marczyk, et al. 2005, p. 67). There are two ways of drawing generalization: *statistical generalization and analytical generalization*. Survey data can draw statistical generalization whereas the analytical one can be drawn from the case studies and the experiments (Yin, 2003, p. 37). An effort has been made to draw analytical generalization by comparing empirical result with previously developed models on tax evasion using the deterrence theory and model.

### **3.5.4 Reliability**

Reliability emphasizes that if the same research is repeated with the same procedure, such as the data collection procedures, same findings and conclusion will arrive (Yin, 2003, p. 37). Since tax evasion takes in the form of collusion and in a secretive way. For this reason, the study conducts the interviews of policy level and field level tax officials of NBR, taxpayers and income tax practitioners individually followed by 'Delphi method' as the study topic is very sensitive in nature in the context of Bangladesh. Also the respondents may not be willing to speak in front of others. The robustness of data can be varied on the basis some issues like: the period when data are collected, people who are involved in the data collection process, and the settings from which the data were collected (Begley, 1996; cited in Hussein, 2009: 3). So, the study crosschecks the key information with the multiple sources to increase the authenticity of those data.

### **3.6 Challenges and Limitations for the Study**

Human being has a tendency to evade tax if s/he get any opportunity. So, tax evasion seems to be problematic and thus to have valid and reliable data is a major challenge for this research. To follow the *Delphi method* was really time consuming. The samples for the study are gender biased; most of the respondents are male. As the number of female tax officials as well as taxpayers are comparatively lower, so it was difficult to find female respondents to talk about the evasion of tax. In terms of educational qualification, the respondents for the study are biased to educated people. Since the study selects the respondent on the basis of convenience sampling method, there was

no options to select the taxpayers based on educational qualifications in the survey. Besides the language of the questionnaire and the interview checklist is a challenge for the study. The questionnaires and the interview checklist are formulated in English. The survey might produce more quality data if those were developed in the local language (Bangla). To overcome this problem, the researcher needs to explain the questionnaire while collecting data. The details of the challenges of the study and their strategic responses are shown in Table 7:

**Table 7: Challenges for the Research (Risk Log)**

<b>Types</b>	<b>Descriptions</b>	<b>Strategic Responses</b>
Operational	To access to the sensitive documents of NBR. To get authentic data on tax evasion from the respondents. Presence of secrecy culture in the public sector.	Use of personal connections to get access to sensitive issues.
Managerial	Due to June closing activities, the respondents were busy with revenue collection that makes some kinds of difficulties in the process of data collection.	Try to avoid potentially troublesome places and periods.
Organizational	In circle offices, the information relating to tax evasion is still in developing stage.	Use some personal techniques to collect data from circle offices.
Psychological	As the researcher himself is a civil servant, it is difficult for him to criticize the public organizations or other officials. The disposition of the researcher as a civil servant may lead to pro-bureaucratic interpretations of the data.	Try to depersonalize the data. Try to avoid the preconceived ideas during the interpretations of the data.

### **3.7 Summary of the Chapter**

This chapter attempts to provide an understanding on the methods of inquiry used in this study; and also focuses on the elements of research design including research approaches, units of analysis, study area, respondent selection, strategy for data analysis and quality of research design. The chapter also tries to cover the sample size

of the respondents, the nature of information got from respondents, the rationale for choosing the qualitative method approach, and study limitations. Such a magnitude of sketching the methodological chapter helps to collect data perfectly and to draw the finest conclusion based on suitable data analysis. The quality of the research is a vital concern of the researcher throughout the research that is also depicted here.

## **CHAPTER FOUR**

### **ACTIVITIES OF NBR IN DEALING WITH TAX EVASION**

#### **4.0 Introduction**

The purpose of this research is to draw greater insights on the dynamism of evasion of tax in Bangladesh, and to explore the factors affecting the evasion of tax in Bangladesh over the period of time. This study is an attempt to explore the challenges to address the evasion of tax, and ensure the proper inflow of revenue collection for the national exchequer of Bangladesh. To understand the probable effect of these variables, the study selects one circle of a territorial taxes zone from Dhaka (the capital city of the country). The study also selects the head office or the apex body of income tax department, i.e. NBR itself to assess the status of tax evasion comprehensively. The study areas are chosen to have different levels of tax evasion to understand the possible variable effects on evasion. This chapter is a brief sketch of the income tax department to accustom the reader with the contexts of the selected study areas. It starts with the tax structure of the country and then tries to explore the state of digitization of the services provided by the income tax department. These brief illustrations of the study areas can help to understand the backdrops associated with the factors of tax evasion and the detection dynamics of tax evasion.

#### **4.1 National Board of Revenue and Direct Tax Structure in Bangladesh**

National Board of Revenue, the apex authority for tax administration in Bangladesh, was established by President's Order No. 76 of 1972 under the Internal Resources Division (IRD) of the Ministry of Finance (MoF), Government of People's Republic of Bangladesh under the laws of Bangladesh. The NBR is the supreme authority to oversee the matters related to both direct (income tax, travel tax, gift tax, etc.) and indirect (customs & excise duty, and Value Added Tax (VAT) taxes.

In 1860, during the British colonial period, income tax was first introduced in the subcontinent to meet the deficit caused by the '*sepahi bidroho*', in 1857 (Rahman & Linkon, 2007). As income tax is a progressive tax the British India government made it effective by the Income Tax Act 1922. After the independence of Bangladesh in 1971, the British Act continues till 1984. Then, in 1984, the British Act was replaced by the

Income Tax Ordinance, 1984 and presently in Bangladesh; income tax is imposed under this ordinance.

Progressive tax is a tax that is collected from rich people and disbursed to the poor through education, health, infrastructure development, etc.

Compared to indirect taxes the contribution of direct taxes is higher in most of the developed countries. In respect of Bangladesh, the scenario was reversed; the contribution of direct taxes was only 10 percent of total tax revenue in the fiscal year 1972-73 (Annual Report, NBR, 2017-2018). Despite the fact that repeated reform initiatives had been taken, but the contribution of direct taxes was not satisfactory before the fiscal year 2014-15. Data shows that after implementing the modernization plan (2011-2016), the contribution of direct taxes mostly consists of income tax with an insignificant contribution of travel tax climbed up to the uppermost in 2014-15 among the contribution of three wings of NBR i.e. income tax, customs & excise duty and VAT. After implementing the modernization plan of NBR in 2011, the income tax department is operating with thirty-one (31) territorial taxes zones, including tax survey zone and large taxpayers unit (LTU). Each of the taxes zones comprises of twenty-two (22) circle offices and four (4) inspecting range offices. Besides the territorial taxes zones, there are seven (7) taxes appeal zones, eight (8) appellate tribunal benches, one (1) taxes inspection directorate, one (1) central intelligence cell and one (1) taxes training directorate commonly known as BCS tax academy to run the department smoothly. All of the tax offices are centrally monitored by eight (8) tax members of NBR. With a view to providing smooth and hassle free taxpayer service and to increase tax revenue NBR commenced e-TIN registration in July, 2013 and e-filing of income tax return across the 649 territorial taxes circle offices of Bangladesh in 2016.

#### **4.2 Evolution of ICT in NBR: Historical Perspectives and Existing e-services of NBR**

National Board of Revenue, Bangladesh starts its journey of using Information and Communication Technology in its business in 1993 through issuing TIN to the taxpayer. According to Budget Speech of the fiscal year 2011-12, NBR attempted a modernization plan in 2011, through which it has undertaken several initiatives on automation as a part of the governments' Digital Bangladesh agenda (Budget, 2011, p. 1). Through this modernization plan, NBR envisioned to provide commendable

services to all taxpayers via web-based e-tin registration, e-filing of tax returns and e-payments/refunds.

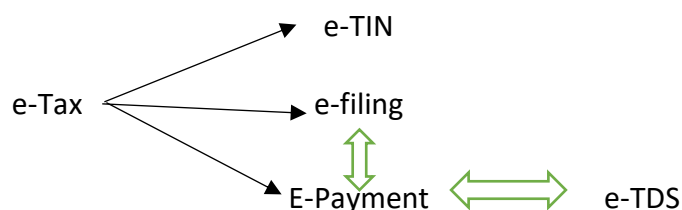
**NBR website:** To implement the modernization plan, NBR established a well-organized website named [www.nbr.gov.bd](http://www.nbr.gov.bd) in 2011. An automated *tax calculator* has been placed in the website of NBR, which is accessible to all taxpayers for easy and accurate tax calculation. Moreover, NBR website provides return forms with guidelines for income tax return filing that could be filled up electronically. These facilities are very popular among IT educated taxpayers. Besides, the website publishes various forms, SRO, Clarification, Publications, etc., which can be accessed and downloaded by the user easily.

**e-TIN Service:** To reduce the complexity of issuing TIN (Taxpayers Identification Number), NBR has introduced a web-based e-TIN registration process in Bangladesh on 1st July 2013 with the help of IFC. Before submitting income tax return taxpayers having NID (National Identification Number) or Passport can get registration electronically from anywhere at any time. Also, the corporate taxpayers can get TIN registration electronically by using their corporation registration number verified through RJSC (Registrar of Joint Stock Companies and Firms) website from anywhere at any time. The government of Bangladesh has taken this initiative to encourage mass people to include in tax system and to increase tax revenue.

