

# **Political Economy of Corruption: The Case of Tax Evasion in Bangladesh**

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**21 September 2012**

## **DEDICATED TO**

My Son, Md Yakeen Noor Rahman

Mother, Shahana Islam

Father, Md Monirul Islam

## **DECLARATION**

I declare that this thesis is my own work and it has never previously been submitted for any other degree or diploma. To the best of my knowledge and belief, any previously written or published materials used in this thesis by way of background information, are duly acknowledged in the text of the thesis.

**Signed**

**Date**

This project has received the approval of the Monash University Standing Committee on Ethics in Research involving Humans (Reference Number CF 09/2124-2009001220)

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## ABSTRACT

Corruption is considered to be a major problem across all parts of the world. However, corruption is arguably more prevalent in least developed countries when compared to developed industrialised nations. Bangladesh, in this regard, is no exception. The extent of corruption in Bangladesh reached such a record level that it was dubbed the most corrupt country in the world in Transparency International's Corruption Perception Index for consecutive years between 2001 and 2005. The political economy of corruption in Bangladesh presents a frustrating picture of the problem that suggests that the apparent corrupt state of Bangladesh has primarily emanated from a longstanding nexus between corrupt politicians, public officials and other stakeholders, including businesspeople. Tax evasion is likely to play a significant role in creating and maintaining such a nexus resulting in a significant shortfall in the country's overall revenue collection. Despite the importance of this intriguing scenario, very little empirical research has been conducted to date on tax evasion as a corrupt practice and the various politico-economic issues associated with it in Bangladesh.

This study aims to identify and analyse the key issues associated with the tax policy formulation, implementation and compliance processes and their likely roles in facilitating tax evasion. It also seeks to investigate the involvement and nexus of various stakeholders and their alleged contribution to tax evasion in Bangladesh.

Initially, the context of the thesis is established, relying on the background of the study and the literature on tax evasion and corruption. A number of relevant theories are identified as theoretical templates for assessing the problem in a Bangladesh context, viz., public choice theory, rent-seeking theory and the Allingham-Sandmo Model. A combination of deductive and inductive reasoning has been utilised to capture the complexity of the research. A conceptual framework and a set of propositions are framed on the basis of the literature.

Based on a single-country-based case study approach, mixed methods have been employed to obtain insightful answers to the research problem. The study utilises both quantitative and qualitative research methods. Primary data were collected by conducting a survey utilising structured printed questionnaires, face-to-face interviews, and attendance at a roundtable seminar as a participant observer. Secondary data were collected from project reports, government publications and documents, books, journals, reports, newspapers and electronic media.

The empirical findings suggest that the absence of a participatory policy making process, lack of research into, and reform of, the tax system, short-term oriented and politically motivated tax policies, loopholes, anomalies and complexities of tax laws and policies are responsible for creating scope for tax evasion. Institutional weaknesses of the tax administration, lack of professional support for tax officials and inappropriate behavioural aspects of tax officials have undermined the efficiency of the tax policy implementation process, resulting in widespread tax evasion. During the compliance process, the absence of a tax culture among income earners, inadequate taxpayer service, complexities and unfairness in tax estimation, weak enforcement and the negative image of the tax department work as influential driving forces for tax non-compliance. The empirical findings also revealed that the corrupt nexus of self-interested policy makers, rent-seeking tax officials, self-utility maximiser taxpayers,

including businesspeople, professionals, self-employed persons, and their intermediaries, tax agents, facilitates tax evasion.

This study provides policy implications and recommendations for combating tax evasion and corruption in the tax administration. It recommends comprehensive reform of the Income Tax Ordinance 1984, establishing a permanent autonomous tax research cell, ensuring participation of all stakeholders including taxpayers and the civil society in tax policy formulation. The study also flags an urgent need to strengthen the tax administration through providing adequate human resources, infrastructure and logistic support and automation, and enhancing its jurisdiction. Adequate wages and professional support for tax officials should immediately be provided. Strong tax enforcement, with an increased probability of detection of tax evasion, increased penalty rates and a reduction in tax rate would be effective measures to combat tax evasion. For establishing a tax paying culture, it is recommended to provide services to taxpayers such as taxpayer education and online facilities, simplify the complex and overly bureaucratic tax system, undertake systematic advertising and publicising of tax issues, and ensure transparency in spending the revenue raised. Discriminatory tax treatment, including the use of tax amnesties and tax exemptions should be discontinued. This study suggests implementing exemplary punishment of both tax evaders and corrupt tax officials to prevent tax evasion. Following an inductive process, this thesis also proposes a set of theoretical implications.

As the thesis was limited to study the income tax evasion in socio-economic and administrative context of Bangladesh, generalising the findings regarding tax evasion to other countries may be problematical. The thesis is expected to partially meet an existing gap in the literature by investigating the problem of tax evasion from a developing country perspective which could act as a useful guide for the government of Bangladesh and its development partners to reform and improve the taxation regime. The research may also help stimulate future research on tax evasion and corruption from both developed and developing country perspectives.



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## **ABBREVIATIONS**

<b>ACC</b>	Anti Corruption Commission
<b>ADB</b>	Asian Development Bank
<b>BB</b>	Bangladesh Bank
<b>BDT</b>	Bangladesh Taka
<b>BCS</b>	Bangladesh Civil Service
<b>BGMEA</b>	Bangladesh Garments Manufacturers and Exporters Association
<b>BNP</b>	Bangladesh Nationalist Party
<b>BPSC</b>	Bangladesh Public Service Commission
<b>CG</b>	Caretaker Government
<b>CIC</b>	Central Intelligence Cell
<b>CPI</b>	Corruption Perception Index
<b>DCCI</b>	Dhaka Chamber of Commerce and Industry
<b>DCT</b>	Deputy Commissioner of Taxes
<b>DFID</b>	Department for International Development
<b>FBCCI</b>	Federation of Bangladesh Chambers of Commerce and Industry
<b>GDP</b>	Gross Domestic Product
<b>GOB</b>	Government of Bangladesh
<b>GNP</b>	Gross National Product
<b>HRM</b>	Human Resource Management
<b>ICT</b>	Information and Communication Technology
<b>IRD</b>	Internal Resource Division
<b>ITIC</b>	International Tax and Investment Centre
<b>ITO</b>	Income Tax Ordinance
<b>LTU</b>	Large Taxpayer Unit

<b>MAP</b>	Modernization and Automation Project
<b>MCCI</b>	Metropolitan Chamber of Commerce and Industry
<b>MIMIC</b>	Multiple Indicators Multiple Causes
<b>MIS</b>	Management of Data and Information System
<b>MOF</b>	Ministry of Finance
<b>MP</b>	Member of the Parliament
<b>MUHREC</b>	Monash University Human Research Ethics Committee
<b>NBR</b>	National Board of Revenue
<b>NIPFP</b>	National Institute of Public Finance and Policy
<b>OECD</b>	Organization for Economic Cooperation and Development
<b>OTO</b>	Office of the Tax Ombudsman
<b>PARC</b>	Public Administration Reform Commission
<b>PIPFA</b>	Pakistan Institute of Public Finance Accountants
<b>REHAB</b>	Real Estate & Housing Association of Bangladesh
<b>SAARC</b>	South Asian Association for Regional Cooperation
<b>SCERH</b>	Standing Committee on Ethics in Research involving Humans
<b>TI</b>	Transparency International
<b>TIB</b>	Transparency International Bangladesh
<b>TIN</b>	Taxpayer Identification Number
<b>UN</b>	United Nations
<b>UNODC</b>	United Nations Office on Drugs and Crime
<b>VAT</b>	Value Added Tax
<b>WB</b>	The World Bank

## **CHAPTER I INTRODUCTION**

Corruption, evasion and the abuse of power - and the possibility thereof - are pervasive features of economic activity. A prominent instance is tax collection (Hindriks, Keen and Muthoo 1999, p. 395).

### **1.1 INTRODUCTION TO THE RESEARCH**

The aim of this thesis is to examine the political economy of corruption with respect to tax evasion in Bangladesh. Corruption and tax evasion are two age-old phenomena which can be traced back to the beginning of the human civilisation (Johnstone & Brown 2004; Torgler 2003; Tanzi & Shome 1993; Thakur 1979). They remain growing concerns in almost all countries around the world. Corruption has attracted global attention due to its rapid expansion. It is no longer the sole problem of any specific society or state. Rarely can any country or society claim that it is absolutely corruption-free. Because of the widespread negative impact of corruption, the United Nations (UN) has adopted a ‘Convention against Corruption’. The preamble of the convention has stated that the UN is seriously concerned about the problems created by corruption. It has further argued that corruption is a great threat to human rights, social stability and security, democracy and justice, development, poverty alleviation and the rule of law (United Nations 2004). In line with the UN, the Organization of American States, the Council of the European Union, the Organization for Economic Cooperation and Development (OECD), the League of Arab States, the Heads of State and Government of the African Union, and the Customs Cooperation Council have adopted their own conventions against corruption (United Nations 2004). In 2008, South Asian Association for Regional Cooperation (SAARC)<sup>1</sup> adopted a ‘Convention on Mutual Assistance on Criminal Matters’ in order to launch investigations, inquiries, trials, and proceedings against economic and fiscal offences including taxation, duties, customs and exchange amongst the member countries (SAARC 2012). Due to pervasive corruption in the region, SAARC leaders have recently laid emphasis on anti-corruption strategies.

The 2011 Corruption Perception Index (CPI), prepared by Transparency International<sup>2</sup>(TI), a global anti-corruption organisation, shows that no region or country, whether developed or

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<sup>1</sup> Member countries of SAARC: Bangladesh, India, Pakistan, Nepal, Bhutan, Sri Lanka, Maldives, and Afghanistan (SAARC 2012).

<sup>2</sup> Transparency International, a Berlin-based international anti-corruption watchdog, introduced the Corruption Perception Index in order to measure annually the perceived degrees of political and administrative corruption

developing, is immune to the devastating effects of public sector corruption (Transparency International 2011). However, corruption is arguably more prevalent in least developed countries when compared to developed industrialised nations. As Marjit, Mukherjee and Mukherjee (2000) argue, corruption in developing countries is so pervasive that citizens have accepted it as a social rule. South Asia stands out as one of the most corrupt regions, where one in three people pay bribes when dealing with public services (Transparency International 2012a). Political parties, the police, the parliament and the bureaucracy have been blamed for engaging in corrupt practices (Transparency International 2012a).

Bangladesh, in this regard, is no exception. The political economy of corruption in Bangladesh presents a frustrating picture of the problem that suggests that the apparent corrupt state of Bangladesh has primarily emanated from a longstanding nexus between corrupt politicians, public officials and other stakeholders including businesspeople. Tax evasion plays a significant role in creating and maintaining such a nexus. In the case of Bangladesh, tax evasion has been a growing concern, where a former prime minister, a former finance minister (the senior taxation person!) and a good number of members of parliament (MP) indulged in tax evasion and made their untaxed money legal by using loopholes in tax policies (BD Web News 2010; *The Daily Star* May 11, 2010a; ZEENEWS.com 2009; Hagerty 2008). Moreover, in 2007, two former prime ministers, son of a former prime minister, and a number of ministers, parliament members, public officials and businessmen were sentenced to jail on charges of corruption and evading taxes when an anti-corruption drive was undertaken in Bangladesh by a nonpartisan caretaker government (CG) (Earthtimes.org 2008; Hagerty 2008; Loudon 2008; *The Daily Star* August 4, 2008c; August 4, 2008b; July 28, 2008a; ABC News 2007; BBC News 2007a; 2007b; 2007c; Sung 2007).<sup>3</sup> According to a report of the National Board of Revenue Bangladesh (NBR), every year the government of Bangladesh (GOB) loses Bangladesh Taka (BDT) 40,000 *crore*<sup>4</sup> because of tax evasion and tax incentives (*The Daily Star* June 14, 2011b). Unsurprisingly, less than 1% of the total population<sup>5</sup> of Bangladesh pays income taxes, which is the lowest number among the South Asian countries (*The Daily Star* June 14, 2011b).

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prevalent in countries all over the world. The scale is ranked from 0 to 10, where a high score indicates a lower degree of corruption (for instance, 10 indicates a zero level of corruption) and a low score the opposite.

<sup>3</sup> This will be further discussed in Chapter II.

<sup>4</sup> 1 *Crore* = 10 Million; the Taka (BDT) is the currency unit of Bangladesh; US\$ 1 = BDT 80 (approximate).

<sup>5</sup> The projected population of Bangladesh on July 16, 2012 is 152,518,015 (152 million) (Bangladesh Bureau of Statistics 2012).

Given the pervasiveness of corruption and tax evasion in Bangladesh, it can be argued that both phenomena require greater investigation to ascertain their causes and remedies. Despite the importance of this intriguing issue, very little empirical research has been conducted on tax evasion and corruption in Bangladesh and their relevant politico-economic context (Hassan 2011; Rahman, Rahman & Yasmin 2010). In addressing this gap in the literature, this study aims to identify and analyse the relationship between tax evasion and corruption. In doing so, it also attempts to investigate the political economy of corruption by examining the existing nexus between politicians, public officials and taxpayers, including businesspeople.

## **1.2. WHY BANGLADESH?**

Bangladesh<sup>6</sup> is a country that suffers from economic and political turmoil. On the one hand, it has a rich history and tradition of thousands of years; on the other, it has the worst experience of exploitation, invasion and deprivation. Bangladesh was under British colonial rule for almost two hundred years from 1757 to 1947 (Robb 2002) and then the newly created Pakistan regime from 1947 to 1971 (Rahman 1979). Both regimes exploited the land and the people. The sovereignty and the progress of the country were impeded by both internal and external factors. However, Bangladesh started its journey as an independent nation state on December 16, 1971, after a nine month long liberation war that started on March 26, 1971 against the then West Pakistan Army (Umar 2006; Ziring 1992; Bhuiyan 1982).

Although one of the objectives of gaining independence was to establish a corruption-free society, in reality Bangladesh has witnessed a consistent rise in corruption across all levels of the society since its independence from Pakistan. During its 41 years of independence, Bangladesh has witnessed five democratic regimes of the Awami League, led by Sheikh Mujibur Rahman (1971-1974), the Bangladesh Nationalist Party, led by Begum Khaleda Zia (1991-1996 and 2001-2006), the Awami League, led by Sheikh Hasina (1996-2001 and 2008-date), and the two military regimes of Major General Ziaur Rahman (1976-1981), who formed the Bangladesh Nationalist Party and of Lieutenant General Hossain Mohammad Ershad (1982-1990), who formed the *Jatiyo* Party (U.S. Department of State 2008; Dyer 2007; US Fed News Service 2007; Hossain 1988). The politico-historical evidence of Bangladesh suggests that all the political regimes (autocratic and democratic) led the country to unprecedented corruption.

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<sup>6</sup> Bangladesh is a unitary, independent and sovereign Republic to be known as People's Republic of Bangladesh (Article 1 of the Constitution, Government of Bangladesh 2010).

As a South Asian nation, Bangladesh has been depicted by Monir, As-Saber and Woodward (2009) as a country marred by widespread corruption, where most of the national institutions are unduly politicised, manipulated and misused by corrupt politicians, public officials, and businesses. Theoretically, all elements of ensuring good governance and democracy, guarded by a well-written constitution, are present in Bangladesh (Constitution of Bangladesh, Government of Bangladesh 2010). However, in practice, Bangladesh has failed to establish good governance through eradicating the maladies of corruption. That corruption, rooted deeply in the political, administrative and socio-cultural environment of Bangladesh, impedes the development process and undermines the role of the state. As Zakiuddin and Haque (2002) contend, corruption has unfortunately been perceived in Bangladesh as ‘a way of life’ and the virtual litany of suspicious dealings, underhand agreements, and blatant corruption of the political leaders and parties, including both autocratic military regimes and democratic regimes, have spread to an all-pervasive level.

In addition to impeding national development, corruption compromises democratic principles. The parliamentary democracy in Bangladesh has failed so far to ensure accountability, transparency and popular participation, and the relationship between democracy and corruption has not yet been fully understood. According to Qizilbash (2008), a pessimistic view of the relationship between the two can be traced back to as far as the thought of Plato and Aristotle. He argues that democracy, primarily explained by electoral competition, cannot check corruption. In an emerging democracy such as Bangladesh, corruption may stem from the unrestricted use of money in election campaigns, the illegal use of public power for private gain and the lack of a strong institutional framework to combat corruption (Sung 2004; Bull & Newell 2003). Bangladesh’s experience demonstrates the incapacity of democracy for combating corruption since politicians themselves become corrupt and relevant institutions and political parties are not committed to fighting corruption. The politico-historical evidence in Bangladesh reveals an inconvenient truth, that the democratic governments in the country were much more corrupt than their non-democratic counterparts (Chowdhury 2008). Democracy, due to its fragile existence in Bangladesh, rarely played any effective role to check corruption (Siddiquee 1999). Rather, it has created a vicious circle of corruption. Corruption not only undermined the economic development of Bangladesh since independence, it also affected the political process with an ‘anti-democratic’ influence (Lewis 1996).

The extent of corruption in Bangladesh reached such a record level that it was dubbed the most corrupt country in the world according to the Transparency International's Corruption Perception Index for 5 consecutive years between 2001 and 2005 (*The Daily Star* October 27, 2010e; Transparency International Bangladesh 2008a; 2008b; 2007a).

The taxation regime<sup>7</sup> in Bangladesh, as a part of an allegedly corrupt political-bureaucratic system, is also unlikely to escape corruption. Tax evasion, therefore, forms an important segment of corruption which has been an ongoing issue of concern for the government as well as civil society in Bangladesh. Although the importance of having an effective and efficient tax administration system is considered to be 'integral to any country's well-being' (Dietz 2007, p. 2), the tax administration of Bangladesh is considered to be overly bureaucratic, corrupt, inefficient and out-dated (Khan & Nahar 2011; Mansur, Yunus & Nandi 2011; Bangladesh Civil Service Taxation Association 2009; Rahman & Yasmin 2008; UNB 2008; Transparency International Bangladesh 2008a; 2006; 2005; Sarker & Kitamura 2002). In addition, it lacks infrastructural and logistic support, manpower and an adequate rewards and remuneration structure (National Board of Revenue 2012a; Mansur & Yunus 2012; Akhteruzzaman 2008a). Tax policy formulation as well as tax administration in Bangladesh suffers from several weaknesses, including the continued use of income tax exemptions and the influence of vested groups, both from the business community and the tax administration system (Mansur, Yunus & Nandi 2011). The following sections will provide an overview of the Bangladesh tax system.

In order to better understand the macro-economic status of Bangladesh, focusing on fiscal management, key indicators, including overall revenue collection, the share of income taxes compared to total revenues, the collection percentage of tax in relation to gross domestic product (GDP), the budget deficit and the income tax rates have been highlighted (see Tables 1.1, 1.2, 1.3, 1.4, and Figure 1.3). In addition, some comparisons of income tax rates and tax-GDP ratios in South Asian countries are presented in order to assess the performance of Bangladesh<sup>8</sup> in mobilising its internal resources (see Tables 1.5, 1.6, 1.7 and 1.8). The available data and information of South Asian economies suggest that the individual income tax rates in Bangladesh are significantly higher than in Pakistan, India and Sri Lanka (*Daily Times* May 27, 2012; KPMG Global 2012; Financeminister.in 2012). Moreover, the income tax thresholds in Bangladesh are comparatively lower than elsewhere in the South Asian

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<sup>7</sup> In this study, the term 'taxation/tax regime' indicates the overall aspects of Bangladesh taxation.

<sup>8</sup> Bangladesh is situated in the north eastern part of South Asia (Statistical Year Book of Bangladesh 2010).

region. Given the comparatively higher rates of income taxes, as well as their imposition on relatively lower income levels, it could be expected that Bangladesh would collect more taxes compared to other South Asian countries. However, despite such higher rates of income taxes, Bangladesh stands behind its South Asian counterparts in terms of tax-GDP ratios (see Table 1.8). Rampant tax evasion is the major reason for the poor tax-GDP ratio and constant budget deficit in Bangladesh. Hence, the overall inefficiency, resource constraints and rampant corruption in tax administration can be blamed for the significantly low tax compliance. It is important to note that out of a population of 152 million, fewer than one million pay their income taxes (Bangladesh Civil Service Taxation Association 2009)<sup>9</sup>. In this context, this study has chosen Bangladesh as a case to examine the causes and issues of widespread tax evasion and corruption.

### **1.2.1 Tax Administration of Bangladesh**

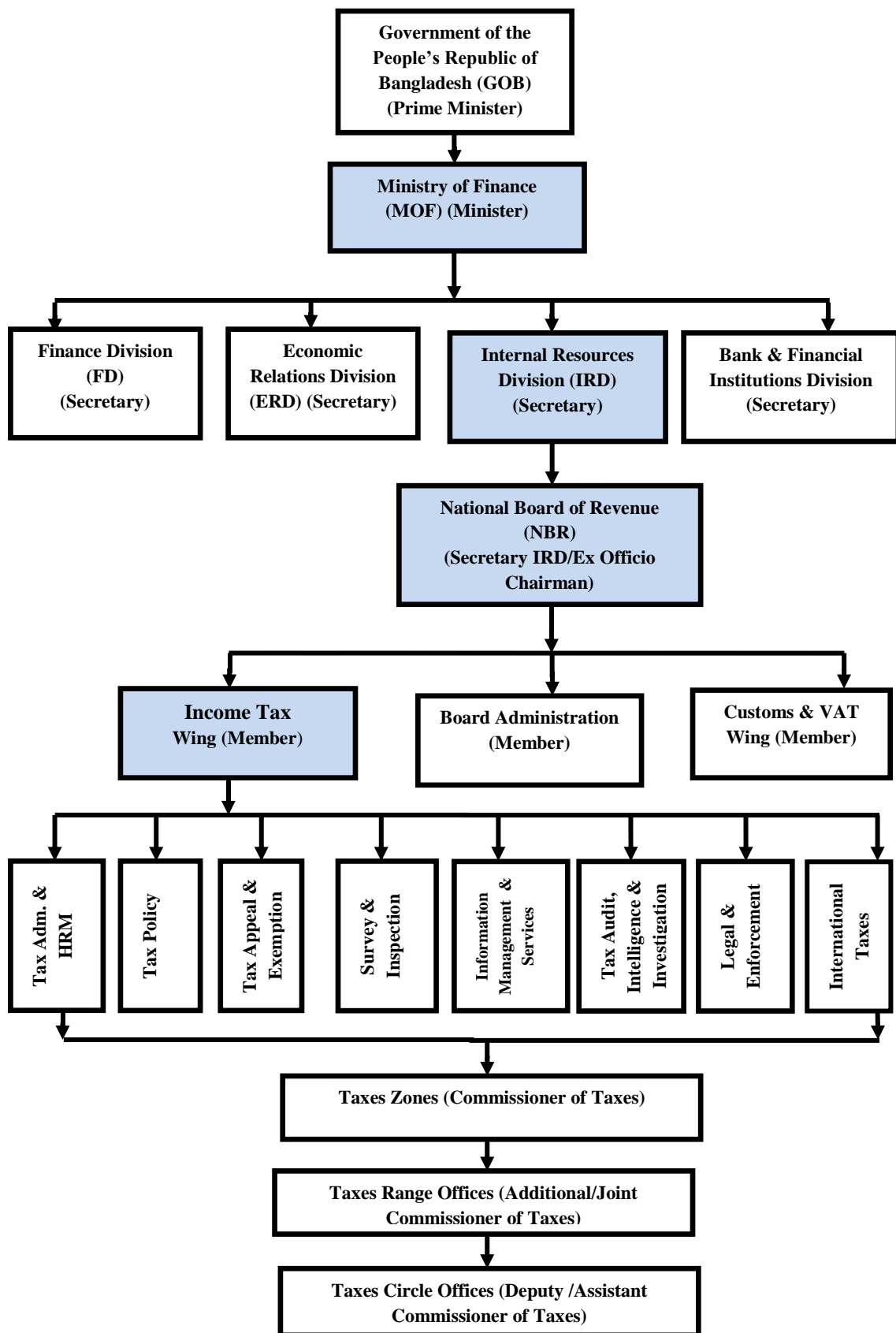
The tax administration of Bangladesh is directly controlled by the Ministry of Finance's (MOF) Internal Resource Division (IRD) (National Board of Revenue 2012b). The National Board of Revenue (NBR) acts as an autonomous body under the IRD. The NBR is the apex body for implementing tax policies, laws, rules and regulations (National Board of Revenue 2012b). In addition, it proposes policy decisions to the Finance Minister as well as to the parliament. The NBR consists of three wings: Income Tax, Customs and Value Added Tax (VAT) (National Board of Revenue 2012b). The Income Tax wing is further divided into different Taxes Zones. Each of the Taxes Zones has its own legal and geographical jurisdiction. A Taxes Zone is comprised of several Taxes Circle offices. In addition to Taxes Zones, various directorates and departments, including the Central Intelligence Cell (CIC), the Income Tax Inspection Directorate, the Bangladesh Civil Service (Taxation) Academy, the Central Survey Zone, the Large Taxpayers Unit (LTU), and the Tax Appellate Tribunal carry out the functions of the tax administration (National Board of Revenue 2012c). The following two figures show the structure of public finance and the hierarchy of tax authorities in Bangladesh.

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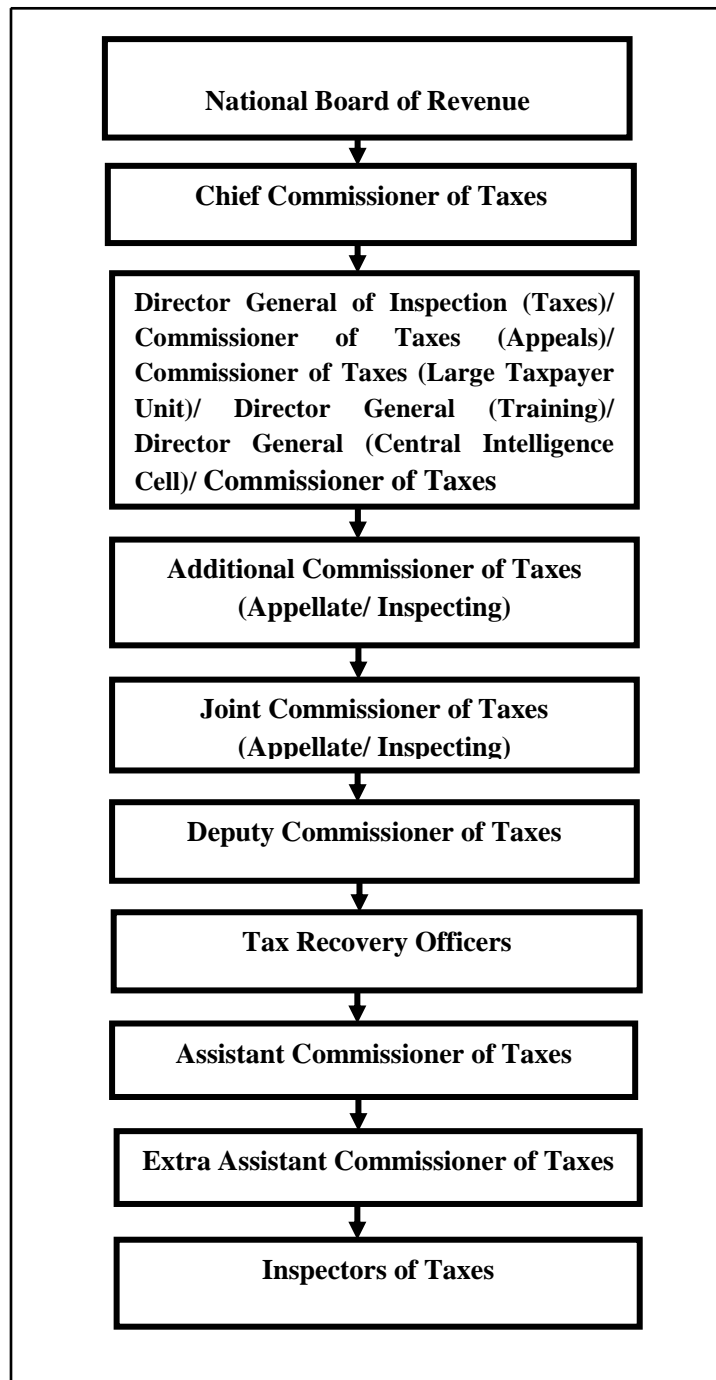
<sup>9</sup> Total Number of Taxpayers in Bangladesh: 700,000 (Bangladesh Civil Service Taxation Association 2009).



**Figure 1.1 Structure of Public Finance in Bangladesh**



**Figure 1.2 Hierarchies of Income Tax Authorities in Bangladesh**



### 1.2.2 Tax Structure of Bangladesh

Bangladesh collects revenues in the main from direct and indirect taxes. The NBR plays the central role in mobilising these revenues. Among direct taxes, income tax is the principal source of revenue (National Board of Revenue 2012c). Income tax is directly levied on the income of the individual consumer in the economy (Sandmo 2002). The Bangladesh income tax system follows the ‘ability to pay principle’, meaning that ‘the more a taxpayer earns the more he should pay’ (National Board of Revenue 2012c). Income taxes are further divided into individual income taxes and corporate income taxes.

Revenue collections of Bangladesh for six financial years (FY)<sup>10</sup> are shown by item in the following table. From Table 1.1 it is clear that income tax has not yet become the largest source of revenue collection in Bangladesh; the bulk of annual revenue comes from VAT. Although, the data presented in the table show a growth in income tax collection, that does not necessarily ensure that tax evasion is in under control, given the low ratio of taxpayers to total population of Bangladesh, as discussed above. Based on the available data, it can be argued that, despite the annual growth of income tax collection, the country is still far behind in augmenting a system of collecting due taxes.

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<sup>10</sup> The Financial Year (FY) in Bangladesh commences from July 1 each year and ends at June 30 of the following year.

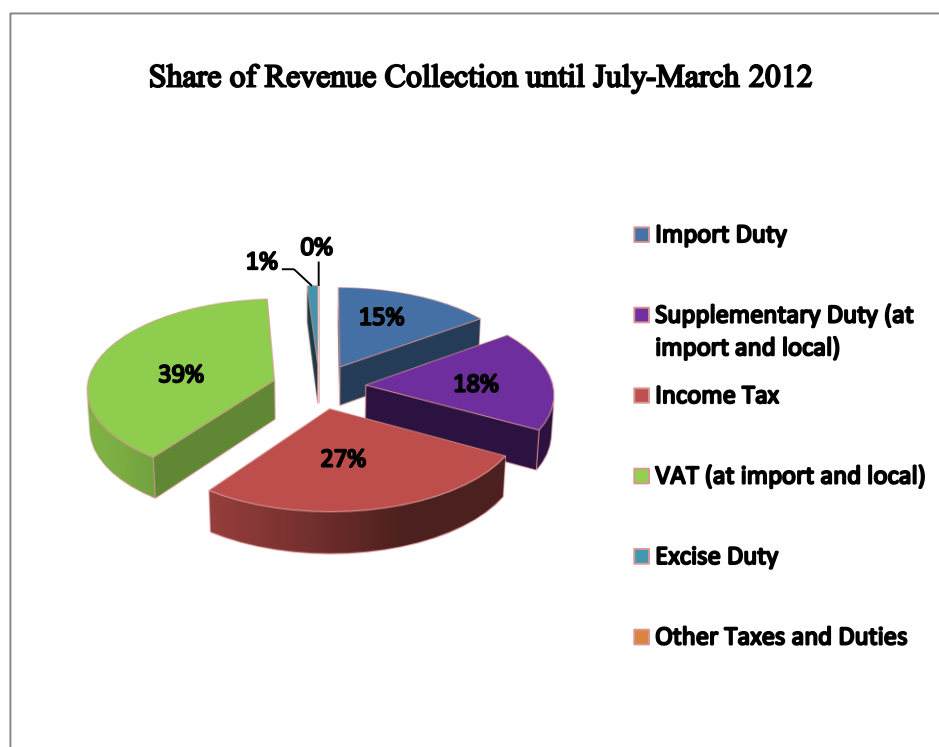
**Table 1.1 Revenue Collection by Category (BDT in Crore)**

<b>Items of revenue collection</b>	<b>FY 2006-2007</b>	<b>FY 2007-2008</b>	<b>FY 2008-2009</b>	<b>FY 2009-2010</b>	<b>FY 2010-2011(until March)</b>	<b>FY 2011-2012 (until March)</b>
Income Tax	8,721.24	11,595.32	13,858.09	17,075.97	13,222.58	16,977.09
Other taxes and duties	328.81	446.62	415.18	385.85	308.30	339.29
Total of Direct Tax	9,050.05	12,041.94	14,273.27	17,461.82	13,530.88	17,316.38
Import Duty	8,154.76	9,619.19	9,351.92	9,515.62	8,078.81	9,231.44
VAT (at import level)	6,311.17	8,474.66	9,186.92	10,275.83	8,801.19	9,483.03
Supplementary Duty (at import level)	1,196.63	1,752.86	2,331.37	3,099.04	2,841.23	3,096.05
Export Duty	-	-	-	-	25.17	26.38
Sub Total	15,662.56	19,846.71	20,870.21	22,890.49	19,746.40	21,836.9
Excise Duty	183.49	213.69	238.34	347.48	396.14	602.55
VAT (Local)	7,471.13	9,181.03	10,965.40	13,811.99	12,341.59	14,841.65
Supplementary Duty (Local)	4,846.09	6,001.07	6,173.43	7,595.68	7,026.56	8,257.93
Turnover Tax	6.00	4.68	4.96	4.64	2.27	2.37
Sub Total	12,506.71	15,400.47	17,382.13	21,759.79	19,766.56	23,704.50
Total of Indirect Tax	28,169.27	35,247.18	38,252.34	44,650.28	39,512.96	45,541.40
Grand Total	37,219.32	47,289.12	52,525.61	62,112.10	53,043.84	62,857.78

Source: Bangladesh Economic Review 2012, Ministry of Finance (2012a), Government of Bangladesh.

Figure 1.3 shows the percentage of share of revenue collection in 2012 in summary, indicating the lower performance of income tax collection in Bangladesh compared to other sources of revenue.

**Figure 1.3 Revenue Collections, Bangladesh 2012**



Source: Bangladesh Economic Review 2012, Ministry of Finance (2012a), Government of Bangladesh.

### 1.2.3 Tax-GDP Ratio of Bangladesh

Bangladesh is still far behind in its ratio of a reasonable percentage of tax to GDP. The following table shows the tax-GDP ratio (percentage) for the last twelve years (2001-2012). The data presented in Table 1.2 show that the overall growth of the tax-GDP ratio from 2001 to 2012 is 2.73%. It can be inferred that during the last twelve years, the tax-GDP ratio in Bangladesh has increased at a slower pace.

**Table 1.2 Taxes as Percentage of Gross Domestic Product (GDP)**

<b>FY 2000 on</b>	<b>'00- '01</b>	<b>'01- '02</b>	<b>'02- '03</b>	<b>'03- '04</b>	<b>'04- '05</b>	<b>'05- '06</b>	<b>'06- '07</b>	<b>'07- '08</b>	<b>'08- '09</b>	<b>'09- '10</b>	<b>'10- '11</b>	<b>'11- '12</b>	<b>Growth of Tax- GDP (%) 2001- 2012</b>
<b>Tax-GDP Ratio</b>	7.80	7.81	8.30	8.50	8.62	8.70	8.40	8.96	9.03	9.30	10.04	10.53	2.73

Source: Bangladesh Economic Review 2010, 2011, & 2012, Ministry of Finance (2012a ; 2011b; 2010b), Government of Bangladesh.

### 1.2.4 Budget Deficits in Bangladesh

Constant budget deficit is another important aspect of the Bangladesh economy. The following table shows the overall situation of budget deficiency for the last five years.

**Table 1.3 Budget Deficit in Bangladesh**

<b>Financial Year</b>	<b>Budget Deficit (% of GDP)</b>	<b>Deficit Finance from External Resources (% of GDP)</b>	<b>Deficit Finance from Internal Resources (% of GDP)</b>
2012-2013	5.1	1.3	3.8 (3.2% borrowing from banking sector + 0.6% from non-banking sectors)
2011-2012	5.0	2.0	3.0 (2.1 % borrowing from banking sector + 0.9% from non-banking sectors)
2010-2011	5.0	2.0	3.0 (2.0% borrowing from banking sectors + 1.0% from non-banking sectors)
2009-2010	5.0	3.0	2.0 (domestic borrowing)
2008-2009	5.0	2.2	2.8 (domestic borrowing)

Source: Budget Speech 2008-2009, 2009-2010, 2010-2011, 2011-2012, & 2012-2013, Ministry of Finance (2012b; 2011a; 2010a; 2009; 2008), Government of Bangladesh.

From this Table, it can be seen that the budget deficit in Bangladesh has been stagnant to around 5% of GDP for five consecutive years between 2008 and 2012. The lower tax-GDP ratio of Bangladesh is arguably responsible for its constant budget deficits and foreign aid and loan dependency. In this context, the current Prime Minister of Bangladesh has expressed the view that enhancing internal resource mobilisation is extremely important in order to reduce reliance on foreign aid and loans, as well as for ensuring national progress and prosperity (Bangladesh Civil Service Taxation Association 2009). Hence, the failure of increasing the tax base by bringing potential taxpayers into the income tax net can be blamed

for such poor performance of revenue collection. A similar point was made by the current Chairman of the NBR during a conference at the London School of Economics in 2011. The Chairman contends that Bangladesh could add 5% to its tax-GDP ratio by curbing tax evasion and reducing tax incentives (Ahmed 2011).

### **1.2.5 Comparison of Income Tax Rates and Tax-GDP Ratio of Bangladesh and South Asian Countries**

In this section, an attempt has been made to examine the income tax rates and tax to GDP ratio of Bangladesh compared with its neighbouring countries. The data presented in Tables 1.4, 1.5, 1.6, 1.7 and 1.8 enable us to draw a comparative picture across South Asian countries, viz., Bangladesh, Pakistan, India, Sri Lanka, Nepal and Bhutan.

#### ***Individual Income Tax Rates of South Asian Countries***

Amongst the South Asian countries, the taxpayers in Bangladesh are required to pay income taxes at comparatively higher rates. However, the thresholds of taxable income for Bangladeshi taxpayers are significantly lower than in Pakistan, India, and Sri Lanka (*Daily Times* May 27, 2012; Financeminister.in 2012; KPMG Global 2012).

The following tables show the income tax rates for individuals in Bangladesh, Pakistan, India and Sri Lanka for 2012-2013.

**Table 1.4 Individual Income Tax Rates in Bangladesh for Financial Year (FY) 2012-2013**

<b>Thresholds of Income (in BDT)</b>	<b>Tax Rates (%)</b>
On first 180,000.00	No Tax
On next 300,000.00	10%
On next 400,000.00	15%
On next 300,000.00	20%
On the balance of taxable income	25%

Source: Budget Speech 2012-2013, Ministry of Finance (2012b), Government of Bangladesh.

For women and aged taxpayers (65 years of age and above) the income tax threshold is BDT 200,000 and for physically disable persons it is BDT 250,000. The minimum payable tax in Bangladesh is BDT 3000 (Ministry of Finance 2012b).

The individual income tax rates of Pakistan are shown in Table 1.5.

**Table 1.5 Individual Income Tax Rates in Pakistan for 2012-2013**

Thresholds of Income (in Rs. <sup>11</sup> )	Tax Rates (%)
400,000.00	No Tax
Over 400,000.00 to 750,000.00	5%
Over 750,000.00 but less than 1,500,000.00	Fixed tax rate of Rs. 17,500.00 plus 5% tax on income exceeding Rs. 500,000.00 up to Rs. 1,500,000.00
Over 1.5 million and up to 2.5 million	Fixed income tax at the rate of 92,500.00 plus 15% income tax on income exceeding Rs. 1 million up to Rs. 1.5 million
2.5 million and above	Fixed tax of Rs. 242,000.00

Source: *Daily Times* (May 27, 2012).

Table 1.6 shows the individual income tax rates of India.

**Table 1.6 Tax Rates for General Taxpayers in India for 2012-2013**

Thresholds of Income (in RS. <sup>12</sup> )	Tax Rate (%)
0 to 200,000.00	No Tax
200,001.00 to 500,000.00	10.0
500,001.00 to 1,000,000.00	20.0
Above 1,000,000.00	30.0

Source: [Financeminister.in](http://Financeminister.in) (March 12, 2012).

It is important to note that India has reduced income thresholds for women, senior and ‘senior’ citizens compared to the tax rates for general taxpayers.

Table 1.7 shows the individual income tax rates of Sri Lanka.

**Table 1.7 Individual Income Tax Rates in Sri Lanka for 2011-2012**

Thresholds of Income (in LKR <sup>13</sup> )	Tax Rate (%)
0 to 500000.00	4%
500001.00 to 1000000.00	8%
1000001.00 to 1500000.00	12%
1500001.00 to 2000000.00	16%
2000001.00 to 3000000	20%
3000001.00 to Over	24%

Source: Tax TIES: Sri Lanka-Income Tax, KPMG Global (2012).

It can be noted from Tables 1.4, 1.5, 1.6 and 1.7, that whilst Pakistani taxpayers are exempted from tax payment up to an income of Rs. 400,000 and Indian taxpayers up to Rs. 200,000, Bangladeshi taxpayers are exempted only up to BDT 180,000. Moreover, the initial rate of

<sup>11</sup> Rupee (Rs.) is the currency unit of Pakistan.

<sup>12</sup> Rupee (Rs.) is the currency unit of India.

<sup>13</sup> The Sri Lankan Rupee (LKR) is the currency unit of Sri Lanka.



income tax in Bangladesh (10%) is higher than that of Pakistan (5%) and Sri Lanka (4%). It can be seen from the above four Tables that the final rate of income tax in Bangladesh (25%) is significantly higher than that of Pakistan and Sri Lanka. Based on the above findings, it can be argued that Bangladesh government should collect more revenues than other South Asian countries. However, in reality, Bangladesh remains at the bottom in augmenting internal revenue compared to Pakistan, India, Sri Lanka, Nepal and Bhutan. In this regard, the following section shows a comparative scenario of the tax-GDP ratios of these countries.

### ***Tax-GDP Ratio of South Asian Countries***

The tax-GDP ratios of South Asian economies are significantly lower compared to not only the developed economies but also to other similarly placed developing and emerging market economies (The World Bank 2010). Whilst the average tax to GDP ratio of OECD countries was around 33.8% to 33.9% during 2009-2010, South Asian countries on average showed only 8%-12% tax to GDP (Financial Integrity & Economic Development 2011; The World Bank 2010). The tax-GDP ratio of Bangladesh was the lowest amongst poorly performing countries of South Asia, according to the then Finance Advisor of Bangladesh during the budget speech of 2008-2009 (Ministry of Finance 2008). Ironically, Bangladesh could make no significant improvement in increasing its tax to GDP ratio. The current Finance Minister also expressed his concern: Bangladesh still lags behind many developing countries in terms of its tax-GDP performance (Ministry of Finance 2011a). The following table presents tax-GDP ratios of South Asian countries.

**Table 1.8 Tax-GDP Ratios of South Asian Countries (%)**

<b>Countries</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>Average Tax Revenue</b>	<b>Average GDP per Capita US\$</b>	<b>Average Income Tax</b>
Bangladesh	8.40	8.86	9.02	9.2	8.87	586	1.8
Pakistan	10.1	10.5	10.3	10.2	10.6	735	3.0
Nepal	12.2	12.4	12.5	12.6	12.5	486	2.5
Sri Lanka	13.7	14.6	14.2	13.3	13.7	1,200	2.6
India	15.9	17.2	17.6	17.2	16.3	755	4.7
Bhutan	17.6	17.8	17.9	17.8	17.2	1,126	4.8

Source: Mansur and Yunus (2012), and Ministry of Finance (2010b), Bangladesh.

The above findings and discussion suggest that, in spite of imposing higher tax rates and lower income tax thresholds, the Bangladesh government has repeatedly failed to provide

itself with satisfactory revenue. The reason may be severe tax non-compliance by potential taxpayers.

### **1.3 JUSTIFICATION AND SIGNIFICANCE OF THE RESEARCH**

Internal resource mobilisation through imposing tax is necessary for any nation-state for achieving sustainable development and self-sufficiency. Lewis (1982) points out that taxation, as well as fiscal policy, has been evaluated in terms of the whole of the economy and as the major policy instrument of governments since the Keynesian revolution in economics through to more recent times. However, collecting revenue appears to be a difficult task for any government, since people commonly express a widespread dislike of paying taxes (Alm 1999; Australian Government Publishing Service 1985; Hansen 1983). People generally seek to find a way to avoid or evade taxes. Sandmo (2005) has argued that, if someone were assigned to write the history of taxation from the viewpoints of both tax theorists and tax practitioners, tax evasion would occupy a position in the paper from the very beginning. According to Slemrod (1992, p.1), 'tax evasion is a pervasive phenomenon in all societies, albeit one that is difficult to measure precisely.' Income tax evasion is considered one of the most serious impediments to revenue collection across all countries, developing or developed. Tax evasion and avoidance cost leakages to revenue in developing countries to the tune of US\$ 385 billion annually (Cobham 2005).

Tax evasion is persistently high in Bangladesh, resulting in budget deficits, foreign loan dependency, a growing hidden economy, and an increasing gap between the rich and the poor (Ahmed 2011; Hassan 2011; Ministry of Finance 2011a; Rahman, Rahman & Yasmin 2010; Sarker & Kitamura 2002). Taxpayer numbers are significantly lower compared to the total population of Bangladesh (Ahmed 2011), and the tax-GDP ratio is not satisfactory in remaining behind many developing countries (Ministry of Finance 2011a; Ministry of Finance 2009). In this context, it is extremely important to conduct empirical research on tax evasion in Bangladesh to better understand the causes and cures of the problem. The present study has been designed to investigate specific issues relevant to tax policy formulation, its implementation and compliance. Furthermore, the study examines the nexus and involvement of the various actors contributing to tax evasion.

This research can be considered a pioneering attempt to investigate tax evasion in Bangladesh in incorporating all three processes of the taxation regime, tax policy formulation, its

implementation and its compliance. The study will also be the first detailed work of identifying and examining the role of the nexus between policymakers, public officials and other stakeholders, including businesspeople, in influencing tax evasion in a developing country like Bangladesh.

Notably, the incumbent government of Bangladesh has placed enormous emphasis on addressing the challenges of internal resource mobilisation through strengthening the NBR, and reforming tax policy and tax administration. Moreover, multilateral organisations and bilateral donors, including the United Kingdom, have extended their support to the GOB for launching reform programs to streamline tax collection and reduce tax evasion (National Board of Revenue 2012a; Department for International Development 2008). As a consequence, the GOB has undertaken extensive actions, such as the Tax Administration Capacity and Taxpayer Services (TACTS) and the ‘NBR Modernization Plan’ 2011-2016 (Ministry of Finance 2011a; Department for International Development 2008). The aims of these reform initiatives are to raise the tax-GDP ratio to 13% by 2016, establish exemplary modern web-based services for e-registration, e-filing, tax returns, declaration submissions, tax payments and rebates by 2016, formulating tax policy to encourage domestic industries, and small and medium scale industries, deliver taxpayer services, develop a taxpaying culture, consider issues for maximum revenue collection, and eliminate disputes between tax collectors and taxpayers (Ministry of Finance 2011a). In this context, the present study on tax evasion, exploring the issues associated with tax policy formulation, its implementation and compliance, will certainly assist the GOB, multilateral organisations and bilateral donors to make that tax reform strategy successful.

#### **1.4 RESEARCH OBJECTIVE AND QUESTIONS**

Determining the research objective is the most important task of a study since it guides and focuses the investigation (George and Bennett 2005). The key objective of this study is to examine the political economy of corruption in the case of tax evasion in Bangladesh, with an emphasis on ascertaining the relationship between the two phenomena. In this respect, the intention of the study is to understand the nature of the problem of tax evasion in Bangladesh. For better understanding of tax evasion, it seeks to identify and analyse the issues across the three processes of tax regime in Bangladesh, i.e., tax policy formulation, its implementation and compliance. In this study, it has been assumed that the inappropriateness of tax policy formulation, its implementation and compliance might contribute to rampant tax evasion in

Bangladesh. In order to examine the relationship between corruption and tax evasion, it has been further assumed in this study that there might be a nexus between the various actors of the tax regime, viz., politicians, public officials and other interest groups, including businesspeople, across these three processes that might contribute to tax evasion in Bangladesh.

Given the above background, the specific objectives of this study are to investigate:

- (a) the issues associated with the formulation, implementation and compliance of tax policy which might be responsible for facilitating tax evasion; and
- (b) the role of the nexus comprised of different actors, such as politicians, public officials, and other interest groups, including businesspeople, in influencing tax policy formulation, implementation and compliance processes.

To attain the research objectives, the general research question framed for this study is:

RQ 1 What is the nature of the problem of tax evasion in Bangladesh?

Two subsidiary questions are framed in order to understand the problem of tax evasion and its associated issues better:

RQ1.1 What are the major issues contributing to rampant tax evasion in Bangladesh?

RQ1.2 Is there any nexus between politicians, public officials, and other interest groups, including businesspeople, that facilitate tax evasion? If so, how does it work?

## **1.5 APPROACHES TO THE INQUIRY**

To fulfil the research objectives and address the research questions, this study follows a mixed methods research design. This is an in-depth and empirical single-country-based study of Bangladesh. Although the research process initially emphasised the existing knowledge, as the study progressed, it became receptive to new issues, ideas, phenomena and relationships learned through the data empirically assembled. During the entire course of the research, a combination of quantitative and qualitative inquiry has been employed. A survey was conducted utilising three sets of structured printed questionnaires among 90 participants selected from different groups involved in tax policy formulation, its implementation and compliance. Of the survey sample, 14 participants were further selected for in-depth interviews. The survey and in-depth interviews were conducted in Dhaka, the capital of Bangladesh, between September 2009 and April 2010. Furthermore, participant observation

of a roundtable seminar on ‘Expansion of Tax Base and Prevention of Tax Evasion’, held in Dhaka, facilitated better understanding of the real-life situation. By adopting these three methods, this study has collected three sets of primary data, which enabled triangulation of the research findings. This study also simultaneously employed multiple sources of evidence. The use of secondary materials, such as government reports and documents, reports of the ‘Modernization and Automation Project’ of the NBR, reports of the Office of the Tax Ombudsman (OTO) and a range of literature on tax evasion and corruption helped to ensure the consistency of the empirical data.

Accordingly, the primary and secondary data enriched the data analysis process. Throughout the analysis, survey data presented in a large number of tables were first used to examine issues of tax evasion and investigate the nexus of different actors. Concurrently, the findings of the in-depth interviews and participant observation of the roundtable seminar were utilised to complement the survey findings. Furthermore, secondary data and extant literature were explored to ensure the consistency of the empirical findings of the study. Overall, the research approach was considered to be appropriate to strengthening the possibility of generalisation from the available empirical data.

For the whole of the research, a combination of deductive and inductive reasoning processes was utilised in order to make the study pragmatic by capturing the complexity and dynamism of the phenomena of tax evasion and corruption. In this regard, Aminuzzaman (2011, p. 17) argues that ‘...most social research involves both inductive and deductive reasoning processes at some time in the project’. In the deductive process, prior theories were used to obtain the empirical case study outcomes. On the basis of the empirical findings, an attempt was made to provide theoretical implications in an inductive way. This will make it possible to conduct theory testing and theory building simultaneously. Following the deductive reasoning, this study will test existing theories through empirical observation. Subsequently, the theoretical knowledge and empirical evidence will be utilised in an inductive way to build theories on tax evasion.

## **1.6 DEFINING CORRUPTION AND TAX EVASION**

There are no single agreed-upon definitions of corruption and tax evasion, since both phenomena depend on the socio-cultural, administrative and legal context of a specific country where they occur. Given the complexity of defining these two concepts, the intention

of this section is to highlight some widely accepted definitions of corruption and tax evasion, as well as to define them for the purposes of the present thesis.

### **1.6.1 Definition of Corruption**

It is difficult to characterise corruption through a single definition, since it varies from country to country, society to society, and situation to situation. Defining corruption has long been a matter of debate and discussion (Johnston 2001).

#### ***Corruption in the General Context***

Jain (2001) has noted that corruption is synonymous with bribery in a large number of societies around the world. According to Johnston (2001), the classical conception of corruption emphasised wealth, power, rules, roles, conflict and accountability (see the views of Plato, Aristotle, Machiavelli, and Thucydides, cited in Johnston 2001), whereas contemporary, modern schools of thought have focused on behaviour and culture, and involve public-office-centred, market-centred, and public-interest-centred views (see Nye 1967; Friedrich 1966). On the other hand, the neo-classical approach incorporates social, political and moral issues when defining corruption (see Kwong 1997; Thompson 1993; Rose-Ackerman 1978).

The widely-used contemporary definition of corruption by the World Bank is ‘the abuse of public office for private gain’ (The World Bank 1997, p. 8). However, this definition is too simple to encompass such a complex phenomenon. Moreover, the actors who indulge in corruption are not clear in the definition by the WB. TI, the global anti-corruption watchdog, has also defined corruption as ‘the abuse of entrusted power for private gain’ (Transparency International 2012b; 2007b). Because of the limitations of that definition, TI has further explained corruption from a broader perspective as follows:

Corruption involves behaviour on the part of officials in the public sector, whether politicians or civil servants, in which they improperly and unlawfully enrich themselves, or those close to them, by the misuse of the public power entrusted to them (Cited in Asian Development Bank 2010, p. 31).

Both definitions identify misuse of public power as common criteria of corruption. Unlike the WB, TI has added politicians in defining officials of the public sector. However, businesspeople remain outside the definition of corruption given by TI. In this regard, the

Asian Development Bank (ADB) has defined corruption more comprehensively in the following way:

Corruption involves behaviour on the part of officials in the public and private sectors, in which they improperly and unlawfully enrich themselves and/or those close to them, or induce others to do so, by misusing the position in which they are placed (Asian Development Bank 2010, p. 31).

The Independent Commission Against Corruption (ICAC) of New South Wales, Australia, has defined corrupt conduct from a very wide perspective. According to the *ICAC Act 1988*, Section 8 (p1-2), ‘general nature of corrupt conduct includes’ (New South Wales Government 2012):

- (a) any conduct of any person (whether or not a public official) that adversely affects, or that could adversely affect, either directly or indirectly, the honest or impartial exercise of official functions by any public official, any group or body of public officials or any public authority, or
- (b) any conduct of a public official that constitutes or involves the dishonest or partial exercise of any of his or her official functions, or
- (c) any conduct of a public official or former public official that constitutes or involves a breach of public trust, or
- (d) any conduct of a public official or former public official that involves the misuse of information or material that he or she has acquired in the course of his or her official functions, whether or not for his or her benefit or for the benefit of any other person.

### ***Definition of Corruption in the Context of Bangladesh***

It is significant to explore how ‘corruption’ is defined by the Anti Corruption Commission (ACC), Bangladesh, and other legal institutions in the Bangladesh context.

The ACC, Bangladesh, was established in 2004 through the *Anti-corruption Commission Act 2004*<sup>14</sup> with the vision of creating a strong anti-corruption culture throughout the whole society (Anti Corruption Commission, Bangladesh 2011a). Surprisingly, the *Anti-corruption Commission Act 2004* did not provide a direct and updated definition of corruption. Rather, in defining ‘corruption’, this Act referred to ‘offences under this Act’, ‘offences under the Prevention of Corruption Act, 1947 and ‘offences under Penal Code, 1860’ (*Anti-corruption Commission Act 2004*). However, the ‘offences’ are not clearly indicated and explained in the ACC Act. While enacting an Act, the ACC of Bangladesh went back to twentieth and the nineteenth century laws to determine a suitable definition of ‘corruption’, and their complex

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<sup>14</sup> GOB has recently amended the *Act* through adopting the ‘*Anti-corruption Commission (Amendment) Act*, 2010 (Ministry of Finance 2011a).

organisation, structure and language have made the issue of corruption obscure. It may be that the ACC Bangladesh found it easier to bypass the definitional aspect of corruption, reflecting Johnston's (2001, p. 28) concern that 'it is an irony of corruption that where it is most important it can also be most difficult to define'!