**e-Payment:** NBR- Sonali Bank e-Payment Portal provides a global standard secured and easy payment service for paying Income tax, VAT and Customs duty through online. It includes the e-TDS (Tax deducted at source). With a view to reduce the challenges and risks of payment via payment order or account payee cheques or challans and to improve the efficiency in collection of taxes National Board of Revenue, Bangladesh introduced the e-Payment system in 2012 with the support of International Finance Corporation (IFC). The private-sector Q-cash network was the gateway to the e-payment of tax through Sonali Bank Limited. Taxpayers having accounts at 34 banks with Q-cash network could pay tax using their debit, credit and prepaid cards along with such cards of Sonali Bank Limited. Online tax payment facility can prompt taxpayers to pay tax without the hassle and also promote online tax return submission. But due to some restrictions, the system cannot achieve its goal fully. The much-touted online tax payment system of the National Board of Revenue (NBR) has

gone out of order recently. In response to this situation, a senior official of NBR said an improved system of e-payment would be introduced at the second phase of the E-filing project.

**Figure 4: Income Tax Electronic Ecosystem**



**Source:** Website of NBR

**Data Forensic Lab:** As the businesses switch to electronic record-keeping from paper-based accounting system, the NBR has set up a forensic lab to mine all data including hidden accounts and records from taxpayers' computers to detect tax and financial frauds in 2015. The lab can acquire data from taxpayers' computers and analyze them digitally to investigate suspected tax evasion and financial crimes. This is a big dive for tax officials. Since tax dodging is rampant in the country, so the state-of-the-art facilities of the forensic lab can play a significant role in digging into digital records and analyzing data electronically. In addition, NBR sets a Taxpayer Service Center or Call Center that provides answers to taxpayers' questions regarding preparation of returns, calculation of tax liabilities, understanding of tax payment systems etc.

#### **4.3 Tax Evasion in Bangladesh: Institutional Arrangements**

Income tax is a progressive tax system. It is imposed on the basis of ability to pay. "The more a taxpayer earns, the more he should pay"- is the basic principle of charging income tax. Like most of the developed countries in the world, income tax has become the main source of revenue among other direct and indirect taxes collected by NBR. Even though repeated reform initiatives are taken but revenue collection has remained low, and the administrative system of NBR has continued to be mostly manual and characterized by high levels of discretion and corruption (Hassan & Prichard, 2014, p. 6). In Bangladesh income tax is being administered under the tax legislations named as "*The Income Tax Ordinance, 1984(XXXVI of 1984) and the Income Tax Rules, 1984.*"

To achieve the goal of Vision 2041, the government of Bangladesh plans to lower dependence on foreign money gradually with mobilizing more local resources. Total domestic revenue generation has been projected to grow to 24.15 per cent of GDP by 2041. To attain the revenue sufficiency, NBR of Bangladesh made necessary legal and institutional arrangements. Such as:

**A. Establishment of Central Intelligence Cell (CIC) at NBR**

In 2004, Central Intelligence Cell (CIC) was established to detect tax evasion and work as a striking force against tax crimes under the direct control of chairman, NBR. It collects information about tax-payers through intelligence work; gathers information related to income tax, value added tax (VAT) and customs duties. It undertakes data collection and investigation on evasion of duties and taxes; analyses records of income taxpayers; identifies tax evasion, suppression of income and other crimes in accordance with the income tax law; undertakes investigation on tax evasion, suppression of income, any other irregularities and fraudulence related to income tax; gathers evidences-proofs, elicits fines and takes legal actions if required (Mazid M. A., 2014). Since its inception, CIC has conducted about 4,000 investigations related to tax evasion in income tax, VAT, and customs. The majority of the investigations have led to the detection of tax evasion. A CIC in-house study reveals that most of the taxpayers, after facing the CIC, have disclosed significantly higher amounts of income in post-intervention assessment years. The success of CIC, NBR about the detection and collections of tax revenue are stated below:

**Table 8: Detection and Collection of Tax Evasion by CIC, NBR**

Financial Year	Detection of Taxes (Millions)	Collection of Taxes (Millions)
2019-2020	2,696.96	1,680.05
2018-2019	2,524.95	1,782.72
2017-2018	2,692.58	1,106.20
2016-2017	2,159.89	1,419.46
2015-2016	1,915.79	1,205.81

Sources: Yearly success report of CIC, NBR



### **B. Member, Taxes Legal and Enforcement, NBR**

To achieve the goal of Vision 2021 automation for digital NBR is a burning issue. For monitoring the legal matters and for the smooth functioning of the administrative procedures, NBR created a separate desk headed by a member entitled "*Taxes Legal and Enforcement*" with one (1) first secretary and two (2) second secretary to help the member in 2011. In spite of having a lot of obstacles to gear up the pending cases of NBR in the higher court, this desk is strongly working and monitoring the cases filed by income tax department across the country especially in the High court division. This unit is responsible to the entire legal and enforcement matter of tax disputes with the help of field offices of NBR.

### **C. Strengthening Governance Management Project (SGMP), NBR**

To enhance transparency and accountability and increase tax revenues, NBR tries to digitalize the system under the "Strengthening Governance Management Project". As this project committed to develop and adapt computer software for online tax filing, and to build ICT capacity of the income tax circles under the supervision of NBR, it distributed IT equipment like Desktop Computer, UPS, Printer and Scanner etc. to the 649 tax circle offices across the country. All the required system software are installed and tested as well. Now, the Circle offices have got local internet service connected with Data Center to manage taxation administration tasks. Tax officers and staff have been trained on online filing system to manage their tasks in an efficient way. At present, all the tax circle offices are functioning as Tax Service Center.

Under this system, all other processes including assessment of returns, tax calculation, payment, audit and giving tax clearance certificates can also be done online. Under the project, the taxpayers in all 649 circle offices, including 11 survey circles, will be connected online and the circle offices will share information with each other to ease the process. The system is expected to ensure better revenue distribution, efficient collection of revenue, user-friendly service, fraud detection, higher rate of collection, standard solutions for all tax types in whole tax system, integrated solution for all revenue types, significant decrease of costs and faster tax collection. Simultaneously, all the return submitted offline are being uploaded to the system.

#### **4.4 Tax evasion in NBR: A Scene of Policy and Regulatory Context**

NBR is responsible for formulation and re-appraisal of tax policies and tax laws and also responsible for collecting tax revenue. Every field offices of NBR is working for implementing the tax policies and laws such as detecting tax evasion and taking enforcement activities to reduce tax evasion. There are 22 tax circles of each territorial tax zones where each circle has some specific jurisdictions of taxpayers with an individual entity. Every circle offices are independent with one Deputy Commissioner of Taxes (DCT) and his staffs and taxpayers. There are some circle deals with corporate taxpayers, some deals with business taxpayers, some deals with salary taxpayers, some deals with doctors, some deals with lawyers. And every territorial zones has mixed of all kind of taxpayers. Every tax offices need to follow the guidelines of Income Tax Ordinance, 1984 to implement the laws as well as to collect tax revenues. Detection of tax evasion should be done in the light of Income tax ordinance, 1984. According to the section of 93 of Income tax ordinance, 1984, evasion of tax or concealment of income occur for the following reasons:

“The income or a part thereof has escaped assessment; or the income has been understated; or excessive loss, deduction, allowance or relief in the return has been claimed; or the liability of tax or any other amount payable under this Ordinance has been shown or computed lower by concealment or misreporting of any income or by concealment or misreporting of any assets, expenditure or any other particulars in a statement submitted under section 80 of ITO; or income chargeable to tax has been under-assessed, or income has been assessed at a lower than due tax rate; or income that is subject to tax has been made the subject of tax exemption; or income has been made of showing excessive relief, or excessive loss or depreciation allowance or any other allowance under this Ordinance has been computed; or a tax or an amount, payable under this Ordinance, has been computed or paid lower than due amount by reason of lower base”.

According to section of 93 of Income tax ordinance, 1984, evasion of tax or concealment of income can be handle in the following way:

(1) If the DCT has reason based on the information from an audit, assessment or any other proceeding under this Ordinance or from any other source, to believe that any sum payable by an assessee under this Ordinance has escaped payment in any

assessment year, the DCT may issue a notice in the form specified by the Board upon the assessee requiring him to-

(a) file a return of his income along with the applicable statement and documents for the relevant assessment year, within the time as specified in the notice; and

(b) Pay on or before the filing of the return the sum that has been escaped payment.

(2) If the return for the relevant assessment year was filed under section 82BB; or the assessment of the relevant assessment year is completed under any other provision of this Ordinance, the DCT may issue a notice but the process needs to obtain an approval from Inspecting officers in writing in such situation.

(3) A notice may be issued by the DCT-

(a) at any time where no return was filed and no assessment was made for the relevant assessment year;

(b) within six years where no return was filed but assessment is completed for the relevant assessment year,

(4) If any assessment or other proceedings has been stayed by any court, tribunal or any other authority, the time period of such proceedings shall be excluded.

When any tax office get any information related to tax evasion of a specific taxpayers, the respected tax office make a fresh assessment by considering the information with giving the opportunity of being heard to the taxpayer. After making the assessment, the office also send fresh demand and assessment order to the taxpayer. Tax office normally follows four enforcement measures for dealing with tax evasion. Those are as follow:

- ✓ Administrative Penalty
- ✓ Interruption (e.g., freezing of bank accounts, stoppage of transactions)
- ✓ Criminal Prosecution
- ✓ Raising Risk Points (and the probability of being selected for audit)

#### **4.5 Penalty for concealment of income or evasion of tax**

According to section 128(1) of Income Tax Ordinance, the Deputy Commissioner of Taxes or income tax authority shall impose upon a penalty of fifteen percent of tax which would have been avoided or evaded by any person.