It is also interesting to note that, instead of explaining corruption from its own perspective while addressing the question 'What is Corruption', the ACC website has cited the definitions coined by TI, the WB, SIDA Sweden, ICAC Australia, and CPIB Singapore (Anti Corruption Commission, Bangladesh 2011b). In this context, it would not be an exaggeration to comment that the reluctance of the ACC Bangladesh in defining 'corruption' from the socio-economic, political and administrative perspective of Bangladesh might bring into question the farsightedness, transparency and effectiveness of the commission in fighting against corruption. Undoubtedly, corruption needs to be defined by the Commission in the context of Bangladesh, since the corruption index indicators of Sweden, Australia and Singapore are completely different from Bangladesh's. A straightforward, context-specific definition of corruption would undoubtedly be an effective instrument for understanding the nature of corruption in Bangladesh

### ***Definition of Corruption for the Thesis***

For the purpose of the thesis, this study seeks to adopt a broader definition of corruption. This study assumes that 'corruption' in the economic and political market place might involve two important sets of players: public sector and the private sector. One set of players that includes public officials, politicians and policy makers might improperly use their power, authority and monopoly to receive inappropriate benefits from the other set of players, including businesspeople, professionals, or any other individuals, in return for extending undue favours. The stronger the power, authority and monopoly of the public officials and politicians, the greater the chance of corruption they might enjoy. For this study, corruption refers to any misuse of power and position by policy makers, politicians and public officials in connivance with businesspeople, professionals and other private citizens through which they improperly and unlawfully enrich themselves by accepting inappropriate personal benefits in exchange for undue favours. Such exchange can be direct or indirect, in cash or in kind.



### **1.6.2 Definition of Tax Evasion**

Scholars have defined and explained tax evasion in different ways. It has been discussed in a variety of disciplines including accounting, economics, psychology, political science, law and sociology (Webley, Robben, Hessing & Elffers 1991).

#### ***Definition of Tax Evasion around the World***

Akdede (2006) has defined tax evasion as an illegal act to avoid paying taxes by violating tax laws. He further argues that people naturally seek not to pay taxes if they can find any way to do so. According to Sandmo (2005), tax evasion refers to the violation of laws by a taxpayer through escaping his taxable income obligations to the relevant authority.

Definition of tax evasion can also vary from country to country. Revenue Canada has defined 'tax evasion' as 'the commission or omission of an act knowingly with the intent to deceive so that the tax reported by the taxpayer is less than the tax payable under the law, or a conspiracy to commit such an offence' (Curran 1981, p. 146). In Denmark, 'tax evasion' refers to transactions or schemes which are unlawful with the purpose of avoiding tax based on non-disclosure or wrongful disclosure, and a person who is involved in these unlawful transactions will be liable for punishment (Stenberre 1982). 'Tax evasion' is recognised in Australia as 'an intention to commit a crime by falsely and deliberately omitting income from a return or by claiming a deduction which has no basis in fact' (Langford-Brown 1984, p. 12).

Slemrod and Yitzhaki (2002) contend that evasion of tax is pervasive in all countries. It is extremely difficult to measure the actual amount of loss due to tax evasion or to detect those individuals, businesses and companies who evade taxes. Interestingly, wealthy individuals may tend to evade more taxes, since their marginal tax rates become higher in progressive tax structures, and the benefits they receive for the payment of tax are not considered sufficient by them (Lewis 1982). People apply different strategies and mechanisms to avoid their tax payments. Finally, different terminologies, including tax avoidance, tax evasion, tax fraud and tax cheat, are developed to identify them. Although there are subtle differences in these terminologies, it is difficult to substantially distinguish these concepts from each other. They are also used with different connotations across different countries.

The most commonly used two terms for referring to the activities of not paying taxes around the world are ‘tax avoidance’ and ‘tax evasion’. In some countries ‘tax avoidance’ is considered legal whereas ‘tax evasion’ is illegal (Slemrod & Yitzhaki 2002; Jain 1987). The dividing line may change with the amendment and enforcement of tax laws and tax structure (Slemrod & Yitzhaki 2002; Nestmann 2001). According to Potas (1993), the concepts of tax evasion and tax avoidance overlap; he has further noted that some tax officials prefer the terms ‘compliance’ and ‘non-compliance’ in order to avoid the confusion of distinguishing between tax evasion and tax avoidance. No doubt, a great deal of confusion and ambiguity remains in distinctions of terminologies of tax evasion and tax avoidance. In Bangladesh, there is no specific difference between these two activities (see *Income Tax Manual Part-I*, 2009). Therefore, as it is not easy to draw a straight dividing line between them, these two terms will be used interchangeably throughout this thesis.

Tax evasion is generally an unlawful and illegal activity and the person who indulges in tax evasion is subject to punishment according to the relevant laws of the country. In the Bangladesh context, the Income Tax Ordinance (ITO) 1984 provides the legal provisions for penalties for evading the tax.

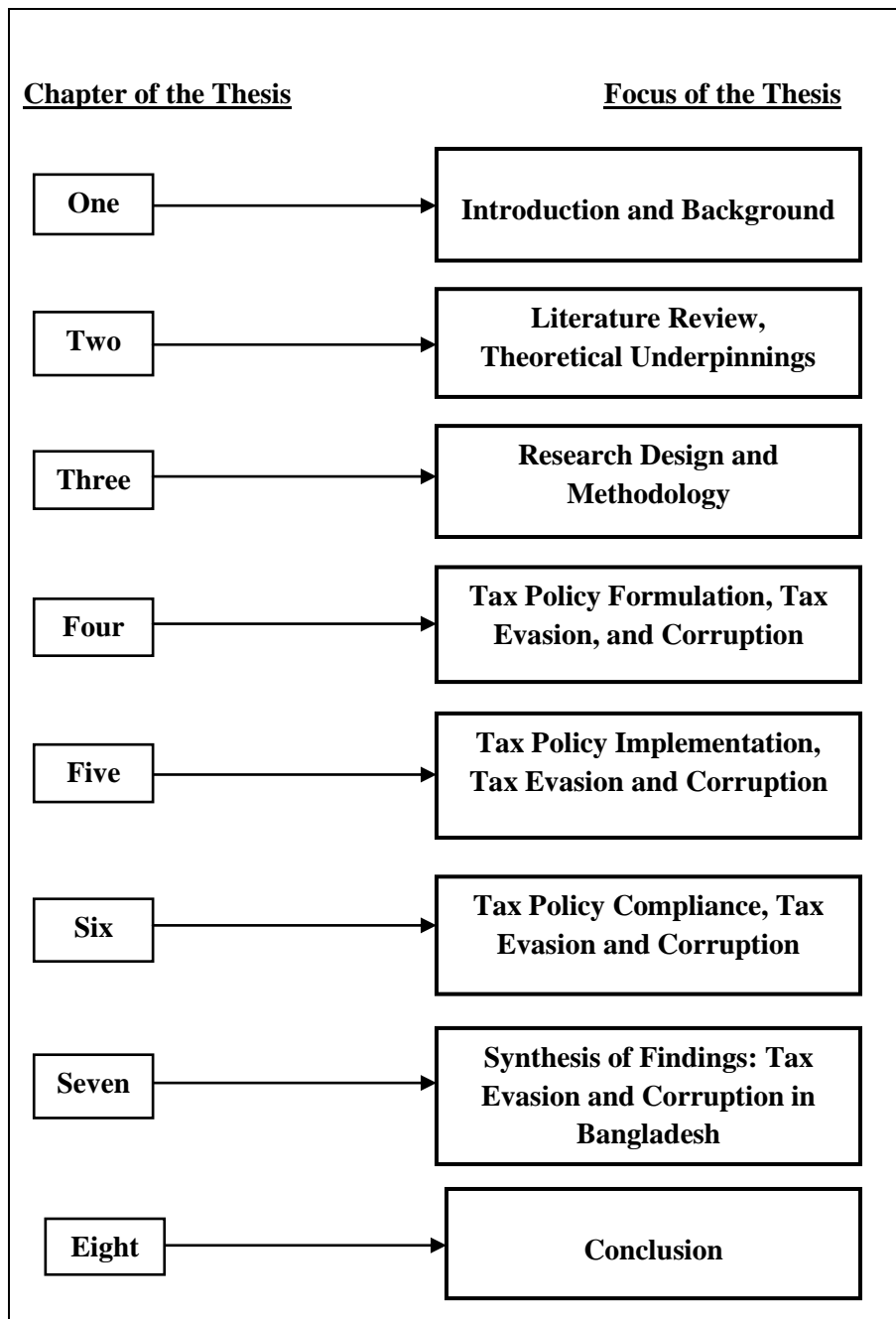
### ***Definition of Tax Evasion for the Thesis***

This study only deals with the evasion of personal income tax. Based on the previously discussed definitions, tax evasion, in this context, refers to a punishable offence, committed by a person, through deliberately non-complying, concealing income, producing false statements, not maintaining accounts in the prescribed forms, not filing returns, not paying advance taxes, not paying taxes on the basis of returns, manipulating transactions, and all other mechanisms for concealing or underreporting income with the intention of avoidance of tax payment or to pay less than the tax payable under the law, to the relevant authorities.

## **1.7 THESIS ORGANISATION**

With an aim to link reality and field work like a story (Miles & Huberman 1994), this thesis is organised into eight chapters as shown in Figure 1.4.

**Figure 1.4: Structure of the Thesis**



This thesis is organised to reflect the researcher's specific and distinct contributions to knowledge and practice (Yin 2009). The sequence of topics and subtopics of the thesis introduces the issues and problems being studied, the method utilised, the findings from the data gathered and analysed, and the conclusion and implications obtained from the findings (Yin 1989). Overall, the thesis is outlined in the following manner.

**Chapter I *Introduction*** introduces the research by providing an overview of the thesis, including the introduction to the research, justification of choosing Bangladesh as a case, research objectives and questions, approaches to the inquiry, and significance of the study. Moreover, the key concepts of the research, i.e., corruption and tax evasion have been defined for the purpose of the study.

**Chapter II *Literature Review and Theoretical Underpinnings*** provides an overview of the extant literature on corruption and tax evasion. On the basis of that literature, this chapter explains the political economy of corruption, highlighting the past and the present, and the typology and effects of corruption. Furthermore, the extent of tax evasion has been explored with a focus on the size of shadow economy in the global as well as Bangladesh context. Based on the literature review and background study, this chapter delivers theoretical underpinnings, the conceptual framework, research questions and a set of propositions for the study, following the ‘logico-deductive method’ (Ezzy 2002, p. 7). Three theories, including public choice, rent-seeking and the Allingham–Sandmo model, have been reviewed in this chapter. As theories shape how the researchers explain what they observe (Ezzy 2002, p.3), this chapter attempts to find and utilise the best possible theories relevant to the study. Given the focus of public choice theory on the nature of human being as ‘an egoistic, rational, utility maximizer’ (Mueller 1979, p.1), the basic behavioural postulates of public choice theory will be applied to explain the purpose of policy makers while formulating tax policies. The key notion of rent-seeking theory, that ‘corruption can occur where rents exist - typically, as a result of government regulation - and public officials have discretion in allocating them’ (Mauro 1998, p. 11), will be utilised while examining the activities of tax officials during the tax policy implementation process. The central argument of the Allingham-Sandmo model (1972), that an increase in the penalty rate and probability of detection will always reduce tax evasion, will be tested during the study of the tax compliance process. Relying on the discussions, a conceptual framework is drawn in this chapter. The framework shows a possible nexus among the three actors, politicians, public officials, and other interest groups, including businesspeople, across the three processes of tax regime, viz., tax policy formulation, its implementation and its compliance, which might contribute to tax evasion.

Based on the extant literature and relevant theoretical underpinnings, this chapter also presents a set of propositions.

**Chapter III *Research Design and Methodology*** details the research design and methodology undertaken for the study. It includes deliberations on the nature and purpose of the study, the methodology, ethical considerations, fieldwork, data collection techniques, data management, data description and data analysis. The triangulation, reliability and validity of the study are also discussed in this chapter, together with the strengths and limitations of the methodology.

**Chapter IV *Analysis of Tax Policy Formulation, Tax Evasion and Corruption*** presents and analyses data on tax policy formulation. To test sub-proposition P<sub>1.1</sub>, this chapter examines different issues related to tax policy formulation, including research, specialisation, reform, participation, opinion, vision, and shortcomings of income tax laws and policies. The possible nexus of different actors, including political actors, public officials, interest groups including businesspeople, and other tax payers, have been investigated in order to test sub-proposition P<sub>2.1</sub>. Public choice theory has also been applied in this chapter.

**Chapter V *Analysis of Tax Policy Implementation, Tax Evasion and Corruption*** presents and analyses data on the tax policy implementation process. With respect to sub-proposition P<sub>1.2</sub>, different issues related to tax policy implementation, viz., intra-departmental weaknesses, inadequate professional support for tax officials, behavioural aspects of tax officials, corruption in tax administration, and impact of tax evasion are analysed. This chapter also examines the possible nexus of different actors, including tax officials, political actors, and taxpayers in order to test sub-proposition P<sub>2.2</sub>. In analysing corruption in the tax department and the nexus of different actors, rent-seeking theory has been used.

**Chapter VI *Analysis of Tax Policy Compliance, Tax Evasion and Corruption***, based on collected data, deliberates on issues relevant to tax policy compliance, viz., ethical and behavioural aspects of taxpayers, the financial condition of taxpayers, tax fairness, taxpayer services, complexities in tax regime, tax rate, penalty and enforcement, and tax amnesty and black economy. Furthermore, this chapter investigates the possible nexus of different interest groups in the tax policy compliance process, including parliament members, businesspeople, tax authorities, tax agents, and financial institutions. In this regard, sub-propositions P<sub>1.3</sub> and P<sub>2.3</sub> have been examined. The Allingham-Sandmo model has been used in analysing these issues.

**Chapter VII *Synthesis of Findings: Tax Evasion and Corruption in Bangladesh***, the penultimate chapter, aligns the overall findings and discussion of the thesis. First this chapter summarises the findings on the basis of sub-propositions P<sub>1.1</sub> and P<sub>2.1</sub>, P<sub>1.2</sub> and P<sub>2.2</sub>, P<sub>1.3</sub> and P<sub>2.3</sub>. Subsequently, general propositions P<sub>1</sub> and P<sub>2</sub> are tested in this chapter. Furthermore, this chapter examines the global proposition P. Finally, the relevance of findings to the theoretical underpinnings, conceptual framework and research questions is highlighted in this chapter.

**Chapter VIII *Conclusion*** provides an overview of the entire thesis. It also provides policy implications and recommendations of the research for tax policy formulation, its implementation and compliance processes. Moreover, the contribution to the literature and future research direction are shown in this chapter.

## **1.8 CHAPTER SUMMARY**

This chapter has presented a snapshot of the thesis. Given the rampant nature of tax evasion in Bangladesh, it provides justification for conducting empirical research on tax evasion and corruption from a developing country perspective. Since the GOB, its donor countries and international development agencies have been persevering to streamline the complex and allegedly corrupt tax regime in Bangladesh, this study appears to be a timely step towards providing a clear picture of the problem.

In addition to highlighting the significance to the study, this chapter has outlined the research objectives and questions and its approaches of enquiry, and introduced the key concepts of the research and the organisation of the thesis.

## **CHAPTER II LITERATURE REVIEW AND THEORETICAL UNDERPINNINGS**

Tax evasion is a universal phenomenon. It takes place in all societies, all social classes, all professions, all industries, and all economic systems. Two thousand five hundred years ago, Plato was writing about it, and the aging Ducal Palace of Venice has a stone with a hole in it, through which people once informed the republic about tax evaders. The only surprise is how little attention this phenomenon has received (Tanzi & Shome 1993, p. 807).

### **2.1 INTRODUCTION**

This chapter will examine the available literature relevant to the present study with an aim to bring together two phenomena – i.e., corruption and tax evasion – within a theoretical framework in order to explore their interconnection and relationship. In doing so, a special emphasis will be placed on the case of Bangladesh. It is important to review the extant literature together with its theoretical underpinnings in order to establish the conventional wisdom regarding the issues and the phenomena to be examined in the thesis.

This chapter is designed to discuss the existing literature available in the sphere of the research topic on the specific topics of political economy of corruption, political economy of corruption in Bangladesh, tax evasion and the case of tax evasion in Bangladesh.

In addition to relevant extant literature, theories may play a significant role in understanding the problems of corruption and tax evasion in Bangladesh and their associated issues. This chapter addresses the theoretical underpinnings of the study based on key theories relevant to the research, viz., public choice theory, rent-seeking theory and the Allingham-Sandmo model. The conceptual model for the study is framed in this chapter, illustrating different processes of taxation regime of Bangladesh, as well as determining the different actors who might be involved in tax evasion. The review of contextual literature and relevant theories and the formulation of the conceptual framework further enable development of the research questions. Accordingly, this chapter will frame the research questions for the study. Based on the extant literature, theories, conceptual framework, and research questions, a set of research propositions will be designed. Finally, the chapter will summarise the discussions.

### **2.2 POLITICAL ECONOMY OF CORRUPTION**

This study seeks to analyse an endemic problem of the present world, i.e., corruption, which spreads across the globe and affects the development of both developing and developed

nations. An elaboration of political economy of corruption is appropriate to assess the impact of the issue.

In a society or a state, there exist several issues and phenomena which require explanation and analysis from the viewpoints and approaches of both economics and political science. Here lies the importance of the emergence of the political economy doctrine.

The field of political economy includes the study of society, politics and economics (Setterfield 2003). It is derived from the disciplines of economics and political science. As Hettne (1995) has stated, modern political economy can be referred to as the marriage between political science and economics. Political economy examines social issues from the perspectives of economics and political science. However, according to Cox (1995, p. 32), 'Political economy is different from both political science and economics as they are commonly understood.' He has pointed out that political science and economics emphasise actor-oriented studies and work with fixed assumptions about the institutional framework of politics or the concept of the market, whereas political economy focuses on the changing structures of political and economic activities. As a part of political economy, Buchanan (1977) emphasises political institutions through which economic policy must be implemented. Meltzer, Cukierman and Richard (1991, p. 4) have identified a different angle: political economy 'is about the interrelation of individual and collective decision making. This involves the functioning of the market process, the political process, and the interaction between the two'. Political science and economics deal with fixity; by contrast, political economy is concerned with the changing behaviour of frameworks. It discusses how political institutions, the political environment, and the economic system - capitalist, socialist, mixed - influence each other. Moreover, political economy explains human behaviour in response to market and political process.

In sum, the focus of political economy is changing patterns of political and economic institutions and the interrelationships of individuals which might differ from the ideal and normative views of political science. The next section will shed light on the issue of corruption.

### **2.2.1 Corruption in the Past and Present**

Corruption is an age-old issue which can be traced back historically. Thakur (1979) has stated that Egyptian, Babylonian and Hebrew judges indulged in bribery. This was considered a



knotty problem in those civilisations. Thakur also mentions that during the fourth and the fifth century B.C. and in mediaeval times corruption was perceived in different forms by officials, the army, judges and the populace of ancient Greece, Rome and India. Therefore it can be argued that corruption is not a new phenomenon. A negative view of corruption can also be found in the writings of Plato and Aristotle (cited in Qizilbash 2008). Kautilya, the philosopher cum finance minister of ancient India discussed corruption two thousand years ago in his famous book *Arthashastra* (cited in Tanzi 1998).

Although corruption is an old problem of human civilisation, it has neither been solved nor eradicated, as Thakur (1979, p. 2) has argued, 'it was, and is, and shall remain no matter whether we like it or not'. Doubtless, corruption has become rampant in modern society. It is now a universal issue which has attracted global attention. As Hodgson and Jiang (2007) remark, corruption is now a common topic for social researchers and a huge number of articles have been published in leading journals about it.

Corruption has spread all over the world, both in developed and developing countries. TI's widely cited Corruption Perception Index provides evidence of the pervasiveness of corruption of developed and developing nations in the modern world (Transparency International 2011). In 2011 TI's annual report rated political and the administrative corruption of 183 countries, both developed and developing (Transparency International 2011). Ironically, according to the index, a vast majority of countries scored below 5 (out of 10), which is an indication of the severity of the issue. New Zealand, Denmark and Finland have been perceived as the 'cleanest' countries, whilst North Korea and Somalia were the worst in terms of the prevalence of corruption. However, corruption problem is more acute in developing than in developed countries. Another report, TI 2007, identifies a strong correlation between corruption and poverty by showing that the higher the degree of corruption, the higher the level of poverty and underdevelopment (Transparency International 2007a). Hence the case of Bangladesh can be considered an appropriate example of this correlation, because that nation has repeatedly been perceived to be the most corrupt in the world.

Thus corruption in different forms has been inflicted on eastern and western societies over a long period historically and it is still continuing.

### **2.2.2 Actors of Different Forms of Corruption**

In the book, *Corruption: A Study in Political Economy*, various aspects of the issue of corruption are discussed by Rose-Ackerman (1978). She has explained different forms of corruption, including legislative, bureaucratic, and private sector corruption. In order to analyse corruption, it is important to understand the involvement and relationship of different actors, agents and players in corrupt dealing. Rose-Ackerman has argued that the discretionary authority of an agent paves the way for corruption. For instance, when a tax official exercises the power of assessing the total income and computing the tax payable of a taxpayer, and when the system is not transparent, open and accountable, he or she may provide the taxpayer with undue relief from tax payment in return for a bribe. Rose-Ackerman (1978, p. 6) has pointed to the 'agency relationship', stating that 'the democratic legislators are the agents of voters; agency heads, of legislators; and bureaucrats, of agency heads'. The illegal and undue nexus of different agents causes corruption. If superiors want their agents to meet their superiors' own interest, it will be difficult for superiors to monitor their agents, and thus the agents will also have an opportunity to pursue their own personal objectives (Rose-Ackerman 1978). This unholy interaction and interrelationship opens the door to corruption.

According to Rose-Ackerman, the desire of politicians to either trade off political support in exchange for private gain or buying constituents' votes give rise to opportunities for corruption. She has further argued that corrupt bureaucrats may tend to support those new programs or budgets which match the objectives of private interest groups. Like politicians and bureaucrats, private firms are also not corruption-free. In the case of private firms and organisations, corruption is twofold: either the employees or agents of the firms take bribes in return for price discounts on sales or price premiums on purchases, or business firms may bribe government authorities in order to gain favourable regulatory treatment, tax relief, or direct transfer payments or loans (Rose-Ackerman 1978).

Further, Kaufmann and Vicente (2005) have contended that, in addition to bribery, corruption may occur in the public and private sector in different, less tangible forms, including collusion, lobbying, favouritism, and allocation of procurement contracts. They explain the corrupt interrelationship between the public and private sectors. According to them, when politicians and the private sector maintain close connections, both parties exploit each other for mutual interest. They benefit each other. The politician favours the private sector through

granting specific legislation or procurement contracts. In return, the private sector contributes to the funding of political campaigns (Kaufmann & Vicente 2005).

### **2.2.3 Effects of Corruption**

The negative impact of corruption is extensive and multi-faceted. The malpractice of corruption violates and oppresses citizens' rights. It impedes the economic growth and development of a state. According to Thompson (1993), corruption is a malaise not only because it siphons public resources and opportunity to corrupt individuals, it also victimises valuable aspects of public life by undermining the scope of proper representation, debate and choice. Poverty, bureaucratic inefficiency, political instability and environmental degradation are obviously the results of corruption (Sweeny 1999). Kofi A. Annan, the former Secretary-General of the United Nations, in his statement to the General Assembly of the United Nations Convention against Corruption, has said:

Corruption hurts the poor disproportionately by diverting funds intended for development, undermining a Government's ability to provide basic services, feeding inequality and injustice, and discouraging foreign investment and aid (United Nations 2004, p. iii).

According to Transparency International (2007a), corruption influences the four aspects of a state, i.e., political, economic, social, and environmental. In the political arena, corruption is a great hindrance to democracy and the rule of law (Transparency International 2007a). From the economic perspective, corruption is responsible for the depletion of the national wealth, the misuse of public resources and the distortion of the fair market structure and competition. In the social fabric, it challenges the political system, institutions and leadership, which further enhances frustration and apathy among citizens (Transparency International 2007a). A corrupt government system on the one hand benefits those who indulge in corruption; on the other hand, it deprives law-abiding citizens who legally want access to services (Rose-Ackerman 1978). Thus, corruption causes a distributional disadvantage in a society. As Rose Ackerman (1978) explains, if corruption is overlooked and openly tolerated in a society by economically justifying it, in the long run that society will find that corruption has affected all the machineries of government and thus the values of the society itself, including trust, honesty, and altruism, all of which will be devalued.

Finally, it can be argued that corruption is a serious impediment to socio-political and economic progress. It is harmful for any individual, society or state.

## 2.3 POLITICAL ECONOMY OF CORRUPTION IN BANGLADESH

Corruption can be identified in almost every society and state. However, some societies and states are affected more severely than others. Bangladesh presents a relevant example in this regard. Little has been written on the corruption issue of Bangladesh, given the pervasiveness of the problem.

Bangladesh is one of the world's least developed countries (LDCs) and it is struggling against poverty, population density and backwardness (Shahiduzzaman 2003). Corruption in politics, bureaucracy and business has made economic problems more acute. The level of corruption in Bangladesh has been perceived to be one of the highest in the world (see Table 2.1). The prevalence of perceived political and administrative corruption in Bangladesh from 2001 to 2011 according to the Corruption Perception Index of TI is shown in the Table.

**Table 2.1 Bangladesh in the Corruption Perception Index of Transparency International**

Year	Position from Below	Score	Rank
2001	1 <sup>st</sup>	0.4	91 <sup>st</sup> among 91
2002	1 <sup>st</sup>	1.2	102 <sup>nd</sup> among 102
2003	1 <sup>st</sup>	1.3	133 <sup>rd</sup> among 133
2004	1 <sup>st</sup>	1.5	145 <sup>th</sup> among 145 (jointly with Haiti)
2005	1 <sup>st</sup>	1.7	158 <sup>th</sup> among 158 (Jointly with Chad)
2006	3 <sup>rd</sup>	2.0	163 <sup>rd</sup> among 179
2007	7 <sup>th</sup>	2.0	162 <sup>nd</sup> among 180
2008	10 <sup>th</sup>	2.1	147 <sup>th</sup> among 180
2009	13 <sup>th</sup>	2.4	139 <sup>th</sup> among 180
2010	12 <sup>th</sup>	2.4	134 <sup>th</sup> among 178
2011	7 <sup>th</sup>	2.7	120 <sup>th</sup> <sup>15</sup> among 183

Source: Compilation of the data from Transparency International and Transparency International Bangladesh (Iftekharuzzaman 2011; Transparency International 2011; Transparency International Bangladesh 2008a, 2008b, 2007a).

It can be noted from Table 2.1 that Bangladesh slightly improved its ranking in 2006, and continued upgrading its position until 2009; however, it again fell in 2010. Moreover, it remained at the bottom of the ladder throughout the decade. In addition, the score remained stagnant at the rating of 2.0 in 2006 and 2007. Notably, during the last five years (from 2006 to 2010), the perceived degree of corruption in Bangladesh did not exceed a score of 2.4. Therefore its move towards a higher position does not necessarily indicate that the corruption

<sup>15</sup> Bangladesh has ranked 120<sup>th</sup> with eight other countries: Ecuador, Ethiopia, Guatemala, Iran, Kazakhstan, Mongolia, Mozambique, and the Solomon Islands (Transparency International 2011).

situation of Bangladesh has substantially improved or that political and bureaucratic corruption has declined.

Although the country has made remarkable economic and social progress over recent years (Transparency International Bangladesh 2012), it failed to ensure good governance due to endemic corruption in its socio-political and bureaucratic system. According to newspaper reports on corruption during 2001, Bangladesh incurred financial losses amounting to BDT11,256 *crore* (\$US 2 billion) due to corruption in 2001, which is equivalent to 4.7% of GDP of the financial year 1999-2000 (Transparency International Bangladesh 2002).

In the 1990s, Zafarullah and Siddiquee (2001) contend, the public sector of Bangladesh was seriously affected by bribery, rent-seeking, misappropriation of funds, excessive lobbying, delay in service delivery, bureaucratic complexities, deviation from administrative ethics, patronage and clientelism. They have commented (2001, p. 467):

There is a common allegation that the bureaucracy in Bangladesh is corrupt to the extent that even the simplest things like obtaining birth and death certificates from relevant authorities, filing a complaint with the police, obtaining a passport, getting a driving license, registering a vehicle, getting admission into public hospitals, acquiring a statement on bank and housing loan require some lubrication or monetary inducements.

Zakiuddin and Haque (2002) argue that corruption prevails in Bangladesh as an institutionalised form of the social, economic or political process, seizing control of the senior bureaucracy in the central government down to the local area, and from the arena of politics down to rural life. According to them, the common forms of corruption in Bangladesh are:

- A patron-client relationship which appropriates national resources to a specific group of people;
- A rent-seeking mechanism which transforms the civil servants into players in the market;
- *Ghoosh*<sup>16</sup> or a bribe which involves underhand deals of huge amount of money at the national and international levels down to offers of petty cash or ‘baksheesh’ to an orderly at a bureaucrat’s office.

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<sup>16</sup> *Ghoosh* is a Bangla word meaning bribe.