Provided that if the concealment is detected after a period of more than one year from the year in which the concealment was first assessable to tax, the amount of penalty shall increase by an additional fifteen per cent for each preceding assessment year.

#### **4.6 Punishment for concealment of income or evasion of tax, etc.**

According to Section 166 of ITO: A person is guilty of an offence punishable with imprisonment which may extend to five years but shall not be less than three months, or with fine, or with both, if he conceals the particulars, or deliberately furnishes inaccurate particulars, of his income.

#### **4.7 Conclusion**

The study has selected one circle of taxes zone – 5, Dhaka for more precise and better understanding on the dynamics of tax evasion especially the probable factors which can effect on tax evasion. Firstly the study tries to find out the obstacles faced by the taxpayers while submitting their tax return as well as payments of tax under the jurisdictions of the selected zone. The study also tries to give an overview of the legal matters about the evasion of tax along panel or punishment measure prevailing in our country for evasion of tax or concealment of income. This brief overview can quickly accustom one with the administrative, institutional and regulatory framework of the study areas.

## **CHAPTER FIVE**

### **DATA ANALYSIS AND PRESENTATION OF RESEARCH FINDINGS**

#### **5.0 Introduction**

The rationale of data analysis is "to determine the broader meaning of the data to be analyzed and to produce significant inferences or insights with respect to data within the given theoretical model" (Aminuzzaman, 1991, p. 101). This chapter is a detailed display of the statistical trends about the evasion of tax and various factors that have an effect on evasion of tax. An attempt has been made to measure the satisfaction about the system based on the surveyed data. To understand the probable effects of the easiness of the tax payment system, the study analyses correlation among the variables. Then the research tries to draw greater insight on the dynamism of evasion of tax in Bangladesh. Simultaneously the study tries to explore the factors affecting the evasion of tax in Bangladesh over the period of time. The study also tries to explore the challenges to address the evasion of tax gathered through the surveyed data and to minimize the methodological inflexibility to explore the possible causalities. In addition, this chapter tries to indicate the limitations in reaching inferences of the study.

#### **5.1 Mapping the Extent of evasion of tax in the Study Area**

The theoretical logics of this research indicate that evasion of tax may have been influenced by the independent variables considered in the analytical framework of the study. The extents of tax evasion is measured through the level of satisfaction of the taxpayers as well as the implementers. Higher level of satisfaction about the payment of tax may have a positive relation with implementation compared to lower level of satisfaction. According to Anderson (1998), satisfaction can be exposed with clarity of information, access to service and facilities, access to communications, expectations and acceptance of service levels, etc. (p. 16). In this research, satisfaction about payment of tax is based on easy process of tax payment and getting proper services. The variations of the dependent variable have been measured through the scaling by the respondents' perceptions. To rank the satisfaction level and the level of trust on the tax official about submitting tax return, the respondents are asked to answer a direct question designed through google forms on different issues. The study tries to

understand the dynamism of tax evasion on the basis of the variation of perceptions of the sample respondents.

### **5.2 General Attitude towards payments of Tax in Bangladesh**

To understand general attitude of the taxpayers about the payments of tax at NBR elaborately, the respondents were asked about the level of satisfaction of the tax payment system. Information on the basis of interviews are stated below in the table:

**Table 9: General Attitude towards payments of Tax in Bangladesh**

Level of Satisfaction of the respondents				
	Dissatisfied	Neutral	Satisfied	Highly Satisfied
<b>Frequency</b>	4	4	3	1
<b>Percent</b>	33.33	33.33	25.00	8.33

**Source:** Researcher's Synthesis

From the above table, it is shown that 33.33 percent of taxpayers' have dissatisfaction and 25.00 percent of taxpayers' have satisfaction about the tax payment system where 8.33 percent of them are highly satisfied and 33.33 percent of them have neutral opinion. The questions were designed in 1 to 5 scale (5 = highly satisfied and 1 = highly dissatisfied). During analysis, scale 1 and 2 are converted to low level category and rests are converted to high level category.

### **5.3 Justification for payment of tax**

To measure the justification of payment of tax at NBR, the study considers the level of significance of the following issues by the respondent. During the interview, they were asked about their level of significance on the following statements about the justification of payment of tax. By analyzing the surveyed data collected through google forms, it is shown that the following statements are treated as follows in terms of significance to the respondents for justification of payment of tax:

**Table 10: Justification for payment of tax**

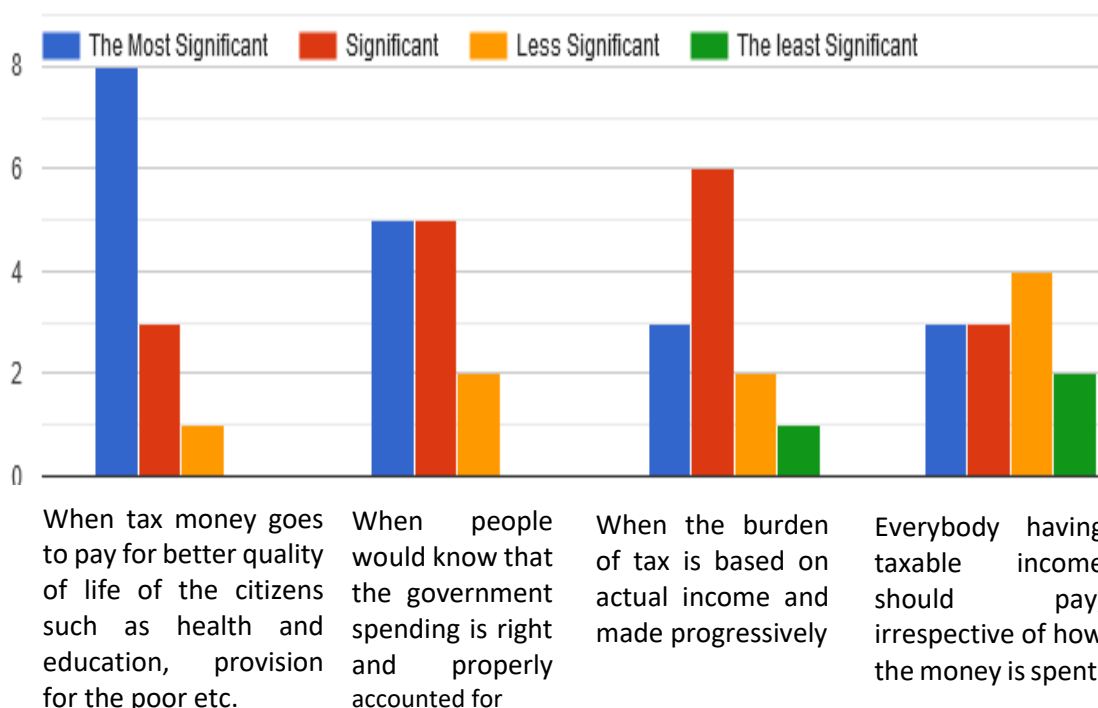
When tax money goes to pay for better quality of life of the citizens such as health and education, provision for the poor etc.				
	The most Significant	Significant	The less Significant	The Least Significant
<b>Frequency</b>	8	3	1	0
<b>Percent</b>	66.67	25.00	8.33	00.00

When people would know that government spending is right and properly accounted for				
	The most Significant	Significant	The less Significant	The Least Significant
Frequency	5	5	2	0
Percent	41.67	41.67	16.66	00.00
When the burden of tax is based on actual income and made progressively				
	The most Significant	Significant	The less Significant	The Least Significant
Frequency	3	6	2	1
Percent	25.00	50.00	16.67	8.33
Everybody having taxable income should pay, irrespective of how the money is spent				
	The most Significant	Significant	The less Significant	The Least Significant
Frequency	3	3	4	2
Percent	25.00	25.00	33.33	16.67

Source: Researcher's Synthesis

On the basis of the above information, the following graphs is developed which described the justification for payment of tax. The following 4 (Four) statements are presented in front of respondents at the time of interview, and they ranked it on the basis of significance.

Figure 5: Justification for payment of tax



From the above two graphs, it is found that the opinions of most of the taxpayers (about 75 - 91.67%) about the payments of tax is significant on the first three statements. Here it is pointing out that among the respondents 50 percent's opinions are significant about the last statement. This is a matter of compliance from the taxpayers. From the above graph, we see that tax compliance will be increased if the taxpayers found that tax money is used for the wellbeing of them.

#### **5.4 Detection and dealing procedures of Tax evasion**

To understand the issues about how tax evasion is detected and dealt with in the circle level tax offices of NBR, the respondents were asked about the ways and process of detecting and dealing with tax evasion.