Politics, administration and business are the crucial actors behind the dreadful situation of corruption in Bangladesh. Ahmed (2009a) has rightly pointed out that in the political context of Bangladesh, purchasing votes and political influence is not an uncommon phenomenon. Elected representatives indulge in corruption out of feelings of uncertainty and insecurity of tenure (Ahmed 2009a). In order to attain the higher reaches of politics or to win election, politicians require huge amounts of money, which make them easy prey in embracing corruption. Corrupt businesses enter as actors through this political leakage. Corrupt businessmen and firms bribe politicians in order to gain undue benefits. Another aspect of the corrupt nexus of politics and business in Bangladesh is the rise of ‘Businessman Politicians’ (Ahmed 2009a, p. 6). Ahmed has argued that a number of the MPs have direct involvement with business and engage in business with the state. He further stated that corruption, as well as conflict of interest, arises when an MP or a member of his or her family or a friend or business partner does business with the state. The administrative branch also utilises political corruption. When a policy maker indulges in corruption, he or she loses moral standing and capacity to check corrupt bureaucrats. On some occasions, corrupt politicians and bureaucrats establish relationships in order to fulfil their self-interest.

Moreover, corruption in Bangladesh top leadership degrades the democratic values. As-Saber (2011) has contended that corrupt and inefficient leaders, despite coming to power through democratic election, are pushing Bangladesh towards lawlessness, political bankruptcy, and economic mayhem, resulting in a ‘grey’ system of governance.

Based on the above discussion, it can be assumed that tax administration, being an important segment of Bangladesh bureaucracy, is similarly affected by the pervasiveness of corruption. In this context, a recent report prepared by TIB can be cited; it has highlighted the severe prevalence of corruption in the NBR (Khan & Nahar 2011).

## **2.4 TAX EVASION**

As discussed in Chapter I, tax evasion and avoidance are globally pervasive. They are closely related to one another and largely dependent on the legal system and socio-cultural background of a country. Other terms, such as the ‘underground economy’, the ‘black economy’, ‘black income’ and ‘black money’ are also familiar in the tax evasion context. Kemal (2007) suggests that income from illegal activities which remain out of the tax net, including smuggling, corruption, black-marketing, narcotics, and informal jobs, constitute an

‘underground economy’. According to Gupta (1992), ‘black income’, commonly known as ‘black money’, involves not disclosing the source of income and does not enter into books of account in order to avoid or evade tax payment. The forms and sources of black income are not only limited to tax evasion, but also include crime income, bribe income, black-market income, black-wealth income, smuggling income, and income generated from leakages of government expenditure, and so on (Gupta 1992). Black income can be of two types: unreportable and reportable. Unreportable black income cannot be reported to income tax authority because it is earned through illegitimate and illegal means. Reportable black income, on the other hand, is earned legitimately, however is concealed as income from the tax department (Gupta 1992).

#### **2.4.1 The Extent and Explanation of Tax Evasion**

Tax evasion is a universal problem (Tanzi & Shome 1993). It is as old as taxes themselves; however, the extent of the problem varies from country to country (Torgler 2003; Jain 1987). The phenomenon of tax evasion, therefore, has received enormous research attention throughout the world. Notably, over the past four decades, a rapid growth in the literature on tax evasion and compliance has been evidenced (e.g., Smatrakalev 2012; Litina & Palivos 2011, Traxler 2009; Kirchler, Maciejovsky & Scheneider 2003; Tanzi & Shome 1993; Wallschutzky 1984; Yitzhaki 1974; Srinivasan 1973; Angell 1938).

Accordingly, economists, academics and researchers around the world have attempted to develop theories and models for, and examine the extent, causes, and consequences of, tax evasion. More recently, other relevant phenomena, for example, compliance and non-compliance, the shadow economy, and the ethical, moral, behavioural and psychological aspects of tax evasion have gained scholarly attention. In addition, a large body of research work has been conducted in developed and developing countries on tax evasion. Hence, reviewing the literature on tax evasion will be useful in identifying the common features of tax evasion, thereby facilitating the present study in creating a platform for analysing the case of tax evasion in Bangladesh.

#### ***Causes and Issues of Tax Evasion***

Dating back to the 1970s, the seminal works of Allingham and Sandmo (1972), Srinivasan (1973) and Yitzhaki (1974) deserve special emphasis, since they pioneered the models of tax evasion. Allingham and Sandmo (1972) have analysed the impact of the probability of

detection, penalty rates and tax rates on a risk-averse taxpayer's underreporting decision making. They suggest that risk-averse taxpayers will be more compliant if the probability of detection and penalty for tax evasion are high. Conversely, a high tax rate will discourage tax compliance. Since then, a number of researchers have extended and elaborated, as well as questioned, the portfolio choice model of tax evasion in analysing the correlation between tax evasion and risk attitudes, evasion penalty functions, tax rates, and detection (e.g., Bayer 2006; Lin & Yang 2001; Clotfelter 1983).

In addition, Wallschutzky's empirical research (1984) has identified a number of possible causes that inspire taxpayers to evade tax, including high tax rates, a government's unwise use of tax money, rich people's tax avoidance and inequity in the tax system. Alm, McClelland and Schulze (1992) argue that detection and punishment alone cannot influence taxpayers' decisions between compliance or non-compliance; rather, a number of other variables play an important role. As they (1992, p. 36) say:

An increase in the amount that individuals receive from a given tax payment increases their compliance rate, and individuals pay something in taxes to receive government services even when there is no chance of detection and punishment.

Thus it can be argued that taxpayers' motivation for paying or not paying taxes largely depends on their perception about the fairness of the tax system and governmental supply of public goods and services in return for their taxes paid. Bordonon's (1993) econometric analysis of a fairness approach to income tax evasion also supports this argument. He suggests that a taxpayer decides to evade tax based on his perception of the fairness of his fiscal treatment and the perceived behaviour of other taxpayers. As Porcano (1988, p. 51) also says, the belief that 'everyone else does so why not me' is crucial to tax evasion decisions. Interestingly, to Cowell (1985, p. 164), the absence of a 'sensible definition of tax evasion' has appeared to be a problem.

Furthermore, increasing availability of tax amnesties has also been identified as a cause for underreporting of income. Although a tax amnesty is considered by governments throughout the world as a popular strategy to inspire tax compliance, its excessive and frequent use may hamper revenue collection. As the economic analysis of tax amnesties by Malik and Schwab (1991) and Stella (1991) show, frequent tax amnesty schemes inspire people to report less income and also reduce future tax compliance.



In recent years, the behavioural, psychological, and demographic analyses of tax evasion have expanded. A substantial body of literature has emphasised the influence of morality, ethics, religiosity, tax education, and culture on the individual decision outcome of tax compliance or evasion (e.g., Torgler & Schneider 2009; Richardson 2008; McGee & Gelman 2008; Devos 2008; Fortin, Lacroix & Villeval 2007; McGee & Cohn 2007; Alm & Torgler 2006; Torgler 2005).

As Torgler and Schneider (2009, p. 229) suggest:

It is highly relevant to investigate not only the importance of objective variables such as the tax burden, rate of public expenditure, or the density of regulation, but also the subjective perceptions, expectations, attitudes and motivations such as tax morale or the (perceived) institutional quality.

In this context, it can be mentioned here that an increasing number of researchers have shown interest on examining tax morale<sup>17</sup> in different countries. For example, Torgler in 2004 and 2005 analysed tax morale in Asian and Latin American countries, respectively. Cummings, Martinez-Vazquez, McKee and Torgler (2009) conducted research in Botswana and South Africa on the tax morale issue. Alm and Torgler (2006) have examined it in the US and Europe. The tax morale of Asian countries, based on Torgler's study (2004), is shown in Table 2.2.

**Table 2.2 Tax Morale in Asia**

Country	Tax evasion is never justifiable (%)			Mean		
	1981-1984	1990-1993	1995-1997	1981-1984	1990-1993	1995-1997
Bangladesh			96.3			2.930
China		78.7	79.0		2.619	2.613
India		82.9	77.0		2.614	2.519
Japan	81.8	81.9	80.6	2.603	2.636	2.621
Philippines			38.2			1.583
South Korea	76.4	89.9	71.6	2.560	2.697	2.416
Taiwan			63.7			2.263
Average	79.1	83.4	72.3	2.582	2.641	2.421

Source: Torgler (2004, p. 241).

Notes: Columns 2-4: percentage of individuals saying that tax evasion is 'never justified'; Columns 5-7, the mean of the degree of tax morale, on a scale from 0 to 3, where 3 means the highest tax morale.

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<sup>17</sup> Tax morale refers to taxpayers' intrinsic motivation/ willingness/moral obligation to pay taxes (Torgler & Schneider 2009; Alm & Torgler 2006; Torgler 2004).

Table 2.2 shows that during 1995-1997, tax morale was highest in Bangladesh (96.3%) and lowest in the Philippines (38.2%). Torgler (2004) has reported that tax morale is comparatively higher in Asian countries than in OECD countries. Comparing the US and Europe, Alm and Torgler's research (2006) indicates that individuals in the US have the highest tax morale, followed by Austria and Switzerland.

The impact of social norms, values and culture cannot be ignored in analysing the factors of tax evasion. Cummings et al. (2009) have reported the significant impact of social norms and cultural difference on tax evasion and compliance behaviour. They further argue that the tax regime and the government's responsiveness to taxpayers shape norms and cultural values. Furthermore, taxpayers' social and occupational identity might influence taxpaying behaviour and attitudes. In this light, Ashby, Webley and Haslam (2009) have found a complex relationship between occupational identity and taxpaying culture, by using a social identity framework in their empirical investigation. They (2009, p. 226) have reached the conclusion that:

Paying tax is about hearts and minds as well as carrots and sticks, and those hearts and minds are structured not in a social vacuum, but by group memberships and the values and norms these instil.

Other interesting research has been conducted by Richardson (2008), examining the relationship between culture and tax evasion. By applying Hofstede's 'national cultural dimensions' across 47 countries, Richardson's empirical study has reported that the higher the level of uncertainty avoidance and the lower the level of individualism, legal enforcement, trust in government, and religiosity, the higher the level of tax evasion. In a society, citizens' ethical considerations about tax evasion, i.e., whether they perceive tax evasion as justifiable or unjustifiable, have a significant impact on their tax-paying attitude (McGee & Gelman 2008).

Taxpayers are certainly members of a society, as well as of many different groups. It is, therefore, needless to mention that the norms, values, ethics, culture, behaviour, and attitude of that particular society and groups must contribute to their decision about tax evasion. Accordingly, demographic variables (i.e., gender, age, ethnicity, education, occupation, personal income level, location, work experience and tax return filing experience) should also be counted as factors in tax evasion. In a current study, McGee (2012) has attempted to examine the relationship between level of education and attitudes toward the ethics of tax

evasion. His research has demonstrated a curvilinear relationship between the level of education and tax evasion attitude. It can, however, be argued that tax evasion is not only related to illegality and crime, but also closely related to the society, culture, psychology, demography and a number of other factors. Nonetheless, a satisfactory explanation for tax evasion may be found by taking into account tax rates, penalties, punishment, and assorted motivational aspects.

It is worth noting the emergence of a new approach, i.e. the ‘service’ approach, beyond the conventional ‘economics of crime’ approach, for analysing tax evasion. Recently, a growing number of scholars are shifting their emphasis from the ‘enforcement paradigm’ (i.e., stressing frequent audits and stiff penalties, as well as treating taxpayers as potential criminals) to a ‘service paradigm’ (i.e., improving the role of tax administration as a facilitator and a service provider to taxpayer-citizens) (e.g., Alm, Cherry, Jones & McKee 2010). Cummings et al.’s (2009) experiment and survey conducted in Botswana and South Africa in 2009 provided support for this approach. They have reported a negative correlation between tax evasion and good governance<sup>18</sup>. Together with the enforcement effort (audit and penalty) and deterrence, adequate, transparent and fair services provided by the government can reduce tax evasion, as noted by Cummings et al. (2009). More recently, Alm et al. (2010) suggest that tax administration should become ‘kinder, friendlier’, increasing taxpayer services together with the presence of detection and punishment. Many countries around the world have already revised their tax reform strategies. For example, Singapore has significantly improved its tax regime by following the service-oriented paradigm, and the US has recently introduced it as a policy action to combat tax evasion (Alm et al. 2010).

### ***Extent of Tax Evasion***

The estimation of tax evasion as well as shadow or underground or hidden economy is another important field of tax literature. The size of the underground economy can serve to measure the extent of tax evasion (Alm, Martinez-Vazquez, & Schneider 2004). In this regard, some researchers have made an attempt to estimate the size of the shadow economy in various countries (e.g., Buehn & Schneider 2012; Schneider 2002). Very recently, Buehn and Schneider (2012) have calculated the sizes and trend of shadow economies in 162 countries around the world by using a ‘Multiple Indicators Multiple Causes’ (MIMIC) model. The

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<sup>18</sup> Good governance includes a fair tax system, a government providing valued goods and services in accordance with its revenues, and a political system that is not corrupt (Cummings et al. 2009, p. 2).

main determinants of shadow economies are tax and social security contribution, intensity of regulations, public sector services, and the official economy, as Buehn and Schneider reported. According to their study, the estimated weighted average informality in 162 countries, including developing, Eastern European, Central Asian, and high-income OECD countries, is 17.1% of the ‘official’ GDP. Higher levels of informality are reported in Azerbaijan, Bolivia, Peru, Panama, Tanzania and Zimbabwe; and lower levels are reported in Austria, Japan, Luxembourg, Switzerland, the United States and the United Kingdom. Overall, the lowest level of informality is 8.5% of GDP in Switzerland, and the highest is 66.1% in Bolivia. The study demonstrates a negative correlation between enforcement measures and the shadow economy. In line with theoretical literature, Buehn and Schneider (2012) also suggest enhancing enforcement as an effective policy tool to deter shadow economy activities.

**Table 2.3 Average Informality around the World**

Average informality weighted by total GDP in 2005 (%)					
Region	Mean	Median	Min	Max	SD
Sub-Saharan Africa	37.6	33.2	18.4	61.8	11.7
Europe and Central Asia	36.4	32.6	18.1	65.8	8.4
Latin America and the Caribbean	34.7	33.8	19.3	66.1	7.9
Middle East and North Africa	27.3	32.5	18.3	37.2	7.7
South Asia	25.1	22.2	22.2	43.9	5.9
Other High Income Countries	20.8	19.4	12.4	33.4	4.9
East Asia and Pacific	17.5	12.7	12.7	50.6	10.6
High Income OECD	13.4	11.0	8.5	28.0	5.7
World	17.1	13.2	8.5	66.1	9.9

Source: Compiled from Buehn and Schneider (2012).

### ***Tax Evasion in Developing Economies: Some Examples***

Shadow economy activities have significantly affected the official economy of Eastern European and Central Asian countries (mostly the former are transition economies. According to Buehn and Schneider (2012), the highest shadow economies include the Ukraine, Azerbaijan and Georgia, with 49.7%, 58.0%, and 65.8%, respectively, over the period 1999 to 2007. Because of the severity of the problem, researchers have attempted to analyse the causes and factors of the underground economy (especially of tax evasion) in transition economies.

Bilotkach (2006) has developed an equilibrium model of the game between a businessman and a corrupt supervising official in order to explain the conditions under which such tax evasion and bribery has become rampant in Ukrainian society. The central argument of this study is that businesses might not always be the victim in the tax evasion case; rather they might benefit themselves. The study has pointed out that businesspeople intend to underreport or hide their profits and are therefore willing to pay bribes to the authorities for such an escape from liability.

Rakner and Gloppen (2003; 2002) report that in the late 1980s, most African countries faced a series of fiscal crises that originated mainly from the crisis of governance. In particular, the main revenue sources of Sub-Saharan Africa, including the states of Uganda, Zambia and Tanzania, almost collapsed (Rakner & Gloppen 2003; 2002). As a result, these countries had to receive large amounts of foreign aid from the international donor community with a series of conditionalities for ensuring good governance and tax reforms. However, the taxpayer citizens did not welcome all the prescriptions of the donor agencies, which further made them reluctant to pay taxes. Eventually, the tax reform initiatives of introducing transparency and accountability into the tax regimes, introducing the executive agency model (semi-autonomous revenue authorities), widening the tax net, and increasing revenue collection triggered a number of questions and doubts (Rakner & Gloppen 2003; 2002). So far no substantial improvement in internal revenue collection has been evidenced in the last two decades in African countries. Rather, the continent has become a site of an extensive shadow economy. It is important to note here that, by estimating the average of the weighted yearly informality, Buehn and Schneider's (2012) study demonstrates that Sub-Saharan Africa has the largest shadow economies (with an average of 37.6%) in the world.

The tax evasion issue of African countries has attracted considerable research attention (e.g., Malkawi & Haddad 2009; Malkawi & Haloush 2008; Gcabo & Robinson 2007; Levin & Widell 2007; Fjeldstad 2006; Julius 2006; Lanwehr 2006; Kangave 2005; Gray 2001). Rakner and Gloppen (2003; 2002) have pointed to various weaknesses in the tax regimes in Uganda, Zambia and Tanzania. They have attempted to make an assessment of the recent tax reforms in these three countries. According to their findings, reforms were not substantially successful in increasing tax compliance and enhancing revenue collection. The reasons for this failure, they report, include citizens' resentment against donor-imposed tax reforms, lack of political ability and willingness to enforce the tax law in the informal sectors, political

interference with revenue authorities, the discretionary power of ministers to grant tax exemptions to their favourite individuals and business firms, and widespread corruption among revenue authorities.

A report of an empirical research study conducted by Gray (2001) and his team on the Madagascar and Tanzanian tax administrations has identified the commonly-held perceptions of taxpayers and tax authorities as the contributing factor to tax evasion. The study has reported that citizens' common perception that individuals and groups with political and/or financial influence indulge in massive tax evasion negatively affects the tax-paying culture. Moreover, the general beliefs of the tax authorities – that their peers and superiors do not collect due tax in return for bribes, and the politicians protect the tax evaders, including themselves – adversely affect their collection performance.

In many African countries, according to Fjeldstad (2006), tax administrations are weak, inefficient, and corrupt; tax legislation is unclear and inconsistent; tax systems are distortive, costly to administer, and exacerbate inequity; and the tax atmosphere creates distrust and fear between taxpayers and tax officials. He suggests that increasing the wages of tax officials as an anti-corruption and tax collection stimulating strategy will not work unless and until an extensive and effective monitoring of corrupt tax officials is put in place.

Julius's (2006) study as tax evasion and corruption in Nigeria is an important contribution to the literature on tax evasion issues of Africa. Julius has blamed administrative and political corruption, tax evasion and avoidance as reasons for the economic backwardness of Nigeria. Using 2004 data, he has reported that the average Nigerian expects to receive per annum only 924.45 Naira (equivalent to \$US 6.92) in social services. In spite of being endowed with enormous natural resources, Nigeria's poverty, according to Julius (2006, p. 32):

... might be attributed to inadequate revenue from taxation due to tax evasion, tax avoidance and corrupt practices of the political office holders by miss allocating and appropriating funds to rent-seeking activities than those that will alleviate poverty to better the lot of the citizens and for economic growth.

Torgler (2005) has pointed out corruption in tax administration as a common problem in Asian countries. According to Batson (2008), corruption is an obstruction to tax collection everywhere in Asia. He has further reported that the tax-collection rate of Indonesia is the lowest in Asia; in 2006, only 3.5 million individual taxpayers registered, although the

population of the country was about 240 million. Like Indonesia, most Asian countries are facing a common problem of revenue collection, i.e., evasion of income taxes.

A Filipino case of tax evasion can be mentioned here as an example. Mr Tan, an ethnic-Chinese Filipino and one of the richest businessmen in Asia, was charged with evasion of tax of about \$US360 million (Hookway 2004). Cobham (2005) has estimated the total cost of revenue to developing countries due to leakages from the tax system as \$US385 billion annually.

For a long time, the shadow economy has been an obstacle to generating revenue in South Asian countries.

**Table 2.4 The Size of the Shadow Economies in South Asian Countries (%)**

Country	Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	Av.
Bangladesh	36.0	35.6	35.5	35.7	35.6	35.5	35.1	34.5	34.1	35.3
Pakistan	37.0	36.8	37.0	36.8	36.2	35.3	34.9	33.8	33.6	35.7
India	23.2	23.1	22.8	22.6	22.3	22.0	21.7	21.2	20.7	22.2
Nepal	37.2	36.8	36.7	37.1	36.9	36.8	36.7	36.3	36.0	36.7
Bhutan	29.6	29.4	29.2	29.1	28.7	28.7	28.3	28.2	27.7	28.8

Source: Compiled from Buehn and Scheneider (2012).

Tax evasion is a serious problem in India. According to Jain (1987), the malady of tax evasion was inflicted on the country during the Second World War and became worse even after independence. Jain (1987, pp. 238-242) has identified the major causes of tax evasion in India, including a narrow concept of income, a complicated tax structure, frequent amendments, shortage of personnel, high tax rates, non-levy of deterrent penalties, ineffective prosecution machinery, lack of awareness among taxpayers, bribery, administrative and political corruption, and greed for money and power of dishonest businesspeople and traders. Gupta (1992) contends that the pervasive pursuit of personal gain, political corruption, corrupt business practices, weaknesses of the tax system, and inefficient and corrupt tax administration are responsible for tax evasion in India.

As in India, tax evasion is a growing problem in Pakistan. According to Kemal (2007), the rapid increase of the underground economy significantly affects the monetary and fiscal policy formulation process of Pakistan. He has reported that in 2005 the underground

economy accounted for between Rs<sup>19</sup> 2.91 trillion and Rs 3.34 trillion (54.6% of GDP to 62.8% of GDP respectively), and tax evasion accounted for between Rs 302 billion and Rs 347 billion (5.7% of GDP to 6.5% of GDP, respectively). The rise of tax evasion in Pakistan is associated with various factors. As Kemal (2007) argues, loopholes and the complexity of Pakistan tax system facilitate evasion of tax. He further states that, because of the increase of tax rates, people usually become involved in the underground economy by evading taxes. Another researcher, Aslam (1998), reports that pervasive tax evasion has caused a negative impact on Pakistan's fiscal and monetary system, including a huge amount of revenue loss and budget deficits.

## **2.5 THE CASE OF TAX EVASION IN BANGLADESH**

Although a number of theories and models have been developed and research conducted in order to examine the phenomenon of tax evasion of developed, developing and transitional economies, as we discussed in the previous section of this chapter, Bangladesh has unfortunately been left to one side. Only in the last decade has internal resource mobilisation through enhancing income tax collection achieved some attention from the government and policy makers. However, the tax evasion issue remains far from becoming a topic of policy debate and discussion and attracting research and academic attention and public concern. As a result, the literature on tax evasion in Bangladesh is scant in comparison with the severity of the problem. Perhaps the most important reason for the failure of tax evasion is to gain appropriate importance is that a number of policy makers, politicians, businesspeople, professionals, public officials, celebrities and renowned personalities are involved themselves in tax evasion in Bangladesh.

Four studies (Buehn and Schneider 2012; Hassan 2011; Torgler 2004; Schneider 2002) can be found to date on the tax morale issue and the size of the shadow economy of Bangladesh. Torgler's (2004) study has demonstrated that tax morale in Bangladesh appeared to be highest among Asian countries over the period 1995-1997 at 96.3% (see Table 2.2, above). However, the reasons or justifications for such a finding remain unclear. Schneider (2002) and Buehn and Schneider (2012), on the other hand, have estimated the size of the shadow economies around the world over the period from 1999 to 2007 and have found Bangladesh to have a significantly large size of shadow economy, with 36.0% in 1999 and 35.6% in 2000.

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<sup>19</sup> 'Rs' indicates Pakistani Currency 'Rupee'.



The highest measure of tax morale and a large size in a shadow economy cannot coexist in a country, since these two variables have negative correlation. As is argued by Alm and Torgler (2006), the shadow economy is likely to increase if tax morale declines. In this context, by integrating the results of the aforementioned two studies, one question needs to be raised: whether the tax morale of Bangladeshi citizens declined significantly between the period of 1999 and 2000'. If the answer is 'yes', it will then pose another question: 'why'? So far other than the studies of Torgler, Schneider, Buehn and Schneider, and Hassan, no other research work to date has been undertaken to calculate the shadow economy and tax morale in Bangladesh over the period of 1995-2000. Therefore, it remains difficult to answer the question clearly.

Recently, Hassan (2011) has conducted empirical research on the shadow economy of Bangladesh. He has attempted to estimate the size of the shadow economy and to propose policy implications. He has employed an Expert Citizens Survey and MIMIC approach. According to Hassan, the size of the shadow economy in Bangladesh varies from 39.2% to 38.1% over the period 1996-2008, which is slightly higher than the estimate by Schneider and Buehn and Schneider over 1999-2007. Apart from calculating the shadow economy, a considerable percentage of respondents in Hassan's study have stressed that the Bangladesh government should permanently stop the scope for laundering and legitimising of black money. The study reports that government employees conceal their illegal income through money laundering to tax havens or countries through their relatives or friends' bank accounts, and through buying plots of land, flats, bonds, share certificates, and cars in the name of a family member or close relative and friends who do not have tax files. Nearly 60% of participants in the survey confidentially disclosed that illegal earnings are further invested in the capital market and businesses in order to enjoy tax exemption.

Hassan's study has attempted to reveal some of the aspects of black money and shadow economy, although undoubtedly most of the major factors and causes of tax evasion and corruption remained largely unexplored and unrevealed.

In 1992, Chowdhury, conducted research on 'Evasion of customs duty in Bangladesh'. His research notes the gap in the literature on tax evasion in Bangladesh, both direct and indirect. Hence it will be relevant to review Chowdhury's (1992) work on customs evasion as a reference, since customs and income tax are the two major sources of revenue in Bangladesh and they function under the same umbrella of the National Board of Revenue. Chowdhury

has discussed the tax structure, the evidence on evasion and its estimated size, customs administration and procedures, mechanisms for evasion, and the role of corruption in explaining evasion and preventing evasion.

In the case of Bangladesh, the tax evasion issue, both direct and indirect, is virtually overlooked. As Chowdhury (1992) has said, any concern about evasion in Bangladesh remains unnoticed. It is yet to emerge onto the public agenda. In fact, in Bangladesh tax evasion remains like a social taboo about which nobody likes to speak. Hardly any documentary publication of the Ministry of Finance and the Bangladesh Bank or the annual Budget Statement of the Finance Minister has focused on tax evasion (Chowdhury 1992). Chowdhury reports that corruption in the public sector of Bangladesh has increased severely since its independence in 1971, and consequently evasion has been inflicted on all spheres of the administrative machinery.

Sarker and Kitamura (2002), in their paper ‘Technical assistance in fiscal policy and tax administration in developing countries: The state of nature in Bangladesh’, have identified the major problems of the income tax system in Bangladesh: its narrow tax base, tax evasion, and inadequacies of law and administration. According to them, tax evasion in Bangladesh soared and severely hampered revenue collection, which further exacerbated growth of a parallel black economy. The reasons for tax evasion in Bangladesh cited by Sarker and Kitamura (2002) were complex tax laws, lack of social security, coordination deficits among different government agencies and financial institutions, and inefficiency and corruption.

In 2008, Rahman and Yasmin conducted an empirical study on tax evasion in Bangladesh. The main objective of their study was to estimate the amount of revenue loss caused by the adoption of the provision of the Self-Assessment System (SAS). They argue that, instead of increasing revenue by enhancing the tax net, the SAS has provided more opportunity for tax evasion. Under the SAS, taxpayers may submit fictitious returns showing less income or by hiding original sources of income, and claiming false deductions and liabilities. In order to escape auditing, taxpayers may also bribe tax officials. Rahman and Yasmin (2008) have made a comparative analysis of revenue losses from 2000 to 2004 caused by different types of taxpayers in a sample of five offices in Dhaka. Revenue losses of the government of Bangladesh amounted to BDT 90.79 *lakh*<sup>20</sup> in 2000, BDT 127.39 *lakh* in 2002, BDT 93.46 *lakh* in 2003 and BDT 237.44 *lakh* in 2004. In 2004, among the sample of the study, the

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<sup>20</sup> 1 *Lakh* = 100,000 BDT.

private limited companies caused revenue losses of 59%, public limited companies of 20%, financial institutions of 11%, professionals of 8%, individuals of 7% and rentals of 5%. According to Rahman and Yasmin, private and public limited companies of Bangladesh significantly indulged in tax evasion by misusing the opportunity of the SAS.

Furthermore, Rahman, Rahman and Yasmin (2010) have attempted to investigate the factors behind the leakage of tax revenues in Bangladesh. They pointed to tax evasion, lack of awareness, official harassment, complexities of tax laws, and lack of social benefit as the major reasons for revenues losses.