**Table 11: Detection and dealing with tax evasion**

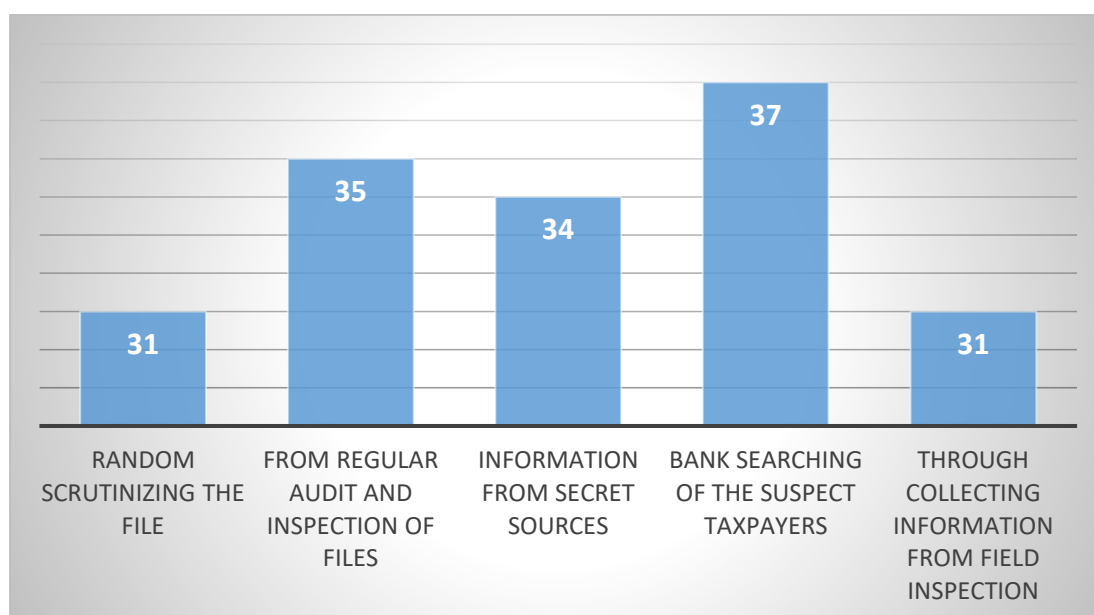
Random Scrutinizing the file				
	<b>The most Important</b>	<b>Important</b>	<b>The less Important</b>	<b>The Least Important</b>
<b>Frequency</b>	1	7	3	0
<b>Percent</b>	09.09	63.64	27.27	00.00
Regular Audit and Inspection of Files				
	<b>The Most Important</b>	<b>Important</b>	<b>The less Important</b>	<b>The Least Important</b>
<b>Frequency</b>	3	7	1	0
<b>Percent</b>	27.27	63.64	09.09	00.00
Information from Secret Sources				
	<b>The Most Important</b>	<b>Important</b>	<b>The less Important</b>	<b>The Least Important</b>
<b>Frequency</b>	4	5	1	1
<b>Percent</b>	36.36	45.46	09.09	09.09
Bank searching of the suspected taxpayers				
	<b>The Most Important</b>	<b>Important</b>	<b>The less Important</b>	<b>The Least Important</b>
<b>Frequency</b>	5	5	1	0
<b>Percent</b>	45.455	45.455	09.09	00.00
Collecting information from Field Offices				
	<b>The Most Important</b>	<b>Important</b>	<b>The less Important</b>	<b>The Least Important</b>



<b>Frequency</b>	2	6	2	1
<b>Percent</b>	18.18	54.55	18.18	09.09

**Source:** Researcher's Synthesis

On the basis of the above information, the following graphs are developed which described the process of detection and dealing with tax evasion. The following 5 (Five) points are presented in front of respondents at the time of interview and they ranked it on the basis of importance.



**Figure 6: Detection and dealing with tax evasion**

From the above table and graph, it is shown that most of the tax officials have agreed that bank searching of the suspected taxpayers is the main tools for detecting tax evasion, whereas regular auditing and collecting information from secret sources are also important for detecting tax evasion. The questions were designed in 1 to 4 scale (4= the most Important and 1= the least important). During data analysis, result is converted into scale on the basis of important.

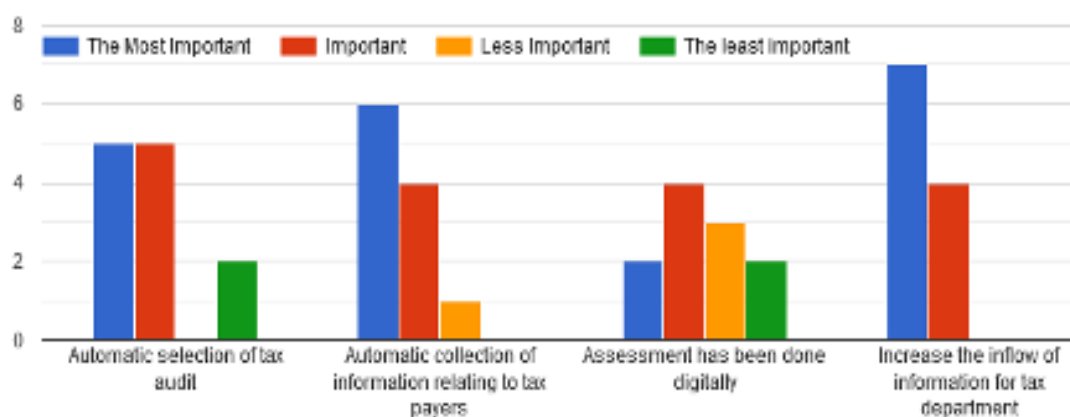
### **5.5 Prospect of digitization of the tax structure on the detection and reduction of tax evasion**

To enhance transparency and accountability and increase tax revenues, NBR tries to digitalize the system under the "Strengthening Governance Management Project". This project is committed to develop and adapt computer software for online tax filing, and to build ICT capacity of the income tax circles under the supervision of NBR. It distributed IT equipment like Desktop Computer, UPS, Printer and Scanner etc. to the

649 tax circle offices across the country. This system creates a prospect for handling tax evasion.

The following bar chart shows that automatic selection of tax audit is the most important among other instruments on the detection and reduction of tax evasion. According to the opinions of respondents, automatic collection of information relating to taxpayers and increase the inflow of information for tax department are also treated as important instruments on the detection and reduction of tax evasion.

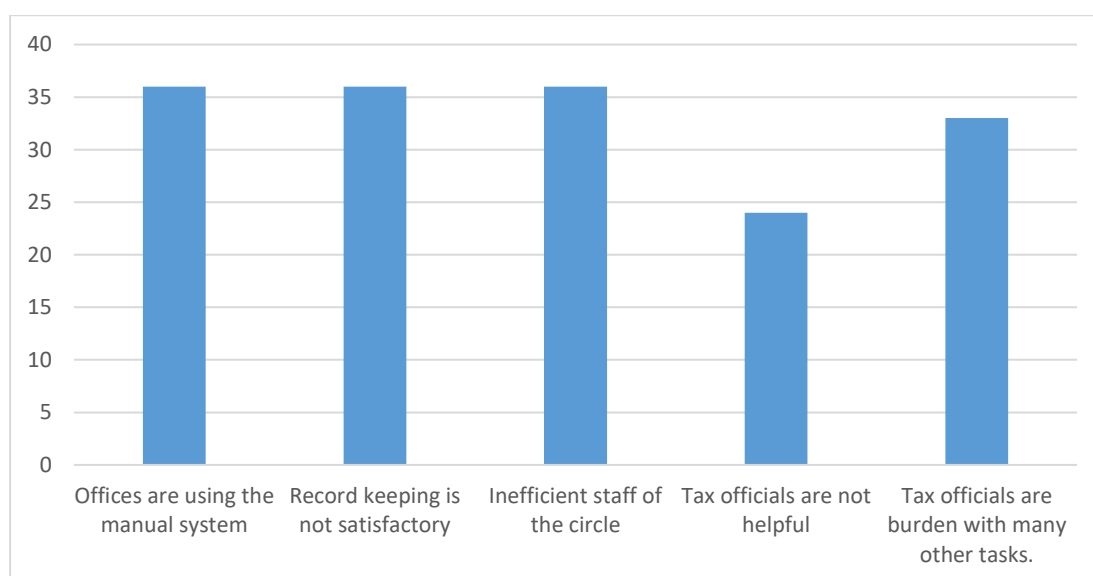
**Figure 7: Prospect of digitization on the detection and reduction of tax evasion**



### **5.6 Major challenges and obstacles for taxation in the circle:**

To understand the major challenges and obstacles for tax evasion in the circle level, the respondents were asked about some ways and process of tax evasion.

**Figure 8: Challenges and obstacles for taxation in the circle**



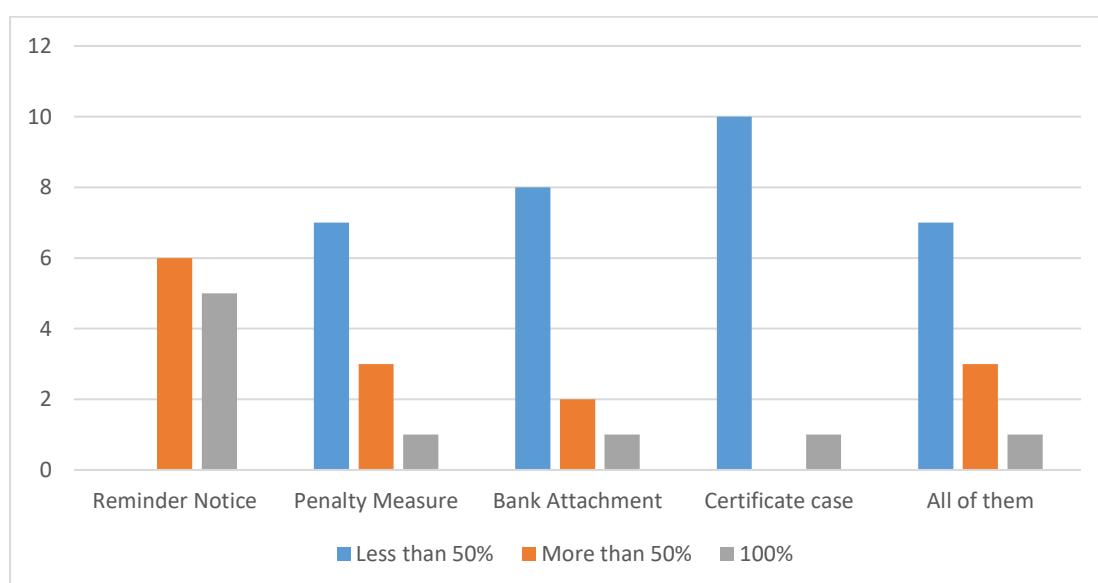
From the above graph, it is shown that most of the tax officials have agreed that tax evasion is occurring due to the uses of manual record keeping system or unsatisfactory record keeping system and inefficient staff of the circle. Burden with many other tasks of tax officials are treated as important reason for not handling tax evasion. The questions were designed in 1 to 4 scale (4 = the most Important and 1 = the least important). During data analysis, result are converted into scale on the basis of important.

**5.7: Measures taken for the realization of taxes in this circle level in terms of (%)**

To understand the measures taken for the realization of taxes in the circle level of NBR in terms of percentage, the respondents specially the tax officials were asked about some measurement technique for the realization from detection of tax evasion. The results are stated below:

**Table 12: Measures taken for the realization of taxes in this circle level**

%	Reminder Notice	Penalty Measure	Bank Attachment	Certificate case	All of them
Less than 50%	0	7	8	10	7
More than 50%	6	3	2	0	3
100%	5	1	1	1	1



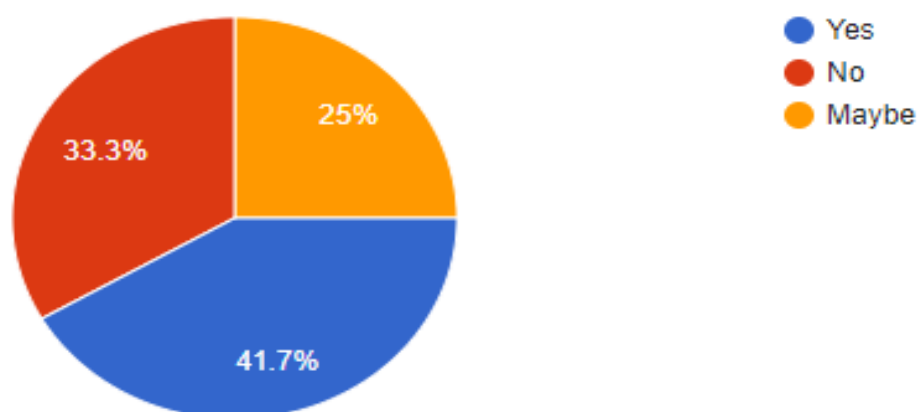
**Figure 9: Measures for the realization of taxes in this circle level**

From the above graph, it is shown that most of the tax officials have agreed that issuing reminder notice, imposing penalty, bank attachment and certificate case has been used as a measuring technique for realizing the taxes in the circle level of NBR. 45.45% of the respondents believe that reminder notice is done for realization of tax for 100% case, whereas 54.55% believe that it is used in case of 50% cases. 63.64% of the respondents believe that penalty measure is used for realizing tax for less than 50% cases. 72.73% and 90.91% of the respondents believe that bank attachment and certificate cases tools are used to realize tax in the circle level. Finally we can conclude that 63.64% of the respondents are agreed that all those tools are used to realize tax for less than 50% cases in the circle level of NBR.

### **5.8 The Process and reason of Tax Evasion**

Taxpayers are not able to evade tax by themselves. Tax evasion is not possible without the involvement of the tax advisers and certain quarter of tax officials. They guide and help the taxpayers to evade tax in most of the cases.

**Figure 10: Process and reason for evasion of taxes**

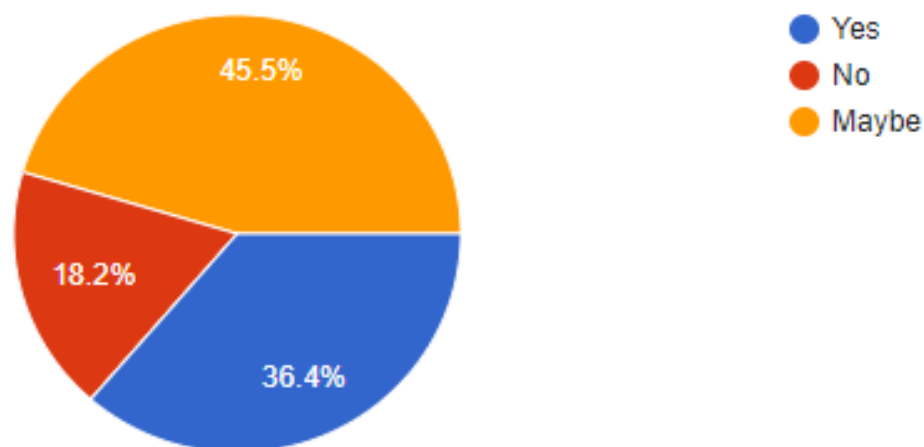


The following pie chart shows that 41.7% of the respondents agreed that tax evasion is happening with the help of tax advisors and in some cases with the help of tax officials, whereas 33.3% are not agreed with this opinion.

### **5.9 The Complexity in the process of Assessment**

In Bangladesh, the assessment system is complicated and people do make mistake in self-assessment in Bangladesh. One of the main reasons for tax evasion is the complexity in the process of assessment. People are not showing real income due to the complex process of tax payment as well as assessment. Most of the taxpayers are

always tried to play hide and seek game with tax authority. They try to escape their real income. And they blame to complex procedure of tax payment as well as complexity in the income tax return.

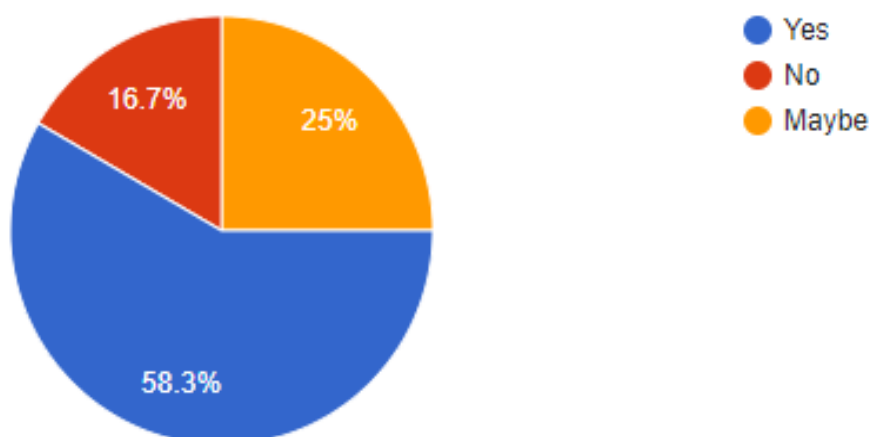


**Figure 11: Complexity in the process of Assessment**

The above pie chart shows that 36.4% of the respondents agreed that tax assessment is complicated, whereas 45.5% are indifferent or express may be with this opinion about the complexity of assessment and return submission.

#### **5.10 Awareness about the consequences of Tax Evasion:**

In Bangladesh, General people are hardly aware of the consequences for tax evasion. So they commit to evade tax. If they are well informed about the consequences of tax evasion, they don't commit to evade tax. Tax authority need to address the issues and aware the taxpayers about the consequences of tax evasion.



The above pie chart shows that 53.8% of the respondents agreed that they are not aware about the consequences of tax evasion, whereas 25% of them are indifferent or express may be with this opinion. So, if the tax authority can aware the taxpayers about the consequences of tax evasion, it will influence them not to evade tax.

### **5.11 Case Analysis**

#### **a) Ways of evading Tax:**

- ✓ Actual Bank deposit/bank balance (Fixed Deposit) was not declared in their audited report.
- ✓ Actual Sales/turnover/receipt was not shown in their submitted income tax return.

#### **b) Source of information for Tax Evasion:**

The main source of information of tax evasion for the selected cases are:

- ✓ Bank Searching
- ✓ Information from secret sources and
- ✓ Information scrutiny of the file.