Based on the discussion of the available literature, it can, however, be argued that tax evasion is obviously a crucial problem for the economic progress of Bangladesh. It impedes revenue collection, causes corruption, undermines administrative efficiency, and encourages the shadow economy. Certainly existing research is consistent with the argument that the phenomenon of tax evasion in Bangladesh should be given more emphasis in order to reduce it. However, it will be no exaggeration to say that the issue of tax evasion in Bangladesh still lacks academic research attention. Although the works of Hassan (2011), Rahman, Rahman and Yasmin (2010), Rahman and Yasmin (2008), Sarker and Kitamura (2002) and Chowdhury (1992) touched on the issue in the context of Bangladesh, none of them entirely focused on income tax evasion. Nor have they examined the drawbacks of the entire tax regime of Bangladesh, including tax policy formulation, tax policy implementation and compliance, which might create scope for tax evasion. Hasan (2011) has primarily calculated the size of shadow economy in Bangladesh. Rahman and Yasmin (2008) have analysed the non-compliance issue of the Self-Assessment System. Sarker and Kitamura's (2002) aim was to examine technical assistance in the fiscal policy and tax administration of Bangladesh. Chowdhury's (1992) area of research was on customs evasion. Therefore the importance of conducting an exhaustive study on income tax evasion in the context of Bangladesh is paramount. Moreover, the relationship between tax evasion and corruption should be examined, since both have a serious impact on the politics, bureaucracy and businesses of Bangladesh.

### **2.5.1 High Profile Cases of Tax Evasion in Bangladesh**

Some examples of tax evasion in Bangladesh are highlighted here to show the pervasiveness of this economic crime. It is important to note that most of the cases of tax evasion in

Bangladesh were detected, as well as publicly reported, during the anti-corruption and anti-tax evasion movement in 2007-2008 by the then caretaker government and backed by the army. The news that the former Prime Minister and the leader of the Bangladesh Nationalist Party (BNP), Begum Khaleda Zia, was summoned to appear in court for tax evasion allegations has revealed the reality of her government (ABC News 2007; AsiaNews.it 2007). Her eldest son, Tarique Rahman, has also been charged with tax evasion (*Daily South Asian Free Press* 2008). The NBR has filed a case against a detained former Health Minister for evading over Taka 63 *lakh* from 1995 to 2005 (*The Daily Star* July 28, 2008a). A former Parliament Member of the Bangladesh Nationalist Party has also been convicted of tax evasion and sentenced to five years' hard labour under section 166 of the Income Tax Ordinance 1984 for evading tax and three years ordinary jail under section 165 of the same ordinance for providing false information and concealment of wealth and property (*Bangladesh News* 2007).

## **2.6 THE RELATIONSHIP BETWEEN CORRUPTION AND TAX EVASION**

Corruption and tax evasion are certainly two major problems globally. They impede socio-economic progress in developing countries and erode the welfare programmes of developed countries (Julius 2006). As a result, corruption and tax evasion have caused growing concern among international, regional, non-governmental and watchdog organisations. These two economic crimes sometimes complement and sometimes substitute for one another, depending on the situation and economic condition of a country. It is worth mentioning here that a significantly large body of literature has attempted to examine the complex relationship between tax evasion and corruption from various points of view (e.g., Budima 2006; Fjeldstad & Tungodden 2003; 2001; Uslaner 2003; Marjit, Mukherjee & Mukherjee 2000; Sanyal, Gang & Goswami 2000; Hindriks, Keen & Muthoo 1999; Flatters & Macleod 1995; Chander & Wilde 1992).

Although the short-term positive impacts of fiscal corruption on enhancing revenue collection is evidenced in some tax literature, most of the literature has shown the long-term devastating effects of corrupt activities by tax officials on revenue collection, taxpayers' trust and motivation, and the overall legitimacy and governance of the state. Corruption and tax evasion are significantly interrelated and reinforce each other in causing detrimental effects on government finances, growth and wealth distribution (Litina & Palivos 2011). Corruption in tax administration is quite a common characteristic of developing countries where tax

officials are significantly low paid, the monitoring system is inefficient, and the taxation system is complex, primitive and manually operated. Studies carried out in developing countries report that half or more of the taxes that could be or should be collected remain untraced by government treasuries due to corruption and tax evasion (e.g., Krugman, Alm, Collins & Remolina 1992; Bird 1992; 1990; Alm, Bahl & Murray 1991).

Flatters and Macleod (1995) have presented a framework showing the collusion between taxpayers and tax collectors in the developing countries. They have identified three agents: the Minister of Finance (or government or president) who sets the revenue target; the collector who collects the revenue for the Minister of Finance; and the taxpayer who pays the tax to the collector. The last two agents might be directly involved in corruption and tax evasion whereas the first agent might indirectly take part by not formulating proper laws and policies. In the case of developing countries, they argue, income tax collectors might overlook certain sources of income or allow overclaiming of various expenses incurred in earning it in return for bribes from taxpayers. The consequence of this malpractice is described by Flatters and Macleod (1995, p. 398) as follows:

This sort of corruption manifests itself in developing countries in a number of standard ways: there is considerable underpayment of taxes; tax revenue agents, despite low official incomes, are able to accumulate significant amounts of wealth while in office; and potential tax agents are often willing to make sizeable side payments to secure employment in the revenue department. Despite such widespread and widely acknowledged corruption, prosecutions of corrupt revenue agents are rare, and penalties are seldom more severe than job dismissal. Delinquent taxpayers are practically never prosecuted.

This is an accurate description of fiscal corruption in developing countries primarily in the area of tax evasion. Although examples and evidence of this kind of underground activity and illegal payments (often referred to as ‘under the table payment’ in developing countries) can be difficult to detect and prove, there is no reason to doubt the existence of these practices.

The impact of corruption and tax evasion is examined by Hindriks, Keen and Muthoo (1999). They (1999, p. 397) identify negative impacts of the two phenomena, including the following:

- The effect of evasion and corruption in tax collection is unambiguously regressive since the richest have most to gain from evading their high proportion of due taxes and are less vulnerable to extortion.
- The poor on the other hand is more vulnerable to corruption since they have few taxes to evade and they might be victimised and over-reported by the corrupt collectors.

- In order to reduce corruption and implement honesty in progressive taxation, government may offer commissions to the tax inspectors on high income report. Nonetheless, financing this commission might create a trade-off between equity and efficiency objectives.

Sanyal, Gang and Goswami (2000) have suggested that government may suffer from net revenue loss due to a corrupt tax regime. In the case of pervasive evasion and collusion between the agent-taxpayers and tax officers, it is more likely that government will attempt to prevent revenue leakage by either wider auditing or higher tax rates or both (Sanyal, Gang & Goswami 2000). The ultimate result, however, will be further revenue loss to the government and enhanced scope of corruption.

While analysing factors in tax evasion, Obid (2004) has examined the effect of corrupt tax administration on tax compliance. She points out that the poorly paid and low morality tax official might tend to maximise personal benefit by colluding with the taxpayers in utilising the complexities of the tax system and the inadequate resources of the tax administration. She further argues that corrupt acts negatively affect the equity and fairness of the tax system and the efficiency of the tax administration.

Summing up, on the basis of the literature surveyed, it can be argued that corruption and tax evasion are complex matters and closely related. They are significantly pervasive in developing economies. Perhaps no tax administration is absolutely free from corrupt practices (Muten1981). The illicit practice of government officials is not the only reason for tax evasion. Rather it is carried out by dishonest collaboration between government authorities and the private sector. The private sector, including individuals, business societies, and national and multinational corporations, seeks to evade income tax by hiding real income and profit. In order to do so, they bribe government officials of the taxation department. Thus both the groups benefit by depriving the government of its proper revenue, which ultimately deprives the people as a whole. Tax evasion means the violation of taxation law or committing a crime by taxpayers to reduce the volume of his or her tax liabilities (Broladze 2012). To reduce or hide genuine tax liabilities, taxpayers seek the cooperation of the relevant tax authorities. These tax authorities try to gain personal benefit by exploiting the taxpayers. Therefore tax evasion can be termed a form of corruption which draws in both tax officials and taxpayers.

The impacts and effects of the two problems are certainly negative. They create revenue loss for the government exchequer, impede economic progress, cause inefficiency and inequity in

the tax regime, and, most importantly, create dishonesty and distrust in a society. Last but not the least, corruption and tax evasion inspire rent-seeking activities by allowing agents to indulge in self-utility maximisation to the cost of the revenue and society.

## **2.7 THEORETICAL UNDERPINNINGS**

Corbin and Strauss (2008, p. 39) have acknowledged the importance of applying a theoretical framework in research:

After studying a topic the researcher finds that a previously developed framework is closely aligned to what is being discovered in the researcher's present study, and therefore can use it to complement, extend, and verify the findings.

Based on the extant literature and relevant theories, this study seeks to provide useful insights into analysing corruption and tax evasion issue. In finding appropriate theories for this research, the role and behaviour of politicians, bureaucrats and businesspeople in the political and economic marketplace will be taken into consideration. Moreover, aspects of taxation, including tax rates, penalties and detection of under-reporting will be emphasised.

Because this study examines corruption in Bangladesh with tax evasion as a case, concepts related to the problem were reviewed in the preceding section. The present section aims to focus on the theoretical perspectives of the study. The two phenomena, corruption and tax evasion, because of their severity and pervasiveness across the world, have received considerable research attention. These two topics are much discussed in the fields of sociology, political science, economics, psychology and political economy. Social and behavioural scientists, political scientists, economists and policy analysts have developed a number of theories and approaches to explain and deal with them. It is important to note, as already discussed, that the reasons for and forms of corruption differ from society to society and country to country. Such is the case with tax evasion. Therefore it is also obvious that some theories will fit in analysing corruption and tax evasion of particular societies or countries and some will not. Theories can explain common patterns of social behaviour, but they are not absolute rules or laws (Ezzy 2002). Moreover, theories cannot dictate factual findings; they can only define categories into which findings are to be fitted (Parsons 1938).

For analysing corruption and tax evasion in Bangladesh, this study intends to explore the three processes of the tax regime, including tax policy formulation, implementation and compliance, rather than viewing tax evasion only at a compliance level. Moreover, instead of

centralising focus on taxpayers to deal with the tax evasion phenomenon, this research seeks to discover whether any other actors in the economic and political marketplace play a role.

A number of theories have been developed to explain the policy process including pluralism, structuralism, institutional theory, rational choice theory, and the economic theory of bureaucracy. The economic theory of bureaucracy applies the self-interest assumption of public officials (Hill 2009). Pluralist theorists argue for the equal distribution of power in the decision making process (Dahl 1970; 1958). Structuralist theorists emphasise ‘class structure’ (Marx, cited in Hill 2009) and on the relationship between structure and action, whereas institutional theorists stress the role and creation of institutions such as the legislature, the judiciary, the constitution, and so on (Hill 2009). Rational choice theory analyses the policy process through economics and to some extent mathematics (Hill 2009).

However, none of these approaches match the aims of this thesis, i.e., to examine the political economy of corruption in Bangladesh by selecting tax evasion as a case, while exploring issues relevant to tax evasion and discussing the nexus across politics, bureaucracy, businesses and taxpayers in relation to tax evasion. It is difficult to explain all these phenomena through one single theory. Hill (2009) emphasises the process of moving between theory and evidence, exploring which theories help to explain what happens. In this context, selecting theories from a variety of disciplines seems appropriate to address the diversity and complexity of the research.

Because of the emphasis on three major aspects – tax policy formulation and its implementation and compliance, together with the role of the nexus of policymakers (politicians), bureaucrats (implementers) and taxpayers (including businesspeople) – this study posits the application of a set of relevant theories, public choice, rent-seeking and the Allingham-Sandmo Model (hereafter the A-S Model), as the theoretical basis for assessing the problem in the Bangladesh context. The purpose of this section is to outline the theories as a precursor to stating why they have been chosen for this research. It is important to test theories for a case study in order to strengthen or weaken support for a theory, to narrow or increase the scope of a theory, or to identify which of two or more theories best explain a case (George and Bennett 2005).



### 2.7.1 Public Choice Theory

According to Kemp (1980, p. 270), 'Taxation is above all a political matter. What taxes are to be levied, on whom, and at what rates are among the most important issues any government has to face'. He has further indicated a number of institutions, including elections, political parties, the public service, government agencies and inquires, private organisations, and private groups, which have an interest in tax policies. Issues of taxation are well examined under the rubric of 'political economy'. The school of 'public choice' is the pioneer in examining fiscal issues from a political perspective. Public choice theorists have tried to shed light on institutions of politics which have a direct relationship with taxation. The present study also aims to analyse 'tax evasion', an important issue for the Bangladesh tax regime, from the viewpoints of public choice scholarship.

Public choice emerged as a distinct discipline half a century ago. The revolutionary works of its founding fathers, Kenneth Arrow, Duncan Black, James M. Buchanan, Gordon Tullock, Anthony Downs, William Niskanen, Mancur Olson and William Ricker contributed greatly to developing the theory as a discipline separate from economics and political science. Buchanan and Tullock have been honoured as the intellectual fathers of public choice theory since its development in the 1960s. Their book, *The Calculus of Consent*, published in 1962, is still considered the classic contribution to this theory (Grofman 2004; McNutt 2002; Tollison 1995). In 1986 Buchanan was awarded a Nobel Prize in economics for his leading contribution to the theory of public choice (McLean 1987). Buchanan (1978) has rightly declared that public choice is the practical exercise and expansion of economic theory into the sphere of political and governmental choices.

The school of public choice has primarily concentrated on analysing the operation of democracies, growth of special interest groups and constitutional framework, monetary policy, and budgets. Buchanan and Tullock (1962) have proposed the fundamental principles of public choice theory by explaining the scope of social choice, decision making rules, and the economics and ethics of democracy. They attempt to construct a theory of the political constitution grounded on an analysis of certain rules for collective choice-making, emphasising human behaviour in the political process. Buchanan and Tullock (1962) have challenged the conventional views of political theorists which imply that individuals in the collective choice process do not seek to maximise self-utility. Moreover, they reject the ideological definition of the political process as a struggle between private interest versus

public interest. They (1962) further argue that what politicians or decision makers indicate as public interest is nothing but the aggregation of their self-interest. The reason for this is that politicians and bureaucrats are also self-seeking individuals.

Public choice theory is about the different incentives and processes that operate when goods are sought through political means rather than through purely economic means. The main point is the distribution of costs and benefits. The political appropriation and distribution of goods become attractive since they concentrate benefits for politicians. The theory explains how individual political decision making formulates a policy which conflicts with the overall desire of the general public. According to Buchanan (1972, p. 12):

The critically important bridge between the behaviour of persons who act in the marketplace and the behaviour of persons who act in the political process must be analysed. The 'theory of public choice' can be interpreted as the construction of such a bridge. The approach requires only the simple assumption that the same individuals act in both relationships.

Buchanan meant that political actors are no different to the public. The same person being driven by his or her own needs cannot be expected to perform his or her political role impersonally.

Mueller (1979, p. 1) explains public choice theory as follows:

The economic study of nonmarket decision making, or simply the application of economics to political science. The subject matter of public choice is the same as that of political science: the theory of the state, voting rules, voter behaviour, party politics, the bureaucracy, and so on. The methodology of public choice is that of economics, however. The basic behavioural postulate of public choice, as for economics, is that man is an egoistic, rational, utility maximizer.

In line with Muller's definition, it can be argued that public choice theory examines the issues of political science by applying the methodologies of economics, while emphasising the most fundamental aspect of human behaviour, which is self-maximisation.

Public choice focuses on the process of policy making and policy implementation. One of the most significant aspects of public choice theory is that it discusses the decision making process in democracy, which was for long period abandoned by economists. It pays special attention to the non-democratic culture of government and its stakeholders who, as individuals, possess and promote their 'own private ends and ambitions' (Tullock 1965, p. 32). In this regard, Downs (1957) argues that every individual is not only rational but also selfish. He further asserts that rational behaviour basically tends to selfishness. Breton (1978)

contends that politicians and bureaucrats seek to maximise power. They complement, contribute to and co-operate with each other in formulating and implementing a huge number of public policies which mostly benefit their own welfare. The policy preferences of politicians and bureaucrats are explained by Breton (1978, p. 60) in this way: (i) between the alternative bundles of policies that increase total power, they will prefer the ones in which their share of power (i.e., their marginal product) is the largest; and (ii) between the alternative bundles of policies on which they can 'spend' that marginal product, they will prefer those that yield the highest utility to themselves. He has further argued that bureaucrats are more interested in their personal welfare as bureaucrats than for their satisfaction as citizens. According to Breton, citizens can influence the production of their preferred public policies by participating in the activities of lobbies or pressure groups, signing petitions, joining social and political movements, offering bribes, and extending or withholding support from the governing party.

In line with public choice theory, Downs (1957) has developed a fundamental hypothesis regarding the role of political parties as entities formulating policies in order to win election.

Buchanan (1978, p. 14) denotes the 'political business cycle' as 'the alleged attempt by politicians in office to create economic conditions timed so as to further their own electoral prospects.' This means that politicians manipulate economic conditions in order to ensure their re-election. Frey (1978, pp. 96-97) provides an example of a business cycle when a government intending to maximise votes at the election time undertakes such policies as will increase income and employment opportunities as the election approaches (voters will take advantage of the high income scope). According to Buchanan (1969), as human beings, bureaucratic decision makers are utility maximisers in pursuing their own gains.

Buchanan (1993) has contended that modern democratic politics compels the individual parliamentarian to take decisions which contradict the 'public interest' and if he or she does not follow that path, it will be difficult for him or her to survive in the electoral system. Buchanan has further explained that political actors are easily motivated by the political process to ignore the public interest, as they are inspired by self-interests. As a consequence, the '*nirvana*' model of Weberian bureaucracy, i.e., the impartial, efficient service by government officials who strive to serve the public interest and be directed by their elected government, is challenged by public choice scholarship since the 1960s (Rowley and Elgin 1988). McLean further argues (1987) that politicians seek the support, specialised knowledge

and skill of various interests or lobby groups and therefore in return they need to listen to their opinions when formulating policies. Hence lobby power plays an influential role in shaping the policy agenda.

### ***Public Choice Theory and Tax Policy Formulation***

Public choice theorists have contributed significantly to understanding the role of individual parliamentarians and bureaucrats in the policy formulation and implementation processes and a large volume of publications is available linking public choice theory to public administration and public finance, including tax policy and reforms (e.g., Mbaku 2008; Buchanan & Musgrave 1999; Hettich & Winer 1999; 1997; Boyne 1998; Hunter & Nelson 1995; Mucciaroni 1990; Buchanan 1987a; Lovrich & Neiman 1984; Buchanan & Wagner 1978). Hettich and Winer (1997) state that taxation offers a testing ground for public choice theory since a number of analytical questions and quantitative data can be gathered from taxation.

Buchanan argues that discriminatory politics wastes resources in rent-seeking in order to get particular favours in the form of a tax exemption for own industry or a special spending program for their own district, industry or profession (The Region 1995). The public choice approach supports flat tax rates (every dollar of income being taxed), instead of a progressive rate. Buchanan (2003) has indicated the need for analysing taxes and spending from the perspective of empirical reality and politics as the primary reason behind his involvement in the discipline. He further point out that public choice explains why bureaucracies are likely to cross their limits and break functional promises; why pork-barrel politics controls legislators; why a direct relationship arises between the whole government and the investments securing special concessions from that government; and why the tax regime is overwhelmed by the growing number of special credits, exemptions, and loopholes.

If a tax policy serves the political purpose of satisfying some special groups, politicians will not be concerned about mass dissatisfaction with the policy or the welfare of the society or state. The apparent ignorance or complacency of the majority of citizens about such matters allows politicians to indulge in this kind of activity. Buchanan and Wagner (1977) have argued that citizens generally do not have complete knowledge of how they are personally affected by changes of fiscal instruments.

In relation to tax evasion from a public choice perspective, Downs (1957, p. 16) opines that ‘since every man enjoys the benefits of every government act, no matter who pays for it, each man is motivated to evade paying himself’.

Public choice theory reveals a distinctive aspect of politics and bureaucracy which is implicitly and explicitly applicable to analysis of fiscal policy as well. In this context, the present study seeks to apply public choice theory to the tax policy formulation process of Bangladesh in order to analyse why and how political actors and bureaucrats formulate different tax policies which may leave room for tax evasion.

### **2.7.2 Rent-Seeking Theory**

Rent-seeking theory is an important theory dealing with the behavioural patterns and economic rationale of individuals or institutions seeking benefits from the market. Rent-seeking theory was first systematically discussed by Tullock in 1967 (Congleton 2004; Mueller 2003; 1989; 1979; Tollison 1995; Rowly & Tullock 1988; Buchanan 1987b). However, the specific term ‘rent-seeking’ was first introduced in 1974 by Anne O. Krueger (Mueller 2003; 1979; 1989; Tollison 1997; Rowly & Tullock 1988; Buchanan 1987b). Since then, a considerable volume of literature has been published on rent-seeking theory. Krueger (1974, p. 291) describes it in the following manner:

In many market-oriented economies, government restrictions upon economic activity are pervasive facts of life. These restrictions give rise to rents of a variety of forms, and people often compete for the rents. Sometimes, such competition is perfectly legal. In other instances, rent seeking takes other forms, such as bribery, corruption, smuggling, and black markets.

Krueger (1974) contends that competitive rent-seeking occurs in a divergence between the private and social costs of certain activities, which is very much evident in developing countries. According to Krueger, 7% of Indian gross national product (GNP) was wasted in rent-seeking. Khan and Sundaram (2000) point out ‘bribing’ as a rent-seeking activity. Bribery for securing a government license or government job is an example of rent-seeking. Tullock (1967) observes that, in a political contest between two or more rivals seeking some prize from government, all rivals invest much money and energy in the contest to cut up the government pie, which produces nothing but does raise the probability of winning. This wastage of activities is called rent-seeking. Rent-seeking is an activity that uses resources wastefully to increase personal income or personal benefit (Hilman 2003; Tullock 1984).

According to Laband and Sophocleus (1988), rent-seeking generates negatively-valued social product by investing economic resources to manipulate redistributive outcomes that favour the investor. Tollison (1997) reports that rent-seeking refers to socially costly transfers of wealth.

### ***Basic Concepts of Rent-Seeking Theory***

Buchanan (1980, pp. 12-14) identifies three types of socially wasteful activities which belong to rent-seeking expenditure:

- 1) The efforts and expenditures of the potential recipients of the monopoly;
- 2) The efforts of the government officials to obtain or to react to the expenditures of the potential recipients; and
- 3) Third-party distortions induced by the monopoly itself or the government as a consequence of the rent-seeking activity.

Supporting Buchanan, Mueller (2003) provides examples of rent-seeking activities such as employing lobbyists by any firm to bribe government officials in order to get special benefit, the expenditure of interest groups to earn extra facilities, and government officials' efforts to reach positions which ensure that they receive extra income in the form of bribes or kick-backs. Discussing the rent-seeking model, Mueller (2003, p. 386) states that '...politicians buy and sell legislation to interest groups. The legislature is a marketplace at which rents are bought and sold'. Following Mueller's view, it is important to analyse why politicians buy and sell legislation or policies to interest groups. Is there any nexus among them? What kind of legislation is being bought and sold? Are tax policies attractive for this trade off? This study argues that, in the case of tax policy formulation in Bangladesh, there exists a nexus among the political actors and various interest groups. This study also adds bureaucrats and businesspeople to this nexus. The reason behind the nexus, according to this research, is that corruption and tax evasion are rent-seeking activities.

### ***Rent-Seeking Theory and Tax Policy Implementation***

Tax evasion is a form of rent-seeking since it causes social loss through the use of government resources and time (Hilman 2003). Ekelund and Tollison (1984) have noted that rent-seeking behaviour was observed in the early French economy due to the difficulties of tax collection and the ease of tax evasion.

Palda (2001) explains tax evasion through the rent-seeking approach, using an example of a firm aiming to evade taxes and gain competitive advantage over its rivals. He argues that the firm attempts to convince and motivate the relevant government official to audit and inspect a rival firm, and it persuades the official not to scrutinise its own lapses. Although the government official has a revenue budget to collect, he has the option of raising the sum from either of the firms. Now to which firm the official turns a blind eye and which firm is penalised depends on how powerfully and efficiently each competes for the favour of the official (Palda 2001). This ‘competition of the firms’ and ‘favour of the official’ is of course a corrupt practice which deprives the government of collecting revenues and rewards the corrupt official and firm for personal benefit.

Tanzi (1994) argues that corruption in taxation destroys economic efficiency. According to him, taxpayers who bribe tax authorities get special treatment and are able to reduce or evade their tax liability. In the case of tax evasion, taxpayers and government officials form an unholy nexus. Favouritism and corruption spoils the neutral aspect of a tax system by providing undue competition for some individuals, firms or companies over their competitors (Tanzi 1994). Needless to say, in this rent-seeking corrupt game, the loser is the government.

From a definitional point of view, what is referred to as the corrupt practice of a public servant (hence a tax official) can be considered as tax evasion by a taxpayer. It can further be argued that both the dishonest tax official and the taxpayer are rent-seekers. Their rent-seeking activities divert government time (effort and time spent bargaining) and public money (tax) in a socially wasteful (bribe) sector (or black economy). It is apparent from the above discussion that rent-seeking theory is appropriate for examining corruption. In this respect, the present thesis aims to employ rent-seeking theory in the tax policy implementation stage in Bangladesh when investigating corruption in the tax administration.

### **2.7.3 The A-S Model**

One of the most fundamental contributions to the taxation literature is that of Michael G. Allingham and Agnar Sandmo in their theoretical analysis of the individual taxpayer’s decision on whether and to what extent to evade taxes by deliberately underreporting income (Allingham & Sandmo 1972). They have developed a model in 1972 which is still considered a pioneer work in the field of analysing the influence of tax rates and the probability of detection, penalty, and punishment on a taxpayer’s decision to evade tax.

The A-S model has identified two options available for an individual taxpayer:

The taxpayer has the choice between two main strategies: (1) He may declare his actual income. (2) He may declare less than his actual income. If he chooses the latter strategy his payoff will depend on whether or not he is investigated by the tax authorities. If he is not, he is clearly better off than under strategy (1). If he is, he is worse off. The choice of a strategy is therefore a non-trivial one (Allingham & Sandmo 1972, p. 324).

In explaining the model, Allingham and Sandmo (1972, pp. 326 & 330) have developed a set of behavioural and economic rationalist assumptions:

- 1) ...the taxpayer will declare less than his actual income if the expected tax payment on undeclared income is less than the regular rate.
- 2) ...an increase in the tax rate makes it more profitable to evade taxes on the margin.
- 3) ...an increase in the penalty rate will always increase the fraction of actual income declared.
- 4) ...an increase in the probability of detection will always lead to a larger income being declared.

In addition to these assumptions, the A-S model has also assumed that the possible type of penalty, i.e., in the form of a jail sentence and/or the taxpayer's reputation as a citizen in the community may also influence the decision on tax evasion. They further suggested that the tax rates, the penalty rates and the probability of detection are the effective policy measures for a government to check tax evasion.

### ***The A-S Model and Tax Policy Compliance***

This study intends to apply the A-S model in the case of the tax evasion issue of Bangladesh in order to empirically explore the perceptions, views and opinions of taxpayers about the relation between tax evasion and tax rates, and the probability of detection, penalty and punishment.

## **2.8 CONCEPTUAL FRAMEWORK**

The extant literature and the theoretical underpinnings as illustrated above provide necessary guidance in preparing a conceptual framework for the study.

The importance of developing a conceptual framework has been emphasised by As-Saber (1999, p.138):

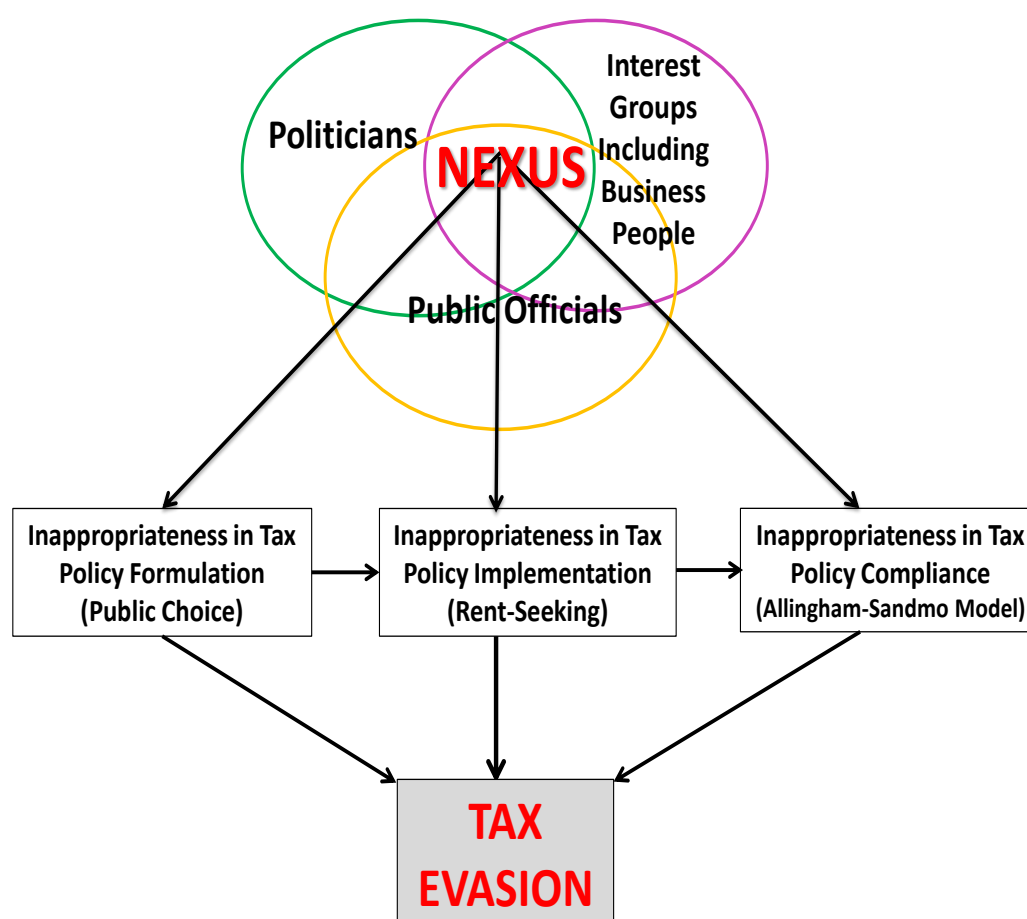
Establishing a conceptual framework is important because at the initial stage of the research, it helps to specify what will be studied. In addition, it encourages the identification of variables



which are relevant to the study, likely relationships among them, and the nature of information to be collected.

On the basis of extant literature and other available information reviewed in this chapter, a conceptual framework has been developed for the study (see Figure 2.1). The framework shows that inappropriateness in the three processes of tax regime, viz., tax policy formulation, its implementation and compliance, may be responsible for the rampant tax evasion in Bangladesh. In addition, the framework indicates a possible corrupt nexus among major actors, including politicians, public officials, and businesspeople across the three processes which might contribute tax evasion. While analysing corruption and tax evasion issues, this study applies a set of theories: public choice, rent-seeking, and the A-S model, as shown in the following framework.

**Figure 2.1 A Framework of Tax Evasion in Bangladesh**



The framework shows the interactions of the actors (politicians, public officials and other interest groups including businesspeople) across tax policy formulation, implementation and compliance processes.

### 2.8.1 Tax Policy Formulation

The National Parliament is responsible for any kind of national policy formulation in Bangladesh, including financial policies and bills. According to Article 83 of the Constitution of Bangladesh, ‘No tax shall be levied or collected except by or under the authority of an Act of Parliament’ (Constitution of Bangladesh, Government of Bangladesh 2010).

However, the tax policy formulation of Bangladesh suffers from various weaknesses (Mansur, Yunus & Nandi 2011). On occasion tax policy formulation reflects the self-interested behaviour of the policy makers. Hence, the continued formulation of tax amnesty policy can be cited as an example of using tax policy as a political instrument. Since independence, most governments in Bangladesh have provided tax evaders with the opportunity to make their untaxed black money legal by formulating special income tax provisions during the budget session. More specifically, during the final year in office, each elected government does not miss the chance to declare the tax provision of making ‘black’ money ‘white’, which satisfies its interest groups and helps ensure victory in the next election. As an instance, during the financial year 2005-2006, the incumbent government of the Bangladesh Nationalist Party (BNP) passed a provision allowing black money holders the opportunity to ‘cleanse’ their money by paying only 7.5% tax on undeclared or hidden money whereas a ‘white’ earner had to pay 10% or more in the same year (*News From Bangladesh* June 11, 2005b; May 19, 2005a). It is a matter of surprise that the Finance Minister, on several occasions during the financial year 2005-2006, promised that he would no longer allow black money holders to make their money legal (*News From Bangladesh* June 13, 2005c; May 19, 2005a). The speeches and acts of law makers show the trend of corrupt politics in Bangladesh. The financial year 2005-2006 was not the first time this opportunity was offered to black money holders. It was initiated by the first Prime Minister of independent Bangladesh, Sheikh Mujibur Rahman, continued by Lieutenant General Hossain Mohammad Ershad, stopped on one occasion by Prime Minister Begum Khaleda Zia in 1992 and again started by Prime Minister Sheikh Hasina in 1997 (Adhikari 2009; *News From Bangladesh* June 29, 2005d; June 13, 2005c; June 11, 2005b). In addition to provisions for making black money legitimate, sometimes governments provide tax-holiday facilities to businesses and companies who then misuse them (Bangladesh Budget Watch 2009). Thus it can be argued that, instead of punishing tax evaders, policy makers tend to reward them by formulating laws and provisions in favour of them.

## **2.8.2 Tax Policy Implementation**

The public officials of the NBR, under the MOF, are responsible for implementing tax policies. The tax officials enjoy discretionary powers provided by the Income Tax Ordinance 1984 of Bangladesh (see *Income Tax Manual Part-1*, 2009). Therefore they have the scope to misuse the official power entrusted to them. Some tax officials indulge in corruption and seek to maximise their expected utility through a combination of total salary, wages and bribes. They have two options when implementing tax policies. Either tax officials may properly implement tax policies and collect revenues that are due; or they may turn a blind eye to taxpayers when assessing and auditing their incomes. Taxpayers may escape their legal obligation of paying taxes or being audited through negotiating with tax officials. Hence, bribery, a common aspect of corruption in Bangladesh, plays the crucial role.

## **2.8.3 Tax Policy Compliance**

The Income Tax Ordinance 1984 is the basis of income tax law and rules in Bangladesh. According to the Ordinance, there are seven heads of income on which tax is levied, including salaries, interest on securities, income from house property, agricultural income, income from business or profession, capital gains and income from other sources (*Income Tax Manual Part-1*, 2009). Therefore, any person who has income from any of the above-mentioned sources has to comply with the taxation department and file an income tax return if his or her total income during the income year exceeds the maximum amount which is not chargeable to tax under this Ordinance. The Ordinance classifies a person as an individual, a firm, an association of persons, a Hindu undivided family, a local authority, a company and every other artificial juridical person (*Income Tax Manual Part-1*, 2009).

Although the income tax law and rules have clearly stated who has to pay taxes and who not, in practice very few people comply with their legal tax obligation in Bangladesh (see Chapter I). The ratio of taxpayers to total population is significantly low in Bangladesh, indicating the presence of pervasive tax evasion. A number of those eligible to pay taxes remain out of the tax net and do not register for a taxpayer identification number (TIN). Indeed, some who do possess TINs might still evade taxes by not complying with tax authorities or by paying less than the actual amount due. Hence it may be assumed that dishonest taxpayers make an arrangement with dishonest tax authorities in evading taxes.

Based on the above discussion, it may be argued that there exists a nexus between interest groups, including businesses and politicians, which affects the role of the bureaucracy and ultimately results in tax evasion.

Links between the three theories and tax policy formulation, implementation and compliance in the context of Bangladesh may be tabulated as shown in Table 2.5.

**Table 2.5 Links between Theories and Tax Policy Formulation, Implementation and Compliance**

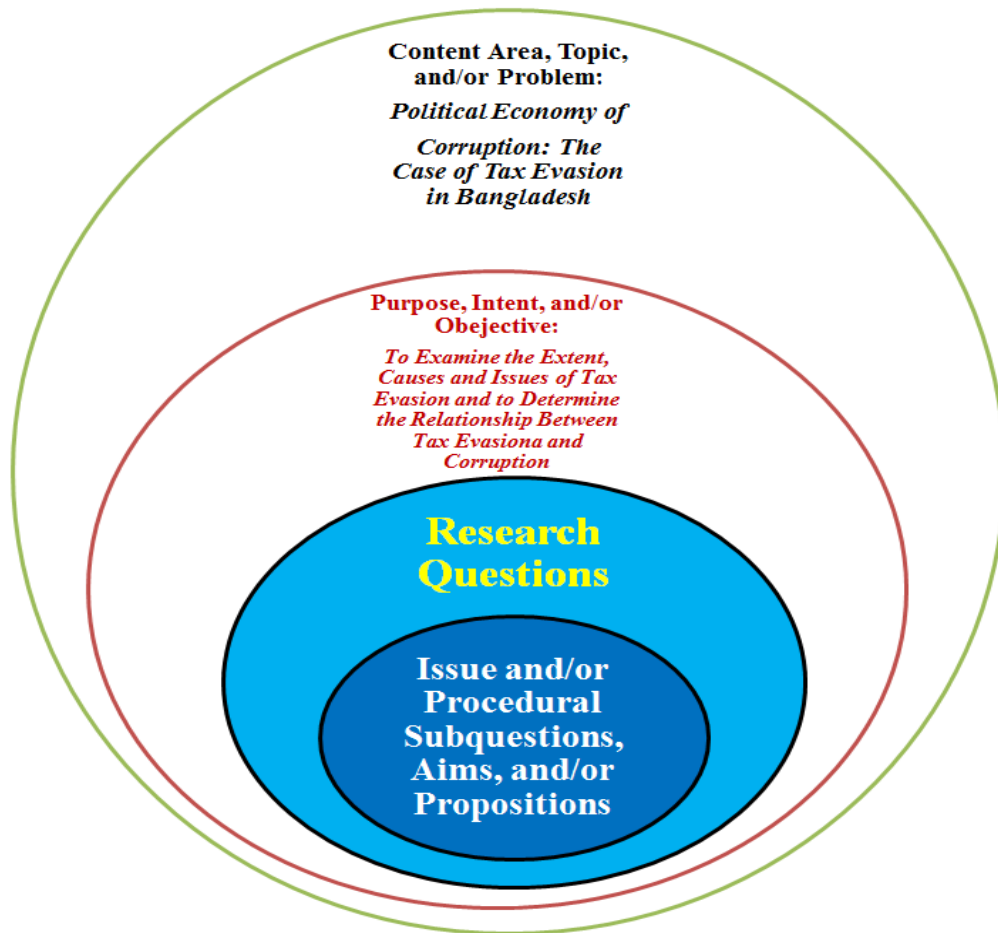
<b>Public Choice Theory</b>	<b>Tax Policy Formulation</b>
Self-interested behaviour of politicians	Politicians formulate tax policies which serve their self-interest
<b>Rent-Seeking Theory</b>	<b>Tax Policy Implementation</b>
Bribe-taking as a rent-seeking activity	Tax officials seek bribes in order to earn above their normal income
<b>A-S Model</b>	<b>Tax Policy Compliance</b>
Increase in the probability of detection and penalty deters tax evasion	Taxpayers feel free in evading taxes because of less probability of detection and an insignificant penalty

## 2.9 RESEARCH QUESTIONS

Research questions focus on what the researcher seeks to know and examine through conducting research, as Miles and Huberman assert (1994, p. 23), ‘The questions represent the facets of an empirical domain that the researcher most wants to explore’. Moreover, research questions mirror the central argument of a thesis. As-Saber (1999) has noted that research questions summarise the conceptual framework and indicate the boundary or operational guideline of the analysis. Similar to the conceptual framework, the research questions derive from the extant literature (Eisenhardt 1989).

This is a study of corruption and tax evasion issue in Bangladesh. Accordingly, the three key elements of the present study include the content area, the purpose of the study and the research questions, as illustrated in the following figure.

**Figure 2.2: Focusing the Study from the Topic to Research Questions**



Source: Adapted from Clark and Badiee (2010, p. 279).

Based on the extant literature, theoretical approaches and conceptual framework, this research has framed the following research questions:

### **Primary Question**

RQ1 What is the nature of the problem of tax evasion in Bangladesh?

### **Subsidiary Questions**

RQ 1.1 What are the major issues contributing to the rampant tax evasion in Bangladesh?

RQ 1.2 Is there any nexus among politicians, public officials and other interest groups, including businesspeople, that facilitates tax evasion? If so, how does it work?

Hence, the primary research question of the study represents the broader perspective of the research while the subsidiary questions narrow down the larger question, focusing on the specific issues to be inquired into.

## **2.10 RESEARCH PROPOSITIONS**

Propositions assist identifying the relevant information about the case to be studied (As-Saber 1999). A set of propositions has been developed for the present study based on the theoretical underpinnings, the conceptual framework, the research questions, the extant literature and other available information. The proposition set will direct attention to the sphere of inquiry that requires answers within the domain of the present study (Yin 1989).

Based on the extant literature and relevant theoretical underpinnings, therefore, the following propositions are considered:

**Global Proposition P:** *The extent of tax evasion in Bangladesh is pervasive in nature because of the inappropriate formulation, implementation and compliance of the tax policy and the involvement of politicians, public officials, and other interest groups, including businesspeople, in evading tax.*

**General Proposition P1:** *Inappropriateness of all three levels of the taxation regime, including tax policy formulation, its implementation, and its compliance, contribute to rampant tax evasion in Bangladesh.*

**Sub-PropositionP1.1:** *The manner in which the tax policy is formulated leaves room for tax evasion.*

**Sub-PropositionP1.2:** *The manner in which the tax policy is implemented leaves room for tax evasion.*

**Sub-PropositionP1.3:** *The manner in which the tax policy is complied with leaves room for tax evasion.*

**Table 2.6 Matrix of Propositions and Verifiable Indicators (1)**

<b>Propositions</b>	<b>Verifiable Indicators</b>
<b>P1.1.</b> The manner in which the tax policy is formulated leaves room for tax evasion.	(i) Research, specialisation and reform in tax policy formulation (ii) Participation, opinion and vision (iii) Shortcomings of income tax laws and policies
<b>P1.2.</b> The manner in which the tax policy is implemented leaves room for tax evasion.	(i) Institutional weaknesses in tax administration (ii) Lack of professional support for the tax officials (iii) Behavioural aspects of the tax officials and corruption in tax administration
<b>P1.3.</b> The manner in which the tax policy is complied with leaves room for tax evasion.	(i) Ethical and behavioural aspects (ii) Financial condition of the taxpayers (iii) Fairness in the tax regime (iv) Absence of taxpayer services (v) Complexities in tax regime (vi) Tax rate, penalty, and enforcement (vii) Tax amnesty and black economy

**General Proposition P2:** *Tax evasion in Bangladesh is considered to be the outcome of a nexus of three different actors: politicians, public officials, and other interest groups, including businesspeople.*

**Sub-PropositionP2.1:** *The nexus of three actors (politicians, public officials, and other interest groups, including businesspeople) contributes to the tax policy formulation process, which is often aimed at facilitating tax evasion.*

**Sub-PropositionP2.2:** *The nexus of three actors (politicians, public officials, and other interest groups, including businesspeople) contributes to the tax policy implementation process, which is often aimed at facilitating tax evasion.*

**Sub-PropositionP2.3:** *The nexus of three actors (politicians, public officials, and other interest groups, including businesspeople) contributes to the tax policy compliance process, which is often aimed at facilitating tax evasion.*

**Table 2.7 Matrix of Propositions and Verifiable Indicators (2)**

<b>Propositions</b>	<b>Verifiable Indicators</b>
<b>P2.1.</b> The nexus of three actors (politicians, public officials, and other interest groups, including businesspeople) contributes to the tax policy formulation process, which is often aimed at facilitating tax evasion.	(i) Nexus of different actors in the tax policy formulation process (ii) Influence of the interest groups and party donations in tax policy formulation process
<b>P2.2.</b> The nexus of three actors (politicians, public officials, and other interest groups, including businesspeople) contributes to the tax policy implementation process, which is often aimed at facilitating tax evasion.	(i) Nexus of interest groups in the tax policy implementation process
<b>P2.3.</b> The nexus of three actors (politicians, public officials, and other interest groups, including businesspeople) contributes to the tax policy compliance process, which is often aimed at facilitating tax evasion.	(i) Nexus among politicians, tax authorities and taxpayers (ii) Nexus among tax officials, tax agents, and taxpayers

Hence, sub-propositions P1.1, P1.2 and P1.3 will determine the institutional and behavioural aspects of the three processes of Bangladesh tax regime, including tax policy formulation, its implementation and compliance, while sub-propositions P2.1, P2.2, and P2.3 will analyse the involvement and influence of the three main actors in the tax regime, including policy makers, public officials and interest groups, including businesspeople.

## **2.11 CHAPTER SUMMARY**

This chapter is a detailed review of the extant literature and theoretical underpinnings relevant to this research. An attempt has been made to highlight the existence of corruption in the past and present, identify the actors behind corrupt practices, and examine the effects of corruption. The extant literature has shown that developing countries are mostly affected by corruption and tax evasion. Bangladesh, in this regard, reflects a dismal picture, being one of the most corrupt countries in the world.

Based on the extant literature on tax evasion, this chapter sheds light on the extent of and the usual causes and issues of the problem and the case of tax evasion in Bangladesh.

The available literature suggests that the majority of potential taxpayers in Bangladesh indulge in tax evasion, including a former prime minister, a finance minister, and many other MPs, public officials and prominent businesspeople. Despite the severity of the problem, the causes, issues surrounding and consequences of tax evasion in Bangladesh have not yet been substantially identified and researched.



The literature on the relationship between corruption and tax evasion has also been reviewed. Scholarly works have shown that the two phenomena are closely related. Tax evasion and corruption in tax administration can simultaneously occur when taxpayers are willing to pay bribes to escape due payment of taxes or to not pay taxes at all and tax collectors are willing to accept bribes in return for overlooking such tax evasion. This is the most common aspect of tax regimes in developing countries, including Bangladesh.

This chapter also presents the theoretical underpinnings for the thesis. Based on the extant literature and background of Bangladesh's political economy, three theories seem to best fit the present study: public choice theory, rent-seeking theory, and the A-S model. Public choice theory has been selected to examine the tax policy formulation process. A central proposition of public choice theory is that human beings, by nature, are self-interested and utility maximisers. In this empirical study, the emphasis has been on examining the behaviour of policy makers as rational utility maximisers, which is stressed by the theory.

Rent-seeking theory shows how public resources are wasted in rent-seeking activities. Hence, corruption and tax evasion can be cited as two major examples of rent-seeking. Government officials indulge in corruption by misusing their official power. In the case of corruption in tax administration and tax evasion, two agents, i.e., corrupt tax officials and dishonest taxpayers, engage in a game to seek bribes and evade tax payments. Thus they create rent-seeking activities. Ultimately the government exchequer loses revenue due to this rent-seeking by tax officials and taxpayers. Focusing on this assumption, this research utilises rent-seeking theory at the tax policy implementation level of Bangladesh.

Another important theoretical explanation of tax evasion is the A-S model. This model emphasises that individual taxpayers are basically risk-averse. Therefore a high probability of detection and high rate of penalties will deter tax evasion. Conversely, according to the model, a high tax rate will encourage tax evasion. The present study seeks to examine the A-S Model in the case of tax policy compliance in Bangladesh.

Based on the theoretical underpinnings and extant literature, a conceptual model has been developed in this chapter. The model sets out the possible actors in tax evasion. This study assumes that there have been three actors in fiscal corruption and tax evasion, viz., politicians, public officials, and interest groups, including businesspeople. The nexus and interactions

between the actors have been illustrated in the tentative framework. In addition, a set of propositions for the research are framed in the chapter.

## **CHAPTER III RESEARCH DESIGN AND METHODOLOGY**

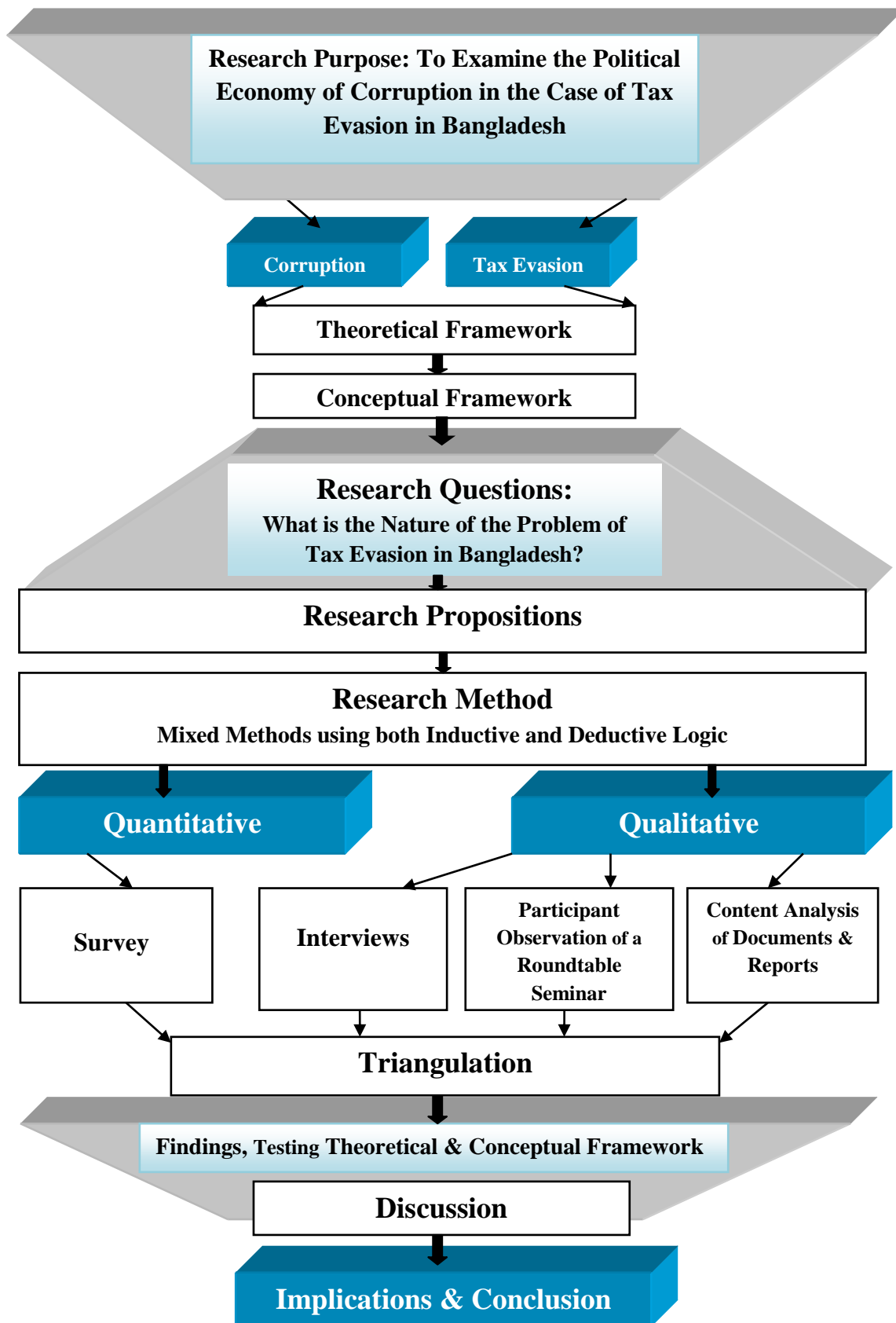
...it seems clear that research is actually more a craft than a slavish adherence to methodological rules. No study conforms exactly to a standard methodology; each one calls for the researcher to bend the methodology to the peculiarities of the setting (Miles & Huberman 1994, p. 5).

### **3.1 INTRODUCTION**

This chapter describes the research design and methodology applied in this empirical study. The objective of this chapter is to discuss and justify the method followed in this research to answer the primary and subsidiary research questions posed in Chapter II. This chapter describes the data collection, interpretation and analysis. Furthermore, it constructs a bridge between the chapter dealing with the literature and the chapters reporting research findings and analyses.

The overall research design for the study is illustrated in Figure 3.1. The Figure shows the major steps of the entire research process from the research purpose to the conclusion.

Figure 3.1 Design of the Research



### **3.2 NATURE AND APPROACH OF THE STUDY**

The nature of the study is empirical and exploratory, based on data collected from both primary and secondary sources. Case study as an empirical approach has been chosen since it ‘investigates a contemporary phenomenon in-depth and within its real-life context’ (Yin 2009, p. 18).

The main objective of this study is to investigate the causes and issues of tax evasion and to determine the relationship between tax evasion and corruption. To achieve the research objective, this study aims to explore the inappropriateness of tax policy formulation, implementation and compliance processes and to discover the nexus between the major stakeholders. The literature on corruption has shown that corruption in different forms and extent can be observed all over the world. In fact, corruption is a global problem. Likewise, the review of the literature on tax evasion has revealed that it is a serious problem in almost all economies, including OECD countries, transitional countries in Europe, and emerging and developing countries in Africa and Asia. However, the mode, forms, causes and issues of corruption and tax evasion vary in accordance with the socio-economic and administrative pattern of each state. Nevertheless, there might be similarities in the causes and issues of tax evasion and corruption among countries with similar economic and regional backgrounds. These issues are again subjective and relative. Therefore, discovering the causes and issues of tax evasion and the relationship between corruption and tax evasion is difficult. Hence the inquiry into tax evasion and corruption in the context of Bangladesh has proved to be more complex due to lack of adequate and relevant literature, data, information, and access to real life context.

It is important to note that investigation of corruption and tax evasion issues in Bangladesh is relatively new. Therefore, conducting an exploratory study on that subject is significant. Babbie (2011) points out that exploratory research is appropriate when a researcher investigates a new area of interest or when the subject of the study itself is relatively new. Although corruption and tax evasion are not new phenomena, as evidenced in the literature, in-depth research linking tax evasion and corruption in Bangladesh is almost non-existent. This exploratory research examines two critical phenomena: tax evasion and corruption. The exploratory study is useful for a better understanding of the underlying issues, to check the feasibility of conducting more exhaustive research, and to develop methods for any further study (Babbie 2011).

An in-depth single-country-based case study research approach has been selected for the research. Two specific questions are important to consider: ‘what is my case?’ and ‘where does my case leave off?’ (Miles & Huberman 1994, p. 25). In order to find answers to these questions, Miles and Huberman (1994) suggest that a researcher might identify a case as a phenomenon that occurs in a bounded context, where the case is the unit of analysis. The researcher has thus identified the tax evasion phenomenon of Bangladesh as the unit of investigation, while the causes, issues and actors of tax evasion are considered as the major areas of inquiry. The boundary of the study is the political economy of corruption.

A case study is the most appropriate tool to study this complex phenomenon since it contributes to knowledge about individual, organisational, social, political, economic and other related phenomena (Yin 2003). According to Hancock and Algozzine (2006), case study research identifies a topic that deals with an in-depth analysis within a natural context, using multiple sources of information. After identifying the topic for study, the researcher sought to collect information about the tax evasion issue from various ministries, boards and commissions of the Bangladesh government, non-government organisations, civil society and professional communities.

Aldridge and Levine (2001) have said that a case study entails a thorough investigation into a specific example of a social phenomenon or institution. Tax evasion is one of the most contemporary and, from ordinary citizens to policy makers, whether they pay or evade their taxes, this issue is of significance, since tax is the main source of internal resource mobilisation for Bangladesh.

Finally, ‘the pragmatic worldview’ (Creswell 2009, p. 10) is followed in the research through utilising mixed methods and deduction-induction reasoning. As is pointed out by Creswell (2009, p. 11), pragmatists believe that:

...research always occurs in social, historical, political, and other contexts. In this way, mixed methods studies may include a postmodern turn, a theoretical lens that is reflective of social justice and political aims.

From an epistemological perspective, pragmatism, as a philosophical position, enabled the researcher to combine methods and ideas to find answers to research questions (Johnson, Onwuegbuzie & Turner (2007).

### **3.3 THE RESEARCHER OF THE STUDY**

The research involves two sensitive phenomena: tax evasion and corruption in the socio-cultural, administrative and political atmosphere of Bangladesh. The topic of the project reflects the ‘sensitivity’ (Corbin & Strauss 2008, p. 32) of the research that underpins the difficulties in collecting data and analyse them. For a researcher, to examine such a sensitive case involving a developing economy requires strong connection, confidence, courage and patience, which can be built through real world experience. Before conducting the present study, the researcher had worked in the National Board of Revenue within the Ministry of Finance in Bangladesh as a tax official for more than 10 years. Such experience in income tax department enabled the researcher to obtain knowledge about tax policy formulation, implementation and compliance. As a tax official, the researcher had also come into close contact with the taxpayers. The researcher had to maintain regular communication with senior tax officials and legislators who were involved in tax policy formulation process. Thus, being directly involved with tax policy implementation, the researcher has encountered the challenges, problems, and issues involving income tax policy formulation, implementation and compliance. As a result, the researcher has been able to grasp the importance, nature and scope of the inquiry, and this is an added advantage for an investigator.