**c) Period of tax evasion:** 2009-2010 to 2016-2017

#### **d) Details Summary of the selected cases:**

Name of Taxpayers	A	B	C	D
Tax Paid before evasion:	4,60,76,855	43,58,436	14,00,581	14,942
Tax evasion detected:	29,09,75,869	14,31,047	3,35,210	32,53,071
Collection:	2,33,91,810	14,31,047	0	0
Appeal	Yes	No	No	No
Tribunal	Yes	No	No	No
High Court	Yes	No	No	No

Name of Taxpayers	E	F	G
Tax Paid before evasion:	60,19,288	0	10,115
Tax evasion detected:	2,35,68,934	41,37,636	76,609
Collection:	0	0	44,534
Appeal	Yes	No	Yes
Tribunal	Yes	No	Yes
High Court	Yes	No	No

Name of Taxpayers	H	I	J
Tax Paid before evasion:	72,02,030	0	10,49,079
Tax evasion detected:	44,80,285	2,97,048	13,94,967
Collection:	24,96,208	1,08,525	No
Appeal	Yes	Yes	No
Tribunal	Yes	Yes	No
High Court	No	No	No

**Source:** Researcher's Synthesis

**e) Observations of the selected cases:**

- ✓ Assessment has been done on due time for all cases.
- ✓ Appeal and tribunal has been submitted by Taxpayers for 5 cases whereas references in the high court has been submitted for 2 big cases which are still pending.
- ✓ Reminder notice has been served for all cases as collection measure whereas Bank attachment for collection has been imposed only for two cases.
- ✓ There have no collection of taxes from 05 (Five) cases whereas Full amount of taxes has been collected from 2 (Two) cases.
- ✓ There is non-submission of appeal, tribunal and reference in the high court division for 5 (Five) cases.

After analyzing the data collected through mixed questionnaire such as open ended and close ended question from the respondents as well as by analyzing the selselected cases, the study came up with some main factors which is influenceing the taxpayers to evade tax. The factors are as follows:

- ✓ Tax officials and tax advisors have an important role to evade tax.
- ✓ The complexity in in the process of assessment
- ✓ Less awareness about the consequences of tax evasion
- ✓ The uses of tax money influence the taxpayers to pay or not to pay tax.
- ✓ Enforcement activities of tax authorities.
- ✓ Tax rate and penalty measure
- ✓ Possibility of detection or possibility of Audit.
- ✓ Lack of awareness about the payment of tax.

Also the study came up with some recommendations to reduce tax evasion successfully. These will have a big effect on the evasion of taxes as the study collects the suggestions mostly from the tax officials, taxpayers and tax practitioners of the research. Some adjustments have been made during consultation with the key informant. The recommendations are:

- ✓ Awareness building among the taxpayers
- ✓ Counseling to the taxpayers
- ✓ Tax Deducted/Collected at Sources
- ✓ Non-harassment of the taxpayers
- ✓ Digital processing & flow of financial information
- ✓ Severe panel measure for evasion of tax
- ✓ Effective enforcement & collection measures
- ✓ Providing an additional advantage to the taxpayers who are paying tax regularly. It can be provided by giving an identity card.

### **5.11 Conclusion**

Firstly, the dependent variable of the study has been analyzed in terms of satisfaction level of the respondents of tax payment system as well as the level of satisfaction of the implementers about the current state of taxation. This discussion is included in the research design to get better understandings about the dynamics of tax evasion. The study finds that the level of satisfaction among the taxpayers and tax officials is measured in average level due to various factors. Then the study analyzes the collected data and these data are significantly influencing on tax evasion. The causal relationship between and within the dependent and the independent variables have been discussed and the study tries to identify the relation between them. Ease of use, easy of payment of taxes, and helpfulness nature of the taxation people are positively correlated with the satisfaction level of the taxpayers, but the strength of those relationships is not as high as assumed. The challenging factors that have considerable influence on tax evasion are also determined by the study. Among the factors, the lacking of awareness of the taxpayer is appeared as the major challenging factor.



## **CHAPTER SIX**

### **CONCLUSION AND IMPLICATIONS OF THE STUDY**

#### **6.0 Introduction**

The concluding chapter goes over the main points and provides a short overview of the key findings of the relationships between explanatory variables and tax evasion. The findings are drawn on the basis of empirical evidences collected through quantitative and qualitative method from both taxpayers' data and from tax officials' data. The interviews are conducted at policy level tax officials and also at field level implementers of NBR while the quantitative data are based on the taxpayers and tax advisors from taxes zone 5, Dhaka of Bangladesh. The study areas have been selected on the basis of some rationales, like the individuals and the corporate types of taxpayers, and mostly the accessibility of the researcher to taxpayer etc. This chapter starts with reviewing the research questions and then advances with the brief description of the key findings and their relative connection with the research questions. This chapter also tries to generalize the key findings of the study and also tries to combine these findings in the theoretical relevance section of the paper. The study also looks into the practical connotations of the findings along with these theoretical implications. As a final point, it outlines the limitations of the study and suggests some possible avenues for further research.

#### **6.1 Research Questions and the Key Empirical Findings**

The leading research question of the present study was '*What processes and mechanisms lead to tax evasion in Bangladesh? And what factors are responsible for influencing tax evasion in Bangladesh?*' The *first question* is related with the probable processes and mechanisms that lead to the evasion of taxes in Bangladesh; and the *second question* is related with the other variables like possibility of detection, tax rate, fairness, penalties and uses of tax money that affect tax evasion. Based on the research questions and its theoretical responses, the study examines the extent of tax evasion in the study area through empirical evidences. The analysis of the explanatory variables named '*perceived reasons for tax evasion*' and '*process of evasion*' answers the first research question while the analysis of '*context of proper auditing and enforcement*' mostly help to understand the factors that can influence the evasion of tax.

## **6.2 Legal and Institutional Arrangement: Is it beneficial for the tax authority to deal with tax evasion?**

The study finds that to achieve the goal of Vision 2021, the government of Bangladesh is trying to raise the tax GDP ratio to 15 percent by 2021 and to attain the goal, government made necessary legal and institutional arrangements. Every field offices of NBR is working for implementing the tax policies and laws such as detecting tax evasion and taking enforcement activities to reduce tax evasion.

In 2004, Central Intelligence Cell (CIC) was established under direct control of chairman, NBR to detect tax evasion and work as a striking force against tax crimes. It collects and gathers information related to tax through intelligence work. It undertakes data collection and investigation on evasion of taxes; analyses records of taxpayers; identifies tax evasion in accordance with the income tax law.

## **6.3 Contrasting the Taxpayers and the tax officials Findings: Looking through each other Lenses:**

The key objectives of the study are to draw greater insights on the dynamism of evasion of tax in Bangladesh and to explore the factors affecting the evasion of tax in Bangladesh over the period of time. And the other objective is to explore the challenges to address the evasion of tax.

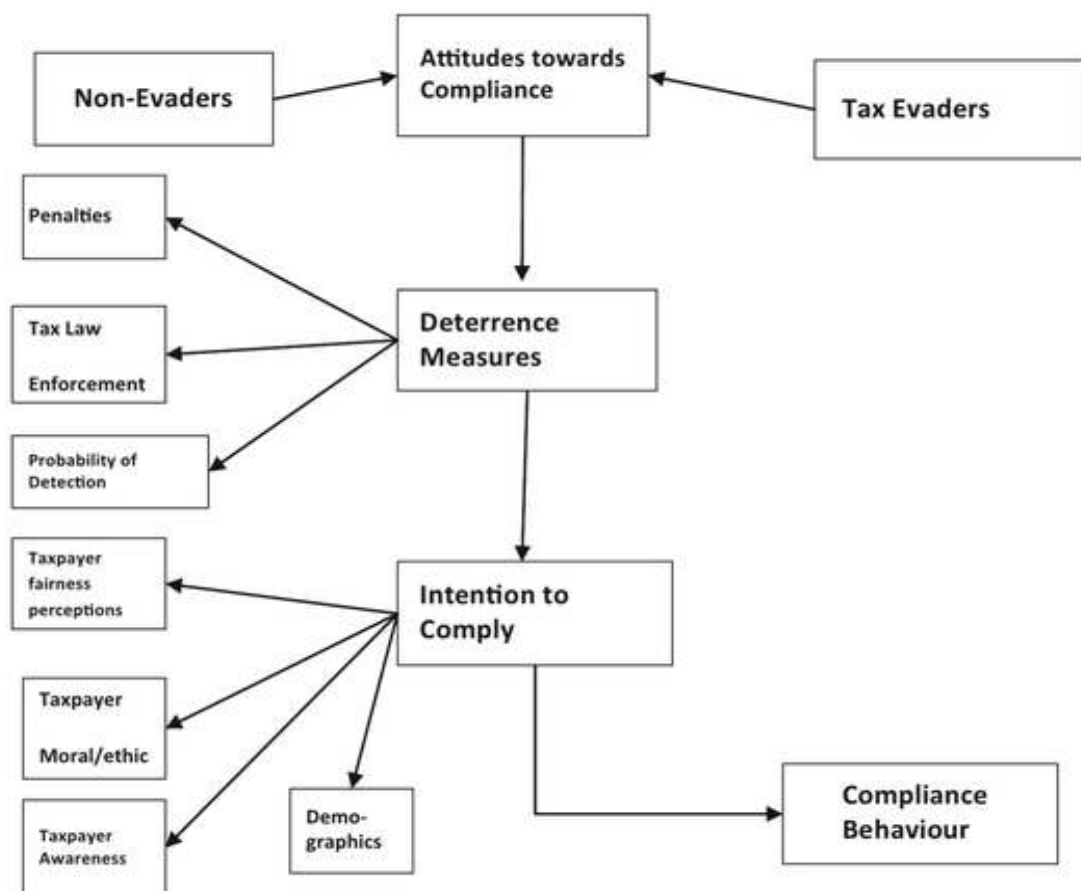
To understand the dynamism of tax evasion, the study selects respondents mainly from the taxpayer group who are paying tax regularly and select some cases where tax evasion are detected. Furthermore, to find out the major challenges to address the evasion of tax, the study collects data from those respondents who are directly working with the implementation of tax laws. Based on the statistical analysis of surveyed data, the probable influences of the independent variables over the dependent variable have been determined. The analyses indicate the trends between explanatory variables and tax evasion and also express the possible explanations of those trends. However, this section of the study is an effort to combine the data collected from taxpayers and tax officials to increase the analytical forcefulness of the study.