In this respect, Yin (1989, p. 63) says:

A person must have a firm grasp of the issues being studied, whether this is a theoretical or policy orientation, even if in an exploratory mode. Such a grasp reduces the relevant events and information to be sought to manageable propositions.

It is, however, important to note that, while pursuing the present study, the researcher did not hold any active government position and this keeps the research free from any kind of conflict of interest and potential bias. As a strategy to avoid bias, the researcher utilised visiting cards from Monash University, introducing herself as a doctoral researcher, and this enabled the researcher to get appointments with and access to the respondents without creating any confusion about role conflict.

### **3.4 METHODOLOGY OF THE STUDY**

This section explains the methodology for the study. Mixed method has been utilised for the research. The study follows quantitative and qualitative research based on both primary and

secondary data. Primary data were collected by conducting a survey using structured printed questionnaires, face-to-face interviews, and attendance at a roundtable seminar. Secondary data were collected from project reports, government publications and documents, books, journals, reports, newspapers and electronic media.

### **3.4.1 Mixed Methods**

It is not so common to use mixed methods within a case study framework because case studies are often considered synonymous with qualitative undertakings. However, according to Commonwealth of Learning (2004), it is possible to employ a mixed approach in a case study through the use of qualitative methods to identify ‘hard’ data that offers explanations and identifies causes (deductively), while using quantitative material in an exploratory manner (inductively).

Hence a combination of deductive and inductive reasoning has been applied throughout the thesis. This has long been considered an acceptable approach to investigate complex research issues. In 1847, Whewell argued that induction and deduction moved upstairs and downstairs on the same staircase (cited in Blaikie 1993, p. 156). Wallace (1971, cited in Blaikie 1993, p. 156) introduced such an approach to reduce the weakness of using only either induction or deduction. Hence, deduction and induction used together in a research cycle allowed the present researcher to achieve a stronger and thorough understanding of the research problem (Babbie 2013).

Within the realm of research, a number of concepts are identified and explained to build a conceptual framework and determine appropriate theories. Existing theories are employed as heuristic ‘templates’ for measuring the findings. A set of propositions are developed to test the theories. Accordingly, mixed methods of data collection and analysis are utilised in the research project to logically examine the propositions and test the theories. According to Creswell and Clark (2007, p. 5):

Mixed methods research is a research design with philosophical assumptions as well as methods of inquiry. As a methodology, it involves philosophical assumptions that guide the direction of the collection and analysis of data and the mixture of qualitative and quantitative approaches in many phases in the research process. As a method, it focuses on collecting, analyzing, and mixing both quantitative and qualitative data in a single study or series of studies. Its central premise is that the use of quantitative and qualitative approaches in combination provides a better understanding of research problems than either approach alone.



The present study has applied mixed methods not merely as a process of gathering data; rather, the entire thesis follows mixed method in terms of data collection and analysis, discussion and conclusion.

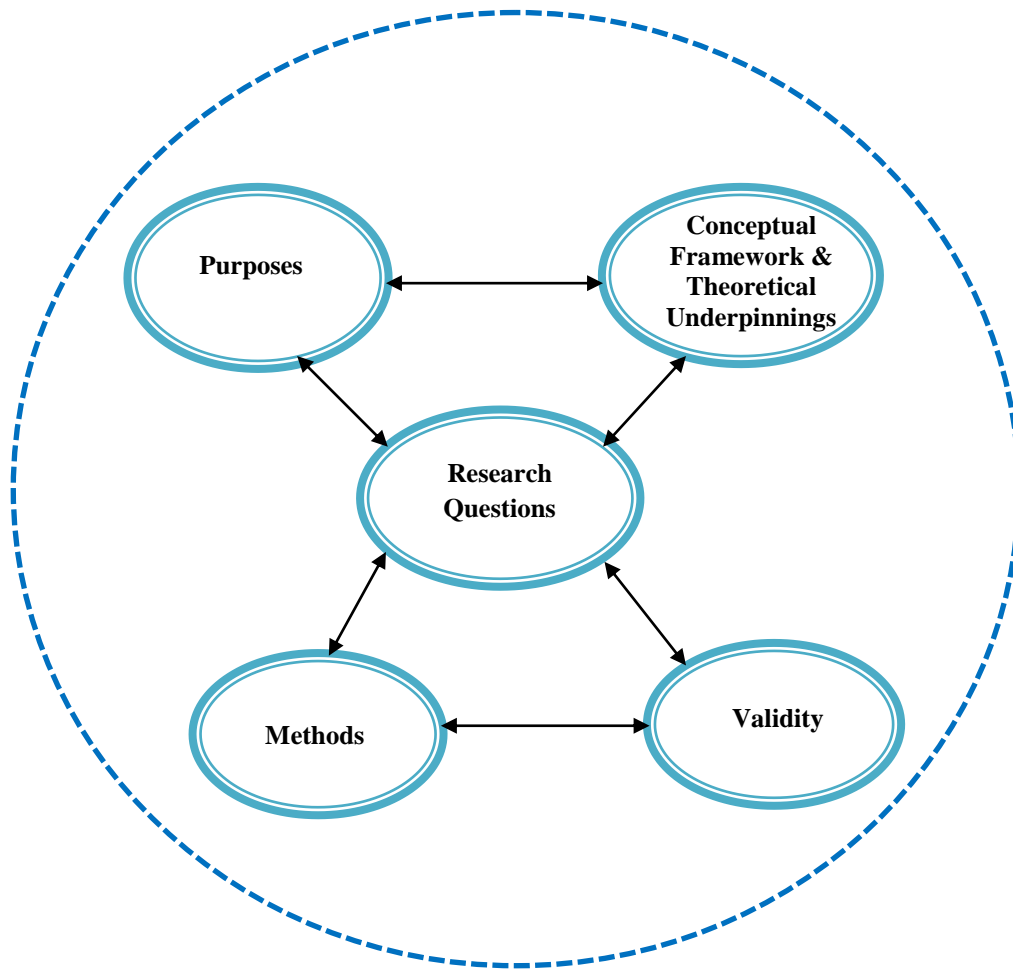
There are six major strategies of mixed methods: sequential explanatory, sequential exploratory, sequential transformative, concurrent triangulation, concurrent embedded, and concurrent transformative strategies (Creswell 2009). Of the six strategies, this study has adopted the ‘concurrent triangulation strategy’ in which ‘the researcher collects both quantitative and qualitative data concurrently and then compares the two databases to determine if there is convergence, differences, or some combination’ (Creswell 2009, p. 213).

Quantitative data were collected by conducting a small survey of 90 participants utilising structured printed questionnaires. Of the 90, a small sample of 14 was selected for the qualitative component of the study. In-depth interviews were conducted for collecting qualitative data. At interview, eight respondents allowed the researcher to audio-record their discussions; six allowed the researcher to take written notes. Thus, both quantitative and qualitative data were collected concurrently in one phase during the fieldwork. This methodology fits with the criteria of mixed methods as set out by Creswell and Clark (2007, p. 11): in a mixed method study:

... a researcher collects data using a quantitative survey instrument and follows up with interviews with a few individuals who participated in the survey to learn more detail about their survey responses.

The following model systematically indicates the relationship between research questions and four study elements including the purposes, guiding conceptual framework and theories, methods and validity considerations within mixed methods design.

**Figure 3.2 Model of How Mixed Methods Research Studies are Designed in Response to Research Questions**



Source: Adapted from Maxwell and Loomis (2003, p. 246).

The present study is designed from this model. For the purpose of the study, the concepts of corruption and tax evasion have been explained. A theoretical framework was developed after reviewing literature on public choice, rent-seeking and the A-S model. Theories are applied in this mixed methods research study as a ‘theoretical lens or perspective to guide the study’ (Creswell 2009, p. 66). Based on the theoretical framework and the literature, a conceptual framework was developed. Subsequently, primary and subsidiary questions were derived from the literature, along with the theoretical and conceptual framework to address the purpose of the study. A set of propositions was also generated, based on research background, and literature and selected theories to facilitate the inquiry.

### ***Components of Mixed Methods for the Present Study***

This study has utilised the two components of mixed methods, quantitative and qualitative. Figure 3.3 depicts the procedure for conducting the mixed methods for the study. The model shows how both quantitative and qualitative methods for data collection are used in the study. Arrows indicate the sequence of activities. Quantitative data were analysed first. The findings of the qualitative data were then utilised to elaborate and complement the results of the quantitative data.

**Figure 3.3 Visual Presentation of Procedures of the Mixed Methods Employed in the Study**



Source: Adapted from Creswell, Clark, Gutmann and Hanson (2008, p. 167).

Mixed methods also facilitate the researcher in triangulating the findings in a systematic manner. Throughout the discussion and analysis, quantitative statistical results are provided first, followed by qualitative quotes that explain and supplement the quantitative results (Creswell 2009). The data collected from a roundtable seminar were also utilised. The style of combining quantitative data and qualitative data confirms the fact that numbers and words are both important for knowing the world (Miles & Huberman 1994).

### ***Quantitative Method***

This study conducted a survey of 90 participants utilising structured and printed questionnaires composed of ‘pre-set standardised questions’ (Tharenou, Donohue & Cooper 2007, p. 102). The questionnaires contained mostly closed questions and one open-ended question at the end requesting the respondents to make their comments on the issue. Structured questionnaire were useful in the study not only for gathering quantitative data but also for collecting data in an organised and controlled manner. Punch (2005, p. 100) has

emphasised that ‘the researcher should stay in control of the data collection procedure, rather than leave it to others or to chance’. The researcher administered the questionnaires in person, considering this a better way (Punch 2005), and given the sensitive nature of the study.

Although it might be considered difficult for the researcher to ask direct question about tax evasion and corruption issues, the quantitative method helped the researcher to examine the extent of tax evasion and corruption. Moreover, using a questionnaire administered by the researcher ensured high response rates while creating scope for clarification of complex matters (Babbie 2013).

### ***Qualitative Method***

Taking into account that ‘interviews often follow questionnaire surveys to explore issues in-depth’ (Tharenou, Donohue & Cooper 2007, p. 102), for the qualitative components of the study, in-depth interviews were conducted with 14 respondents selected from the survey sample. Qualitative data, generally in the form of words, are often considered the mainstream in the social sciences, including in anthropology, history and political science (Miles & Huberman 1994). During interviews, respondents were encouraged to explain and discuss their perceptions, views, and opinions on tax evasion, the relationship between corruption and tax evasion, and the drawbacks of the tax policy formulation, implementation and the compliance processes. Due to the inherent complexity and sensitivity of collecting data about corruption and tax evasion, a qualitative method through face-to-face interview was considered a suitable method. This study aimed to examine the perceptions, views and opinions of respondents about this sensitive issue and the nexus of interest groups in causing tax evasion. Therefore, in-depth interviews served the purpose of collecting information while maintaining the anonymity and privacy of the respondents.

Some respondents commented on tax evasion and corruption through answering the open-ended question in writing. The written answers of this question uncovered the nature, extent, causes and factors of tax evasion and corruption in Bangladesh. One respondent wrote in the space for the open ended question, encouraging the researcher: ‘It is our pleasure that you have prepared a very pragmatic questionnaire on the tax evasion on Bangladesh perspective. Your success on this thesis is very much desired’.

This observation raised the importance of conducting a thorough research on tax evasion in Bangladesh.

Another source of primary data involving participant observation of a roundtable seminar on ‘Expansion of Tax Base and Prevention of Tax Evasion’, organised and sponsored by the National Board of Revenue, Bangladesh has been utilised as an important data set for qualitative analysis. The researcher made an arrangement ‘to be able to act as a participant observer (or even as a participant-observer)’ (Yin 1989, p. 75) of the roundtable seminar. The discussants at the seminar represented stakeholders relevant for the study, including tax policy makers, its implementers and taxpayers. Eventually, the roundtable seminar, facilitated the researcher to ‘...access to the kinds of social interactional dynamics that produce particular memories, positions, ideologies, practices, and desires among specific groups of people’ (Kamberelis & Dimitriadis 2005, p. 904).

The dataset collected from the roundtable seminar is regarded as complementary to the core components in enhancing description, explanation and understanding of the issues under inquiry (Morse, Niehaus, Wolfe & Wilkins 2006).

### **3.4.2 Rationale for Applying Mixed Methods for Addressing Research Questions**

Research questions, essentially, mirror the problems that the researcher intends to investigate (Onwuegbuzie & Leech 2006). In this study, tax evasion and corruption in Bangladesh have been identified as the research problems. Mixed methods have accordingly been utilised in designing the research and collecting and analysing the data. Hence, examining the empirical findings in accordance with the research questions appeared to be extremely important. In mixed methods, according to Onwuegbuzie and Leech (2006, p. 475), research questions:

dictate the type of research design used, the sample size and sampling scheme employed, and the type of instruments administered as well as the data analysis techniques (i.e., statistical or qualitative) used.

This study determined one primary and two subsidiary questions to address the research problems. In order to answer the research questions, the perceptions, views, and opinions of respondents were obtained through utilising mixed methods. Quantitative method for data collection and analysis is useful to assess the extent of tax evasion. By conducting a survey, the researcher collected data from 90 participants which would have been difficult to conduct in face-to-face interviews due to time constraints. In analysing quantitative data, frequency

distribution is utilised to measure the weight and relevance of the issues associated with tax evasion and the nexus of actors across the three processes (tax policy formulation, its implementation and compliance). In addition, cross-tabulation technique is applied to the tax policy formulation and compliance group to better understand the differences of the perceptions of the respondents on the basis of their professional affiliation. Therefore, to analyse the nature of tax evasion (RQ 1), issues (RQ 1.1) and nexus (RQ 1.2), the quantitative method assists in examining the degree of support of the respondents. The numbers in the form of percentage clearly draw a picture of the research problems that the researcher seeks to know through addressing the research questions. Furthermore, the collection and analysis of extensive qualitative data complements a deep insight into the research questions. The findings of the in-depth interviews and roundtable seminar observation certainly elaborate, explain and supplement the survey findings. Project reports, government reports and documents facilitate assessing the consistency of the empirical findings.

### **3.4.3 Design of the Questionnaire**

Three sets of structured questionnaires were designed to accumulate the data relevant to the overall objective of research. Designing an appropriate set of questionnaires is a prerequisite for an efficient research procedure. For the present study, questionnaires were designed in accordance with the conceptual framework, propositions and research questions framed in Chapter II. The conceptual framework has depicted a nexus among politicians, public officials, and other interest groups across three processes in the tax regime. In order to collect information about these actors and processes, respondents were classified into three groups: tax policy formulation, tax policy implementation and tax policy compliance groups. Accordingly, participants were selected based on their direct or indirect involvement and relevance with tax policy formulation, its implementation and compliance. Thus, the participants appeared as key informants, which helped the researcher to collect the most relevant data and information.

Accordingly, three sets of structured questionnaires for three groups of respondents were prepared. The researcher paid special emphasis to the selection of questions for each set of the questionnaires to examine the propositions of the study. The specific questions were targeted to examine specific causes and issues of tax evasion and the nexus of stakeholders contributing to corruption in the tax department. As Yin (1989, p. 76) says, ‘the questions are

posed to the investigator, not to a respondent. The questions, in essence, are reminders to the investigator regarding the information that needs to be collected, and why’.

Each set of questionnaires comprised close-ended questions and one open-ended question. Five close-ended questions were common across three sets of questionnaires. One open-ended question was included at the end of each questionnaire set, providing a blank space to provide comments. The open-ended question allowed respondents to express their views in a more flexible manner. At the beginning of the interview, the researcher asked about the profession and organisational affiliation of the respondent. Subsequently, a brief explanation about the confidentiality and voluntary nature of the interview was incorporated. The sequence of questions in every set of the questionnaire was maintained in line with respective proposition sets, i.e., global proposition, general propositions and sub-propositions.

A five-point Likert-format scale was used, containing ‘strongly agree’, ‘agree’, ‘moderately agree’, ‘do not agree’ and ‘not sure’, to identify the degree of agreement or disagreement in each close-ended question. The scale helps the researcher to determine the relative strength of agreement indicated by the participants (Babbie 2013). Respondents were requested to tick the responses. An example of a question follows:

Do you think that the manner in which the tax policy is formulated in Bangladesh leaves room for tax evasion?

Strongly Agree	Agree	Moderately Agree	Do Not Agree	Not Sure
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

### ***Questionnaire Set One (Group 1: Tax Policy Formulation)***

This questionnaire set was designed to ask questions related to the tax policy formulation process (see Appendix I). In this set of questionnaires, to identify the inappropriateness of tax policy and law formulation process and to analyse the nexus of the three actors which could be responsible for tax evasion, questions were framed on the following major themes: importance of research, specialisation, and reform in tax policy formulation process; importance of participation, opinion and vision; shortcomings of the income tax laws and policies; and nexus of different actors in the tax policy formulation process.

### ***Questionnaire Set Two (Group2: Tax Policy Implementation)***

This questionnaire set was prepared to examine the inappropriateness in the tax policy implementation process which could be responsible in causing tax evasion (see Appendix II). Questions were on the following main themes: institutional weaknesses of tax administration; lack of professional support for the tax officials; behavioural aspects of the tax officials and Corruption in tax administration; and nexus of different actors in the tax policy implementation process.

### ***Questionnaire Set Three (Group3: Tax Policy Compliance)***

Questionnaire within this category included questions to better understand the causes and issues of tax evasion from the perspective of the taxpayers (see Appendix III). It included questions on the following main themes: ethical/behavioural aspects of the taxpayers; financial aspects of the taxpayers; fairness of the tax regime; lack of taxpayer service, tax rate, detection of tax evasion and penalty for tax evasion; and complexities in the tax regime.

### ***Language of the Questionnaire***

The questionnaire is designed in English language. However, the researcher was ready to clarify any complex issues in the native language. The researcher's knowledge, understanding and fluency in Bangla, the native language of Bangladesh, were an added advantage in this regard.

## **3.5 SAMPLE AREA AND INSTITUTIONS OF THE STUDY**

This section will shed light on the sample area and institutions of the research and the rationale for selecting them.

### **3.5.1 Rationale for Selecting the Sample Area and Institutions of the Study**

The main research area for the study is to examine the case of tax evasion in Bangladesh. Therefore, the researcher decided to select the sample from Bangladesh. The sample location was Dhaka, capital of Bangladesh. The reason for selecting Dhaka is that Bangladesh is a unitary Republic with central and local government. However, central government, based in Dhaka city, plays the key role in decision making and policy formulation processes. Most government organisations are located in Dhaka. The entire tax administration of Bangladesh



is divided into a number of taxes zones (based on jurisdictions and geographical divisions of the state: see Chapter II). Most of the taxes zones are situated in Dhaka.

Moreover, Dhaka is the centre of business and professional activities in Bangladesh. In this study, to examine the tax evasion issue from the viewpoint of corruption, different ministries, boards and commissions of the Bangladesh government, non-government organisations, civil society and professional communities were taken into consideration. All of these institutions have their head offices in Dhaka, which led to the researcher carrying out the study in this city. Therefore, the study aims to examine tax evasion issue from three perspectives.

The institutions that were selected for recruiting participants for the study had direct or indirect involvement with the three processes of tax regime. These institutions include the Parliament, Local Government, Ministry of Finance, National Board of Revenue, Office of the Tax Ombudsman, Central Intelligence Cell, Directorate of the Tax Inspection, Taxes Zones, Large Taxpayers Unit, Anti Corruption Commission, Transparency International Bangladesh, Caretaker Government, and different professional communities.

### **3.5.2 Description of the Sample Institutions of the Study**

Respondents were selected from the following institutions for collecting data for the present single-case study.

#### ***National Parliament***

Bangladesh is a parliamentary democracy. The Parliament is known as the *Jatiyo Sansad* (the House of the Nation) (Government of Bangladesh 2012b; Constitution of Bangladesh, Government of Bangladesh 2010). The Prime Minister is the leader of the Parliament as well as the Head of the Government. According to the Article 65 (1) of the Constitution of Bangladesh (Government of Bangladesh 2010):

There shall be a Parliament for Bangladesh (to be known as the House of the Nation) in which subject to the provisions of this Constitution, shall be vested the legislative powers of the Republic:

Provided that nothing in this clause shall prevent Parliament from delegating to any person or authority, by Act of Parliament, power to make orders, rules, regulations, bye-laws or other instruments having legislative effect.

The researcher collected primary data by conducting interviews from existing and former Parliament Members elected from different political parties. The reasons for selecting respondents from the Parliament are manifold. Firstly, according to the Constitution, Parliament is responsible for law and policy formulation. Secondly, no tax can be levied or collected without the authority of an Act of Parliament (see Chapter II). Thirdly, the Parliament is also responsible for passing money bills, including the imposition, regulation, alteration, remission or repeal of any tax (Article 81.1, Constitution of Bangladesh, Government of Bangladesh 2010). Fourthly, the Members of the Parliament represent their constituencies and voters. Therefore, the researcher evaluated the MPs as the representatives of the general public.

### ***Offices of Local Government***

The researcher collected survey data from political actors who represented different Wards of Dhaka City Corporation<sup>21</sup>.

### ***Local Offices of Political Parties***

Political actors from local offices of major political parties also took part in the survey.

### ***Ministry of Finance***

The researcher interviewed a Minister of the Ministry of Finance (MOF). The researcher made prior appointment to interview the Minister. The selection of the MOF as an institution for gathering data was due to its role in planning, controlling, implementing, and monitoring financial and monetary policies and programs of the government. It also looks after the function of the financial institutions in Bangladesh (Government of Bangladesh 2012a). The MOF controls and oversees four divisions, including Finance, Internal Resource, Economic Relation and Banking. It was significant for the researcher to know the views of the Minister of the MOF about tax policy formulation.

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<sup>21</sup> Dhaka City Corporation is a Local Government body of Bangladesh which is further divided into Wards. Recently, through The Local Government (City Corporation) Amendment Act (2011), Dhaka City Corporation has been divided into Dhaka South City Corporation (DSCC) and Dhaka North City Corporation (DNCC) (Dhaka South City Corporation 2012).

### ***National Board of Revenue***

As discussed in Chapter I, the NBR is the key tax authority (Government of Bangladesh 2012c). It performs a major role in internal resource mobilisation through collecting income tax, value added tax and import duties. The Secretary of the IRD holds the ex-officio Chairman position of the NBR. Senior public officials of the NBR also take part in the tax policy formulation process.

The researcher collected important data from the NBR. Together with conducting face-to-face interviews amongst the junior and senior officials of the NBR, the researcher visited the library of the NBR to collect relevant documents and reports. Because of the research topic, the NBR was the most important institution to collect data from. Public officials posted at NBR are expert and experienced in dealing with tax laws and policies.

### ***Office of the Tax Ombudsman***

The Office of the Tax Ombudsman (OTO) was created to ensure transparency and accountability in the tax administration. As a constitutional body, it was supposed to play a crucial role in conducting a free, fair and impartial investigation of complaints against harassment due to maladministration, abuse of power, negligence, and incompetence of the tax authorities (Government of Bangladesh 2012d). The OTO was the first establishment of an Ombudsman in Bangladesh. According to Article 77 of the Constitution (Government of Bangladesh 2010), the OTO was the only Constitutional institution where aggrieved taxpayers could formally file a complaint against tax authorities. As an independent body, the Office also had the capacity to investigate complaints. Therefore, collecting primary and secondary data from the Office was significant for the research project.

The researcher collected data through administering the survey and conducting in-depth interviews with senior officials of the Office. Moreover, the researcher collected the annual reports of the Office. Ironically, such an important institution was abolished by the incumbent government in 2010 (though the research interviews had been completed) (*The Daily Star* September 13, 2010c). The OTO has not yet been replaced by any other institution. The researcher places enormous importance on the data collected from this now-defunct institution. The dataset helped the researcher to analyse a number of questions in the study.

### ***Central Intelligence Cell***

The Central Intelligence Cell (CIC) under the NBR is primarily responsible for investigating tax evasion cases. The CIC enjoys the power of launching financial enquiries and criminal investigations into tax evasions and frauds (*The Financial Express* December 16, 2009). The Director General is the Head of the CIC. Because of the crucial role of the CIC in investigating tax evasion, the researcher visited the Cell and collected survey data from a tax official posted at the CIC.

### ***Directorate of Tax Inspection***

This Directorate inspects offices of the tax department to assess their performance. The researcher collected primary data from a tax official posted to the Directorate by way of the survey. Official documents were also collected from the office.

### ***Taxes Zones***

Dhaka is divided into different Taxes Zones. These Zones are empowered for income tax assessment, collection, and auditing. The researcher collected data from tax officials posted at different Zones, utilising the questionnaires.

### ***Large Taxpayer Unit***

The Government of Bangladesh established the Large Taxpayer Unit (LTU) in 2003 with support from the Department for International Development (DFID) of the Government of the United Kingdom. The main objectives and functions of the LTU include introducing modern techniques of tax administration, improving the management of data and information systems (MIS), ensuring better service for taxpayers, increasing income tax collection, increasing voluntary compliance of taxpayers, and developing professionalism in tax administration (Government of Bangladesh 2012e). The researcher collected data through questionnaires among the tax officials of the LTU. A senior tax official posted at the LTU participated in an in-depth interview.

### ***Anti Corruption Commission, Bangladesh***

The Anti Corruption Commission (ACC) was created in 2004 by abolishing the previous Bureau of Anti-Corruption with the aim of strengthening anti-corruption strategies and curbing corruption (Anti Corruption Commission, Bangladesh 2011a). Notably, since 2007

the Commission has initiated a strong drive against corruption in line with the United Nation's Convention against corruption (Anti Corruption Commission, Bangladesh 2012). The researcher gathered valuable primary data from the ACC about corruption and tax evasion from senior officials posted at the ACC through the survey.

### ***Transparency International Bangladesh***

Transparency International Bangladesh (TIB), a country office of global civil society organisation Transparency International (TI), has been working as a corruption watchdog in Bangladesh. TI first revealed the severity of corruption in Bangladesh in its Corruption Perception Index (CPI). As discussed in Chapter II, corruption in Bangladesh was perceived to be the highest in the world for five consecutive years between 2001 and 2005. Hence, TIB is a strong advocate for policy change and institutional reform in order to reduce corruption and establish good governance in Bangladesh. It is regarded as an important civil society organisation in Bangladesh. The researcher visited the TIB office several times to gather in-depth data. Through discussion with key persons of TIB, the researcher gained relevant information on corruption and tax evasion issues.

### ***Caretaker Government***

A non-party caretaker government (CG) system was introduced in Bangladesh in 1996 after democracy returned (Iqbal 2007; US Fed News Service 2007). The principal objective of constituting this system is to ensure a free, fair, and peaceful parliamentary election under the supervision and rule of a politically neutral interim government. According to Article 58(B) of the Constitution, a non-party caretaker government, headed by the Chief Advisor and other advisors (not more than ten), will be collectively responsible for monitoring and holding the national parliamentary election in Bangladesh (Government of Bangladesh 2008). The researcher collected data by survey from a former Advisor of the CG with the objective of knowing perceptions from a non-partisan vantage point. It is important to mention that the CG system has now been abolished through the Constitution (Fifteenth Amendment Bill) 2011 (though the research interview had by then been completed) (BBC NEWS 2011; *The Daily Star* July 1, 2011c).

### ***Professional and Business Community***

Surveys and interviews were conducted with professional groups, including doctors, engineers, chartered accountants, lawyers, income tax practitioners, self-employed people and businesspeople. Participants were selected from professional and business communities since they are potential taxpayers. Therefore, they appeared as the key informants in investigating causes and issues of tax compliance.

## **3.6 SAMPLE OF THE STUDY**

This section introduces the sample of the study and the rationale for selecting the sample.

### **3.6.1 Rationale for Selecting the Sample of the Study**

The main criterion for the selection of the sample (for the survey and interviews) in this research was the direct or indirect involvement of the respondents with the tax policy formulation, implementation and compliance processes, as well as their experience and knowledge. Hence, key persons of different organisations were selected for interview to act as informants providing the investigator with valuable insights into the issues and suggesting other relevant sources of evidence (Yin 1989). An attempt was made to determine the perception of participants about the drawbacks and weaknesses across the three processes to identify the causes and factors of tax evasion and the nexus of interest groups. Therefore, specific attention was paid to the relevance of the sample across the three processes. It is important to point out here that the questionnaires were also designed considering the three processes and the three groups of the sample.