#### **6.4 Theoretical Relevance of the Study**

From the economic deterrence theory used for the study, two main variables can be found which are strongly influenced the behavior of taxpayers are benefits and costs of tax evasion such as tax morale and tax compliance. These variables can be measured through a number of indicators. Every indicator has the power to change the behavior of taxpayers. That means, the study reveals that the tax evasion mainly depends on the variation between these two main explanatory variables.

On the other hand, 'tax morale' can be measured by behavior of the taxpayers such as keeping adequacy of the return and reporting with integrity, making disclosures, demonstrating fairness. 'Tax compliance' can be measured by payment of tax on time, and as the provision of law. The empirical data of the study affirms that enforcement strategies may have significant effect on some of the patterns of tax compliance and at the same time it may open a new opportunity for the tax authority. The following diagram represent how the variables are examined.

**Figure: Diagrammatic representation of the variables examined**



From the above diagram we see that there are two types of taxpayers: tax evaders and non-tax evaders. If we introduce deterrence measure such as imposing penalties, enforcement activities, detection of tax evaders, it will influence the taxpayers to be compliance. And tax compliance depends on taxpayer's fairness, perception, morality and awareness about the uses of tax money as well as the consequences of evading tax. Demographic factors also influence the taxpayers to comply positively or negatively.

#### **6.5 Policy Implications of the Findings: Lessons Learnt and Measures to Successful Enforcement:**

The findings of the research can attach some new insights in the field of tax evasion and can lead to a few policy advices for the policy makers as well as for the field level tax officials. The study empirically scrutinizes the argument that ease of tax payment system is positively associated with the satisfaction of the taxpayer. These findings can be used as a significant suggestion for making the tax payment system as well as laws relating to taxation will be easy. Enforcement strategies that are taken in the stage of policy formulation have a role in dealing with tax evasion. The findings about the enforcement strategies indicate that when proper enforcement activities are initiated for tax evaders, then it can affect others not to evade tax. Another important insight appears from the findings that Prosecuted to the tax evaders in the court would deter people from evading tax. Auditing and ensuring proper accounting system to tax evaders would deter people from evading tax.

Evidences collected from the both levels of respondents demonstrate that target group behavior is strongly associated with evasion of tax. Importantly, lack of awareness among the taxpayer about the consequences of evasion of tax lead to the taxpayers to evade tax. So various challenges of enforcement like: 'lack of awareness among taxpayers', 'lack of promotional activities', 'lack of training to the officials', 'insufficient staff in the circle offices' and uses of manual system in the tax offices can also affect the processes of handling tax evasion. Tax authority should take an effective measure to address these challenges for detecting and reducing evasion of tax.

#### **6.6 Limitations of the Study and the Future Scopes**

The present study is conducted through document analysis, questionnaire survey and interview. The other methods like FGD and direct observation may add value in data collection. The sample size (N) is kept small due to time constraint which is a major challenge to check the reliability of the present findings. Furthermore, a small deviation

of the opinions may carry a significant impact on measurement of the respective variables. Further study on this issue with a larger sample can be conducted to produce more valid findings. The present study mostly considers the view of corporate taxpayers and survey is conducted to highly educated and upper class tax officials to understand the probable reasons and factors of tax evasion but other variations like proper accounting system can produce more interesting insights and deeper findings on the dynamics of tax evasion. Therefore, the present study has left many questions and areas unexplored which can be brought into play by the future researchers.

### **6.7 Concluding Remarks**

The findings of the study depict the dynamism of tax evasion with some observations and challenges. The dynamics that are emerged from the study can offer some understandings about the aspects of the independent variables that may have larger impacts on evasion of tax and it also provide some insights to explain the factors that influences the evasion of tax in a circle level tax offices at NBR. From the survey area, it appears that '*ease of use*' may have better impacts when it can make the tax payment system more user friendly. In addition, by reducing compliance cost for the taxpayer through reducing unnecessary paper works and contacts between tax administration and taxpayers, the system can achieve popularity.

Ultimately, the success of any technology based government service like E-payment, E-TIN and E-filing program lies in how efficiently it can enhance people's participation in government functioning through ease of use. It shows that just the introduction of ICT is not sufficient to achieve the goal of digitization of Bangladesh lied in '**Vision 2021**' but to ensure proper enforcement and collection measures can provide greater impacts on entire governance. Surely, it is a good start but the government should emphasize on its uses of government revenue for betterment of its citizen which can indirectly enhance direct tax collection. As revenue is known as the blood for development so this type of initiatives can accelerate the growth of revenue that can lead to reach the goal of '**Vision 2041**' to be a developed nation.

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## **Annexure - 1**

### **Time line of Direct Taxes:**

- 1972** - Establishment of NBR
- 1984** - Formation of Income Tax Ordinance, 1984 and Income Tax Rules, 1984
- 1990** - Introduction of self-assessment for individual taxpayers
- 1993** - Introduction of TIN (10 digit)
- 1999** - Imposing Surcharge
- 2003** - Introduction of self-assessment for corporate taxpayers
- 2004** - Commencement of tax management through LTU
- 2004** – Establishment of Central Intelligence Cell (CIC) to detect tax evasion
- 2007** - Introduction of Universal self-assessment
- 2008** - Launching of highest taxpayers' reward and Income Tax Day
- 2010** - Commencement of Income Tax Fair
- 2011** - Initiation of NBR modernization Plan
- 2012** - Piloting of E-filing and Introduction of e-Payment
- 2013** - Commencement of e-TIN (12 digit)
- 2014**- Formation of Transfer Pricing Cell
- 2016** - Commencement of E-filing across the country

## Annexure - 2

### **Income Tax Authorities:**

According to section 3 of the IT Ordinance, 1984; there shall be the following income tax authorities

1. The National Board of Revenue;
2. Chief Commissioner of Taxes;
3. Directors-General of Inspection (Taxes);
4. Commissioner of Taxes (Appeals);
5. Commissioner of Taxes (Large Taxpayer Unit);
6. Director General (Training);
7. Director General, Central Intelligence Cell;
8. Commissioners of Taxes;
9. Additional Commissioners of Taxes (Appellate/Inspecting);
10. Joint Commissioners of Taxes (Appellate/Inspecting);
11. Deputy Commissioners of Taxes;
12. Tax recovery officers;
13. Assistant Commissioners of Taxes;
14. Extra Assistant Commissioners of Taxes; and
15. Inspectors of Taxes.

**Questionnaire for Taxpayers**

**Dynamics of Tax Evasion: An Exploratory Study in a Tax Circle of  
Bangladesh**

**Objective:** The objective of the study is to draw greater insights on the dynamism of tax evasion in Bangladesh over the period of time and it is being undertaken for fulfillment of the requirement of the thesis of Master in Public Policy and Governance under Public Policy and Governance (PPG) Program under joint collaboration with University of Bergen, Norway and North South University, Bangladesh.

[This questionnaire is intended for collecting data which will be used only for the academic purposes and personal identity of the respondents will not be disclosed. I would like to express my sincere gratitude for your participation and completion of this study.]

**General Information of the Respondent:**

- a. Age:
- b. Gender:
- c. Education:
- d. Number of family members dependent on you:
- e. Sources of income: (Such as agriculture, House property, business or profession, service, and others (Interest on Investment etc.)
- f. Monthly estimated expenditure:
- g. Monthly fixed income (if any)
- h. Annual total income:
- i. Name of tax Circle where tax return is filed:
- j. TIN Number:
- k. Email Address:

**Specific Question to the Respondent:**

**1. Do you file your tax return by yourself or with the help of tax adviser?**

Ans: a) Yes                      b) No                      c) May be

**2. Do you keep your income tax file records with your disposal or dependent on tax adviser?**

Ans: a) Yes                      b) No                      c) May be

**3. What is your attitude towards the present taxation structure and slab? (Please tick the most relevant answer only)**

- a. it is very high, very hard to cope with,
- b. It is okay now, but it has a upscale trend, and may become hard to pay,
- c. It is okay for now , and
- d. It is very low.

**4. Do you think tax rebate offered by government can be beneficial both for the government and the tax payers?**

Ans: a) Yes                      b) No                      c) May be

**5. Have you taken any such facility of tax rebate in the past?**

Ans: a) Yes                      b) No                      c) May be

**6. In your opinion, what is the general attitude of people towards payment of tax in Bangladesh?**

- a. Highly satisfied
- b. Satisfied
- c. Neutral
- d. Dissatisfied
- e. Highly dissatisfied

**7. Do you believe that the tax which is being assessed reflects the true taxable income of a tax payer?**

Ans: a) Yes                      b) No                      c) May be

**8. If not, then where is the loophole according to your knowledge? (Please rank the following statements in terms of significance, for '4' as the most significant and '1' as the least significant)**

- a. Taxpayers may not declare real income
- b. Taxpayers may underreport income, sales, or wealth

- c. Tax offices are not well equipped with information
- d. Tax offices are over burden with work
- e. Tax offices are not sincere with their work

**9. Would you pay less tax if you know that you would not be detected and penalized?**

Ans: a) Yes                      b) No                      c) May be

**10. Did you pay tax regularly as the government using collected taxes efficiently for the development of Bangladesh?**

Ans: a) Yes                      b) No                      c) May be

**11. In your opinion, what should be the Justification of taxation? (Please rank the following statements in terms of significance, for '4' as the most significant and '1' as the least significant)**

- a. when tax money goes to pay for better quality of life of the citizens such as health and education, provision for the poor etc.,
- b. when people would know that the government spending is right and properly accounted for,
- c. when the burden of tax is based on actual income and made progressively,
- d. Everybody having taxable income should pay, irrespective of how the money is spent.

**12. How government can induce tax payers to pay taxes in time? (Please rank the following statements in terms of significance, for '4' as the most significant and '1' as the least significant)**

- a. Taxpayers education and awareness
- b. Taxpayers service
- c. Enforcement activities
- d. Reward and penalty measure

**13. According to your last year tax, was there any enhancement of your tax for the current year?**

Ans: a) Yes                      b) No                      c) May be

**14. What explanation would you give, if there is no enhancement of tax this year compared to last year despite the increase of income as may be observed from your file?**

- a. Tax rate decreased
- b. Tax rebate increased
- c. Make mistake in the tax computation
- d. Other (Please specify)...

**15. Do you think that general people are hardly aware of the consequences for tax evasion?**

Ans: a) Yes                      b) No                      c) May be

**16. Do you believe that tax evasion is not possible without the involvement of the tax advisers and certain quarter of tax officials?**

Ans: a) Yes                      b) No                      c) May be

**17. What is the general attitude of people towards evasion of taxes? (Please rank the following statements in terms of significance, for '4' as the most significant and '1' as the least significant)**

- a. They have little access to such information
- b. They are thinking it a normal activities
- c. They are thinking them clever for evading tax
- d. They are feeling ashamed those who are evading tax

**18. Do you agree that the present tax system benefits the rich and is unfair to the ordinary working people?**

- a. Strongly agreed
- b. Agreed
- c. Neutral
- d. Disagreed
- e. Strongly disagreed

**19. Do you think that paying taxes is seen in our country as something to be feared rather than a way of looking as an obligation on the part of the citizen.**

- a. Strongly agreed
- b. Agreed

- c. Neutral
- d. Disagreed
- e. Strongly disagreed

**20. What should be the strategy of the government to stop tax evasion: (please rank in order of significance from '4' as the most significant to '1' as the less significant)**

- a. non-harassment of the tax payer,
- b. counselling the tax payers,
- c. Tax deducted at source,
- d. Severe penal provision.

**21. How intelligence can be built in the society that may help reduce tax evasion? (please rank the following statements in order of significance from '4' as the most significant to '1' as the less significant)**

- a. Improve expertise of tax officials
- b. Information sharing with different agencies
- c. Reduce uses of cash transaction
- d. Severe Penal measure for evasion of tax
- e. Publish the list of tax evaders

**22. Do you think that tax fair has any role in curbing tax evasion?**

- Ans. a) Yes                      b) No                      c) May be

**23. Is there any possibility of getting caught if a person in our country has committed an illegal act?**

- Ans. a) Yes                      b) No                      c) May be

**24. Do you agree that tax evaders being audited in more details in the next years would deter people from evading tax if the NBR detects tax evasion?**

- Ans. a) Yes                      b) No                      c) May be

**25. Do you agree that tax evaders should be prosecuted in court would deter people from evading tax if the NBR detects tax evasion?**

- Ans. a) Yes                      b) No                      c) May be

**26. Please kindly state your other Comments/ Suggestions about evasion of tax, if any?**

## Annexure - 4

### **Questionnaire for the tax officials/key informants**

#### Dynamics of Tax Evasion: An Exploratory Study in a Tax Circle of Bangladesh

**Objective:** The objective of the study is to draw greater insights on the dynamism of tax evasion in Bangladesh over the period of time and it is being undertaken for fulfillment of the requirement of the thesis of Master in Public Policy and Governance under Public Policy and Governance (PPG) Program under joint collaboration with University of Bergen, Norway and North South University, Bangladesh.

[This questionnaire is intended for collecting data which will be used only for the academic purposes and personal identity of the respondents will not be disclosed. I would like to express my sincere gratitude for your participation and completion of this study.]

#### **General Information of the Respondent:**

- a. Age:
- b. Gender:
- c. Education:
- d. Office Address:
- e. Position (if any):
- f. Email Address:
- g. Date of interview:

#### **Specific Question to the Respondent:**

1. Do you think the assessment system is complicated and people do make mistake in self-assessment?

Ans. a) Yes

b) No

c) May be



**2. What are the major challenges and obstacles for taxation in this circle? (Please rank the following statements in terms of severity or importance for '4' as the most significant and '1' as the least significant.)**

- a. Offices are using the manual system
- b. Record keeping is not satisfactory
- c. Inefficient staff of the circle
- d. Tax officials are not helpful
- e. Tax officials are burden with many other tasks.

<p>The Most Important</p> <p>Important</p> <p>Less Important</p> <p>The less Important</p>
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**3. How tax evasion is detected and dealt with? (Please rank the following statements in terms of importance for '4' as the most important and '1' as the least important)**

- a. Random scrutinizing the file
- b. From regular audit and inspection of files
- c. Information from secret sources
- d. Bank searching of the suspect taxpayers
- e. Through collecting information from field inspection

<p>The Most Important</p> <p>Important</p> <p>Less Important</p> <p>The less Important</p>
--

**4. What measures you have taken for the realization of taxes in this circle? (Please express your answer in terms of percentage (%) in the following actions)**

- a. Reminder notice
- b. Penalty measure
- c. Bank attachment
- d. Certificate case
- e. All of them

<p>Less than 50%</p> <p>More than 50%</p> <p>100%</p>
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**5. What is the general state of concealment of income and wealth of people in the circle? (Please rank the following statements in terms of importance for '4' as the most important and '1' as the least important)**

- a. Concealment cases have been selected on manual basis
- b. Prospective cases of concealment of income and wealth are not selected for audit

- c. Very few cases are selected for audit Purposes
  - d. Very few cases are selected for concealment of income and wealth
  - e. Circle staffs are not expert about selection of concealment cases
- 6. What techniques are being followed to detect tax evasion? (Please rank the following statements in terms of importance for '4' as the most important and '1' as the least important)**
- a. Digitalized the return submission process
  - b. Digitalized process of selecting cases of concealment
  - c. Ensuring proper audit and accounting system
  - d. Increase the number of Audit cases
- 7. What prospect digitization of the tax structure has on the detection and reduction of tax evasion? (Please rank the following statements in terms of importance for '4' as the most important and '1' as the least important)**
- a. Automatic selection of tax audit
  - b. Automatic collection of information relating to tax payers
  - c. Assessment has been done digitally
  - d. Increase the inflow of information for tax department
- 8. How do you deal with the particular cases marked in the category of tax evasion? (Please rank the following statements in terms of importance for '4' as the most important and '1' as the least important)**
- a. Most of the case bank search have been done of the suspected taxpayers
  - b. Collecting information through field inspection
  - c. Assessment are done on priority basis
  - d. Collection measure has been taken after assessment
- 9. What measures do you recommend that may deter tax evasion and increase tax receipt? (Please rank the following statements in terms of importance for '4' as the most important and '1' as the least important)**
- a. Reducing tax rate
  - b. Increase the percentage of tax audit

- c. Digitalized the tax management system
- d. Reducing the complex procedure for the payment and verification of taxes
- e. Providing a proper service to the taxpayers

**10. What is the social and ethical stand towards tax evasion in our society? (Please rank the following statements in terms of importance for '4' as the most important and '1' as the least important)**

- a. Tax evasion is ethical if the tax rates are too high
- b. Tax evasion is ethical if the tax system unfair.
- c. Tax evasion is ethical if everyone doing it.
- d. Tax evasion is unethical task.

The Most Important  
Important  
Less Important  
The less Important

**11. What attitude do you have as a tax official towards the habitual tax evaders in our society? (Please rank the following statements in terms of importance for '4' as the most important and '1' as the least important)**

- a. Evading tax is a defective act
- b. Tax evasion is an unacceptable behavior
- c. Habitual tax evaders are non-compliance
- d. Habitual tax evaders should be punished

The Most Important  
Important  
Less Important  
The less Important

**12. How we can deal with taxation more in a voluntary act rather than as a coercive measure? (Please rank the following statements in terms of importance for '4' as the most important and '1' as the least important)**

- a. Motivating the taxpayers to pay their due tax.
- b. Promoting the taxpayers about the uses of tax money
- c. Rewarding the taxpayers who are paying tax regularly
- d. Awareness building among the taxpayers

The Most Important  
Important  
Less Important  
The less Important

**13. What is the percentage that falls within the purview of tax evasion in this particular circle?**

- a. 5 – 10 %
- b. 11 – 20 %

c. 21 – 30 %

d. More than 30 %

**14. Please kindly state your other Comments/ Suggestions about evasion of tax, if any?**