### **3.6.2 Description of the Sample of the Study**

This study selected 90 participants for the survey and interview.

#### ***Sample for the Survey***

For the survey, the 90 participants were divided into the following three groups.

#### ***Group 1: Tax Policy Formulation***

Thirty participants were selected from this group. The major professional affiliations of the respondents are as follows:

### ***Political Actors***

Political actors included existing and former MPs from different political parties, political leaders of the ruling and major opposition parties, political leaders representing Self -Local Government and local political offices.

### ***Public Officials***

Public officials included the Secretary of the IRD and ex-officio Chairman of the National Board of Revenue, the Secretary, Bangladesh Secretariat, senior Officials of the Office of the Tax Ombudsman, and the Senior Assistant Secretary of IRD, Bangladesh Secretariat.

### ***Members of a Think-Tank Organisation and Others***

This group included the Chairmen and Executive of TIB and a former Advisor of the Care Taker Government of Bangladesh.

**Table 3.1 List of Respondents of Tax Policy Formulation Group**

Respondent	Number
Current MP of the Ninth Parliament elected from the Bangladesh Nationalist Party (BNP) <sup>1</sup>	1
Former MP elected from the Bangladesh Awami League <sup>2</sup>	1
Former MPs elected from the BNP	4
Former MP elected from the <i>Jatiyo</i> Party <sup>3</sup>	1
Former MP Candidate from the BNP	1
Law Advisor of JASAS <sup>4</sup> Central Committee, BNP	1
Commissioner, Dhaka Ward <sup>5</sup> No. (X, Y, Z) <sup>6</sup>	1
General Secretary, Dhaka Ward No A <sup>7</sup> , Ward Committee <sup>8</sup> , Bangladesh Awami League	1
Organising Secretary, Dhaka Ward No A, Ward Committee, Bangladesh Awami League	1
Vice President, N <sup>9</sup> Thana <sup>10</sup> of Dhaka, Bangladesh Awami League	1
Secretary, N Thana of Dhaka, Bangladesh Awami League	1
District President, District B <sup>11</sup> , Bangladesh Awami League	1
Advocate and Former Secretary, Supreme Court Bar Association	1
Former Advisor, Non-Party Caretaker Government	1
Secretary of the Internal Resource Division and Ex-Officio Chairman of the National Board of Revenue	4
Secretary, Bangladesh Secretariat	1
Senior Assistant Secretary, Internal Resource Division, Ministry of Finance	1
Senior Officials of the Office of the Tax-Ombudsman	4
Chairman of the Transparency International Bangladesh	2
Executive of the Transparency International Bangladesh	1
Total	30

Notes: 1. Bangladesh Nationalist Party represents the major opposition political party in the current Parliament.  
2. Ruling political party of Bangladesh (2008-2013).  
3. *Jatiyo* Party is one of the major political parties in Bangladesh.  
4. JASAS stands for Bangla words *Jatityotabadi Sangskritik Shongothon* which mean Nationalist Cultural Organisation.  
5. Self-Local Government Body.  
6-7. Pseudonyms are used for anonymity and confidentiality.  
8. Self-Local Government committee of political party.  
9. Pseudonym is used for anonymity and confidentiality. 10. Thana represents the Police Station. 11. Pseudonym is used for anonymity and confidentiality.

## **Group 2: Implementation**

For this group, respondents were selected from the ‘Taxation Cadre’ of the Bangladesh Civil Service, who directly responsible for implementing tax policies and laws. Thirty tax officials and staff, including the Commissioner, Additional Commissioner, Joint Commissioner, Deputy Commissioner, Assistant Commissioner and also the Inspector of Taxes and the Librarian responded to the questionnaires. The respondents were posted to different Taxes Circles, Taxes Zones and the NBR.



**Table 3.2 List of Respondents of the Tax Policy Implementation Group**

<b>Respondents</b>	<b>Number</b>
Commissioner of Taxes	2
Additional Commissioner of Taxes	1
Senior Official of Anti Corruption Commission, a tax official	2
Joint Commissioner of Taxes	4
Deputy Commissioner of Taxes <sup>1</sup>	14
Assistant Commissioner of Taxes	3
Inspector of Taxes	3
Librarian, National Board of Revenue	1
Total	30

Note: 1. The majority of the participants were selected from the position Deputy Commissioner, since they are directly involved in assessment and collection of taxes in Bangladesh.

### ***Group 3: Compliance***

Thirty participants were selected for this group from various professional backgrounds.

**Table 3.3 List of Respondents of Tax Policy Compliance Group**

<b>Respondents</b>	<b>Total</b>
Doctors	5
Engineers	5
Chartered Accountants (FCA)	2
Lawyer and Income Tax Practitioners	4
Business and Self-Employed Persons <sup>1</sup>	14
Total	30

Note: 1. The majority of the participants were selected from Business and Self-Employed categories to capture the variety of businesses and self-employed professions.

### ***Sample of the In-Depth Face-to-Face Interviews***

Amongst the survey sample, a small sample of fourteen key persons was selected for the interviews. Eight interviewees allowed the researcher to audio-record their discussions. The researcher utilised a small recording device, after seeking the permission of the respondents (Yin 1989). Six interviewees felt more comfortable without the presence of the recorder (Yin 1989). Therefore, the researcher has taken note of the discussions.

**Table 3.4 List of Respondents for In-Depth Face-to-Face Interviews (Audio-Recorded)**

<b>Respondents</b>	<b>Number</b>
Minister, Ministry of Finance	1
Secretary of the IRD and Ex-Officio Chairman of the National Board of Revenue	3
High Official of the Office of the Tax-Ombudsman	1
Deputy Commissioner of Taxes	1
Chairman of the Transparency International Bangladesh	1
Executive of the Transparency International Bangladesh	1
Total	8

**Table 3.5 List of Respondents for In-Depth Face-to-Face Interviews (Written)**

<b>Respondents</b>	<b>Number</b>
Secretary of the IRD and Ex-Officio Chairman of the National Board of Revenue	1
Senior Official of the Office of the Tax-Ombudsman	1
Chairman of the Transparency International Bangladesh	1
Additional Commissioner of Taxes, Dhaka	1
Key Business Person, Ha-Meem Group <sup>1</sup> , Dhaka,	1
Lawyer and a former Secretary of Supreme Court Bar Association	1
Total	6

Note: 1.Ha-Meem Group is one of the leading business entities in Bangladesh.

### **3.7 ETHICAL CONSIDERATIONS**

Christians (2005, p. 144) states that ‘in value-free social science, codes of ethics for professional and academic associations are the conventional format for moral principles.’ To ensure a code of ethics for the social inquiry as well as to obtain ethics clearance for conducting the fieldwork, the researcher applied to the Standing Committee on Ethics in Research involving Humans (SCERH), Monash University. This was a ‘Low Risk’ project involving humans. The designated forms, including ‘Application for Ethical Approval of a Low Risk Project involving Humans’ and ‘Form P-Privacy Issues’ were completed by the researcher. A signed original application, including all other documents such as the explanatory statement, consent form, questionnaires, and permission letter were submitted to the Human Ethics Office of Monash University. An electronic version of the application with all supporting documents was submitted to the Ethics Office.

In accordance with the requirement of Monash University Human Research Ethics Committee (MUHREC), an academic as well as a resident of Bangladesh was nominated as a contact person for complaints.

An introductory letter was provided to participants in order to make them aware of the objective and nature of the project (see Appendix XV). In the introductory letter, the topic of the study was introduced to all participants by explaining the importance of conducting research on tax evasion and corruption issues in Bangladesh. The researcher also requested the permission of the respondent for audio-recording and writing notes of discussions. The approximate duration required for the meeting was also mentioned in the introductory letter so that the participants would be able to manage time for the interview.

Respondents were assured about confidentiality through the explanatory statement that confidentiality of results would be strictly enforced (see Appendix XVI). As Babbie (2010) argues, a researcher can identify the responses of the participants but still maintain confidentiality by promising not to publicly disclose the identity of respondents. It was made clear to respondents in writing in the explanatory statement that material arising from the meeting would not be used for commercial purposes. It was further stated that the information about the results of the project would be presented in academic forums, including the thesis for the study, conferences, seminars, workshops and academic journals. It was also stated that the names of respondents would not be revealed. If necessary, the material of the interviews would be reworded or removed, and pseudonyms used.

Participants were assigned pseudonyms during the analysis process. These pseudonyms are also used throughout the thesis. The pseudonyms were assigned randomly to participants based on which professional affiliation they represented. Where more than one person from the same professional affiliation was interviewed, they were introduced by their profession, and a sequential Roman alphabet character. For example, the four interviewees representing Chairman of the NBR were labelled as 'Chairman A/ B/ C/ D of NBR'. The same method was also used for participants affiliated with the Tax Ombudsman Office and Transparency International. The four high officials of the Office of the Tax Ombudsman (OTO) were labelled as 'Senior Official A/ B/ C/ D of OTO'. Participants representing the Chairman of TIB were labelled as 'Chairman A/ B of TIB'. While only one key informant represents his or her particular position, an attempt was also made to introduce their position more generally, such as a Minister of the Ministry of Finance, an Executive of TIB, a Deputy Commissioner of Taxes, and so on. To ensure full privacy and confidentiality, the thesis does not state whether participants were retired or holding their official position although a number of participants were in service during the interviews study and remain in their positions.

The 17 participants in the roundtable seminar were introduced as ‘Discussant 1, 2...12 of the Roundtable Seminar’. Since the roundtable took place in a public domain, the specific organisational affiliation of participants as they introduced themselves during the seminar was also used in the thesis.

For analysing survey data, the respondents are generally introduced as survey respondents/participants. For analysing the open-ended question, some respondents are introduced by their professional affiliation. For the purpose of the study, the survey respondents of the Tax Policy Formulation Group were again divided into three subgroups: Public Officials, Political Actors, and Members of TIB and Others. Similarly, survey respondents of the Tax Policy Compliance Groups were further divided into three subgroups: Professionals, Tax Agents and Businesspeople. However, names of respondents of the subgroups were not stated.

Finally, the respondents were assured that, according to the rules of Monash University, written reports would be stored for at least five years on University premises in a locked cupboard/filing cabinet to protect the information.

A consent form was also provided to respondents to obtain their consent to participation in the study (see Appendix XVII). Responses to the interviews were completely voluntary.

### **3.8 FIELDWORK**

The empirical study was undertaken using fieldwork as an integral and indispensable part of the study. Since it is an empirical and exploratory research and the main issue of the project is ‘tax evasion in Bangladesh’, it requires in-depth knowledge and information about the nature, mechanism, and extent of tax evasion in Bangladesh. To access the relevant information, it was necessary to discuss the issue with political actors, public officials and taxpayers. Therefore, without conducting fieldwork to interview the relevant persons and collecting data from different sources, the main objective and goal of the research would have been impossible to attain.

After receiving the approval from MUHREC on 7 August 2009, the researcher started preparation for conducting fieldwork (see Appendix XVIII). Appointments from two of the participants were confirmed through email correspondence while staying in Australia.

Fieldwork was carried out between 2 September 2009 and 19 April 2010. The researcher herself administered the survey. During the fieldwork, the researcher visited the respondents depending on their availability and convenience. As Yin (1989, p. 75) has recommended, 'for interviewing key persons, the investigator must cater to the interviewee's schedule and availability, not that of the research team'. For the present study, the researcher interviewed key persons of different organisations. Therefore, the respondents' preferences have been emphasised.

It has already been reported in Chapter II that corruption and tax evasion have become endemic in Bangladesh. Respondents in the study realised the importance of their participation in sensitive and critical research on corruption and tax evasion in Bangladesh. However, it was difficult to get appointments with participants due to their busy schedules. Sometimes, the researcher had to visit the interview locations (the respondent's home, office or other location, as decided by the respondent) more than once to complete the interview. Moreover, it took time for the researcher to 'break the ice' in discussion on corruption and tax evasion. Although introductory and explanatory letters were distributed prior to the interview, the entire process proved challenging because of the nature and the topic of the project. However, her enthusiasm for successfully carrying out the data collection helped her overcome these challenges.

Before conducting the interviews, the researcher pre-tested the practicability of the questionnaire by discussing each question with a Professor, University of Dhaka, a retired Colonel, Bangladesh Armed force, and a Deputy Commissioner of Taxes. The sample for the pre-test was selected on the basis of 'the same characteristics as the members of the study population' (Corbetta 2003, p. 149). After the discussions, some words or terms were changed in order to make them more acceptable and relevant to the socio-cultural context of Bangladesh. For example, the word 'bureaucrats' was reworded to 'public officials', and 'politicians' to 'political actors'. The rewording helped the researcher to capture the broader meaning of the two terms.

At the beginning of each interview, the researcher explained the nature and objective of the project to the participants. After getting their consent, the researcher commenced interviews.

### **3.9 DATA COLLECTION TECHNIQUES**

This study collected data from both primary and secondary sources. It is ideal to collect data from multiple sources in order to be objective and to avoid bias. Moreover, ‘an inquiring mind’ (Yin 1989, p. 63) in a researcher is important for exploring all possible aspects of the problem. Accordingly, the following techniques were employed in the study for collecting primary and secondary data.

#### **3.9.1 Primary Data Collection**

##### ***Survey Using Structured and Printed Questionnaires***

For the survey, most of the questionnaires were administered by the researcher. However, a few respondents could not make a specific appointment because of their busy schedules. They told the researcher to send them the questionnaires so that they would be able to fill them in during a convenient time. A Deputy Commissioner of Taxes and an Inspector of Taxes voluntarily co-operated with the researcher by sending and collecting the questionnaires from those respondents.

##### ***In-Depth Face-to-Face Interviews (Audi- Recorded Interview)***

An interview is considered one of the most important sources of information for case study research (Yin 2009). The researcher conducted in-depth and face-to-face interviews with eight participants. The interviews were carried out either in the residence or in the office of the respondents in accordance with their convenience and availability. The interviews were recorded by using an audio-recorder device. For conducting the interviews, the researcher sought appointments from the respondents by making telephone call. The contacts of the respondents were collected from the public domain, including telephone directories.

The language for the interviews was English. Although Bangla is the state language of Bangladesh (Article 3 of the Constitution of Bangladesh, Government of Bangladesh 2010), English is also widely spoken and understood among the chosen groups of people in Bangladesh.

### ***In-Depth Face-to-Face Interviews (Written)***

The researcher conducted face-to-face and in-depth interviews with six participants who allowed the researcher to take notes on the discussions. Before conducting the interviews, the researcher made appointments with the respondents. Some respondents gave interviews at their residence and some at their office. However, selection of the place for the interview was completely decided by the participant. During interviews, the researcher asked questions of the respondents. The respondents explained their views about tax evasion and corruption. To allow the researcher to take notes, the participants discussed issues at a slow pace. Interviews were conducted in English. It took approximately one to two hours for the whole interview session, including preparation and discussion. Considering the busy schedule of the key persons selected for the study, donating two hours could have been difficult for them. Therefore, in the explanatory letter, the researcher clearly mentioned the approximate required time, which helped both the interviewee and interviewer manage the time and fix the schedule. However, the researcher ensured she reached the venue earlier so as to avoid any unexpected delay, considering the traffic situation of Dhaka.

### ***Observation of a Roundtable Seminar on ‘Expansion of Tax Base and Prevention of Tax Evasion’***

Adaptiveness is important for conducting any case study. As Yin says (1989, p. 64):

Very few case studies will end up exactly as planned. Inevitably, minor if not major changes will have to be made, ranging from the need to identify a new ‘case’ for study to the need to pursue an unexpected lead. The skilled investigator must remember the original purpose of the investigation, but then must be willing to change procedures or plans.

Adaptiveness and flexibility helped the researcher to accommodate the broader horizon of inquiry. However, while staying in Australia, the researcher was not informed that the NBR of Bangladesh was going to organise and sponsor a roundtable seminar on ‘Expansion of Tax Base and Prevention of Tax Evasion’. The researcher was therefore not prepared to attend the roundtable seminar as a part of data collection process. When she visited the NBR to conduct an interview with a Senior Official of the Board, the interviewee as a ‘key informant’ (Yin 1989, p. 89) formally invited the researcher to attend the seminar and initiated arrangements for the interviewer to get the access to the seminar. The roundtable seminar was held in the Pan Pacific Sonar Gaon Hotel, Dhaka, on April 1, 2010. The main objective of the seminar was to discover the challenges, issues and problems of income tax before drafting the tax

policy for the upcoming budget 2010-2011. The researcher attended the seminar as an observer with prior permission from the Head of the NBR. The entire seminar discussion was audio-recorded by the researcher. The medium of discussion in the seminar was both Bangla and English. Being an observer of the seminar, the researcher benefitted significantly in terms of collecting relevant data. The theme and the agenda of the seminar directly related to the research topic. The discussants at the seminar represented income tax policy formulation, implementation and compliance levels, which are the three areas of examination for the present project. Therefore, by observing the discussions during the seminar, the researcher gained the updated information about tax policy formulation, implementation and compliance from key persons.

**Table 3.6 List of Discussants of the Roundtable Seminar**

<b>Position</b>	<b>Serial No. of the Discussants</b>
Current Secretary, Internal Resource Division, Ministry of Finance & the Ex-Officio Chairman of the National Board of Revenue	1
Member (Income Tax Policy), National Board of Revenue	2
President, Square Group <sup>1</sup>	3
President, Metropolitan Chamber of Commerce and Industry (MCCI), Dhaka	4
Taxpayer (Self-Introduction could not be observed)	5
Representative, Federation of Bangladesh Chambers of Commerce and Industry (FBCCI)	6
Former Chairman of the National Board of Revenue	7
Income Tax Lawyer and former Tax Official	8
President, Dhaka Chamber of Commerce and Industry (DCCI)	9
President, Foreign Investor's Chamber of Commerce & Industry, Bangladesh	10
Taxpayer(Self-Introduction could not be observed)	11
Taxpayer(Self-Introduction could not be observed)	12
Finance Minister, Government of Bangladesh	13
The Finance Advisor to the Prime Minister	14
Member of the Parliament	15
One of the Largest Taxpayers of Bangladesh	16
MP and Member of the Standing Committee of the Parliament	17

Note: 1.The Square Group is one of the major business conglomerates in Bangladesh.

### **3.9.2 Secondary Data Collection**

This study has collected data from various secondary sources, including project reports, government reports and documents.



### ***Content Review of Documents and Reports***

Contents of the following government documents and reports have been reviewed for the study.

#### ***Reports of Modernization & Automation Project of the National Board of Revenue***

The NBR carried out a number of projects with the objective of reforming and modernising revenue administration as a whole and the Income Tax, VAT and Customs wings separately. In this, the NBR received technical assistance from different donor agencies. In line with the reform initiatives of the NBR, a project called the Modernization & Automation Project (MAP) of the NBR was undertaken between 2005 and 2008. The consultants for the MAP have submitted a number reports suggesting structural, administrative, law and policy reforms in order to transform the NBR into a modern, progressive, equitable and transparent tax regime. The researcher visited the library of the NBR several times to collect relevant reports and documents. Accordingly, the researcher collected the final and inception reports of said MAP, along with some other government documents from the library which were relevant to the current study.

#### ***Reports of the National Board of Revenue***

The Research and Statistics Unit of the NBR has been publishing reports on the annual performance of the Board since 1992-93. These reports represent data and information about tax administration and revenue collection. During fieldwork for the study, the researcher collected the Annual Reports of the NBR for the financial years 2002-2003, 2006-2007, and 2007-2008.

#### ***Reports of the Office of the Tax Ombudsman***

The researcher has collected the annual reports of 2008, 2009, and 2010 of the Office of the Tax Ombudsman. These reports include data and information about complaints cases and the performance of the Office in receiving and disposing of those cases.

#### ***Report on Computerisation of the Income Tax Department***

The researcher collected a report on the Computerisation of the Income Tax Department which shed lights on the importance of introducing automation in the NBR.

### ***Other Government Documents***

The researcher also collected other reports and documents from the Large Taxpayer Unit, Directorate of the Tax Inspection, Directorate of the Tax Investigation, Central Survey Zone, Taxes Zone 6, Taxes Zone 7, Taxes Zone 8, Taxes Zone Rajshahi, Taxes Zone 1 Chittagong, Taxes Zone 2 Chittagong, Taxes Zone Khulna and relevant Office Orders of the IRD, MOF about the Administrative Reform, Rebuilding and Expansion of the NBR.

### ***Attending the ‘Jatiyo Aikor Dibosh’ (Income Tax Day) Celebration Program***

The GOB in 2008 declared 15 September of each financial year as ‘Income Tax Day’ in order to inspire taxpayers and strengthen tax culture. The President, Prime Minister and Finance Minister of Bangladesh Government inaugurate the various events of ‘Income Tax Day’. High officials of the Income Tax Department also take part in the rally and other events of the day. The researcher attended ‘Income Tax Day 2009’ and collected the brochure published on the day. The brochure contains the speeches of the President, Prime Minister, Finance Minister, Finance Advisor to the Prime Minister, Secretary and Chairman of the NBR, Members of the NBR, President and Secretary of the Bangladesh Civil Service Taxation Association of Bangladesh. The researcher gained real-life information about the tax administration, taxpayers and tax culture of Bangladesh by attending the ‘Income Tax Day’.

## **3.10 DATA MANAGEMENT**

Data management is crucial for both quantitative and qualitative researches. Data management may involve managing large sets of data collected from several sources, preparing codebooks, data cleaning, documentation of variables, records of analysis, and so on (Miles & Huberman 1994). For the study, the researcher followed a systematic data management approach throughout the research process from coding to analysis of both quantitative and qualitative data.

### **3.10.1 Coding and Data Entry for the Quantitative Component**

According to Bazeley (2010, p. 434):

Statistical software typically provides an extensive range of visualization tools to assist the quantitative researcher to see patterns in and interpret their data, including charts of various types, box plots, scatter-plots,....

SPSS, Statistical Package for the Social Sciences (Bryman & Cramer 2011, p. 21), is recognised as an efficient software package for statistical analysis (Argyrous 2011). The researcher utilised SPSS software for quantitative data entry and analysis. Of the different versions of the program, the researcher utilised Version 18 known as PASW Statistics (Predictive Analytics Software) and the latest Version 20 known as IBM SPSS (Pallant 2011).

Coding is important for data management as Miles and Huberman (1994, p. 57) says, 'Coding is analysis'. The researcher prepared three 'codebooks' for three sets of questionnaires employed among the three groups of respondents. A 'codebook' for the cross-groups containing five common questions for the entire sample of the study was also prepared. In the codebooks, the researcher defined and labelled each of the variables of the study and assigned numbers to each of the possible responses, since Babbie (2013) says that a codebook guides locating variables as well as correlates two variables as a part of analysing data. The codebooks facilitated the researcher in organising data sets, entering data into the SPSS software, and generating the results for the quantitative components of the study.

After preparing the codebooks following the conventional system (Pallant 2011), the researcher prepared for the data entry step. For learning how to enter and analyse data by utilising SPSS software, the researcher undertook short training sponsored by the University.

### **3.10.2 Data Transcription, Translation, Coding and Data Entry for the Qualitative Component**

Face-to-face interviews were conducted in English. However, most of the participants at the roundtable seminar expressed their views in Bangla which were transcribed, and then translated by the researcher into English.

The researcher manually coded the qualitative data component for the mixed methods of the study through 'reading, re-reading, and checking transcribed text to arrive at a series of themes and subthemes, with the description of these themes being presented as the analysis of the data' (Bazeley 2010, p. 435).

## **3.11 DATA DESCRIPTION**

Davis and Cosenza (1988) state that variables are to be developed for specific analyses with respect to the objective of the study design. For this research, 'tax evasion' was regarded as the dependent variable. Tax evasion issues were measured in terms of 72 indicators. These

indicators are analysed with respect to professional backgrounds of respondents, i.e. the researcher investigated how people from different professions perceive tax evasion. This will enable the researcher to define causal relationships between perceptions of tax evasion and professional background.

### **3.12 DATA ANALYSIS**

Tharenou, Donohue, and Cooper (2007, p. 191) argue that ‘the data need to be analysed with a technique suited to testing the research questions/hypotheses’. Given the independent and dependent variables mentioned above, the size of the sample, and the guideline of the literature, the design of the analysis of this particular empirical study followed. It was considered that employing descriptive statistics, specifically frequency distribution and cross-tabulation, would serve the purpose of quantitative analysis for the study.

For analysing the qualitative data, the researcher primarily focused on the coding process. Overall, the data were grouped into codes, codes were grouped into broader themes, and themes were then grouped into larger dimensions and perspectives (Creswell & Clark 2007). Unlike the quantitative analysis focusing on variables, for the qualitative data analysis ‘the entire individual’ (Corbetta 2003, p. 44) was emphasised through pointing out what the respondent in the face-to-face interview or the discussant at the roundtable seminar said. For other qualitative data collected from secondary sources, contents were reviewed.

### **3.13 TRIANGULATION, RELIABILITY AND VALIDITY**

According to Miles and Huberman (1994, p. 267):

...triangulation is a way to get to the finding in the first place-by seeing or hearing multiple instances of it from different sources by using different methods and by squaring the finding with others it needs to be squared with.

For this study, two processes of triangulation were followed involving multiple data sources and different methods. Multiple sets of data collected from primary and secondary sources by employing different techniques were utilised ‘to clarify meaning, verifying the repeatability of an observation or interpretation (Stake 2005, p. 454). Accordingly, quantitative and qualitative methods and deductive-inductive reasoning were followed for data analysis. Through triangulation, the researcher obtained in-depth understanding of the phenomenon (Denzin & Lincoln 2005). Overall, the triangulation process enabled the researcher to

examine the consistencies and inconsistencies, convergences and corroboration of the findings.

According to Simon and Burstein (1985, pp. 17-18):

Every piece of research aims to produce an answer to a scientific question. And it is reasonable to ask just how good an answer the research provides. Two concepts we use in judging how good the answer is are validity and reliability.

Validity and reliability are related to the findings of a research study. It is, however, also true that valid and reliable findings may be dependent on the process of reaching the findings, i.e., the overall design and methodology of a research. As Waheduzzaman (2010, p. 139) contends, 'the quality of the data and the method used to gather that is broadly addressed by the reliability and validity issues in research studies.' Although it is convenient to check reliability and validity with quantitative data, they remain significant for qualitative data (Tharenou, Donohue, & Cooper 2007). However, according to Onwuegbuzie and Johnson (2006), in the case of mixed methods, where quantitative and qualitative approaches are combined, the interpretations of validity issues are contentious and remain in their infancy.

The participants for this study were selected based on their knowledge, expertise and experience, with the aim that their perceptions about tax evasion and corruption would be effective for the study investigating the problem. The responses to the survey and interviews were completely voluntary. For the quantitative component of the study, respondents were selected from three groups, including tax policy formulation, implementation, and compliance, in relation to three sets of questionnaires. Accordingly, a small sample was selected from the survey for in-depth interviews. Thus, primary data collected from three groups of respondents helped the researcher to compare the perception of the respondents across the three processes of the tax regime. In addition, the researcher has paid great attention to selecting specific institutions which have an association with tax policy formulation, implementation, and anti-corruption. The most senior persons of these institutions were interviewed for the study, which ensured the reliability of the information. Another set of primary data gathered from the seminar provided vital information. Furthermore, the researcher collected other secondary data from a number of relevant and dependable sources.

In social research, it is difficult to fully confirm the reliability and validity of data since the project depends on the answers and perceptions of human beings. Specially, in dealing with a sensitive socio-cultural and political issue, it is hard to find one specific way to address the case. For the present study, to draw a picture of tax evasion and corruption in Bangladesh, the data sets collected from a variety of primary and secondary sources appeared to be appropriate.

Because the researcher employed mixed methods of quantitative-qualitative combination in data collection and data analysis process, this made the validity assessment more complex (Onwuegbuzie & Johnson 2006). However, the researcher clarified the theoretical drive (deduction-induction) to be used in conducting the study, which has enhanced the validity aspects (Morse, Niehaus, Wolfe & Wilkins 2006). Overall, the design and methodology of the study helped the researcher to ‘handle threats to validity and gain a fuller and deeper understanding’ (Johnson, Onwuegbuzie & Turner 2007, p. 122).

In respect of reliability, dependability and auditability, it could, however, be argued that the ‘process of the study is consistent, reasonably stable over time and across researchers and methods’ (Miles & Huberman 1994, p. 278). In summary, the researcher has viewed the entire research process and answers of the questions through a pragmatist lens which offers microscopic detail of the inquiry (Onwuegbuzie & Leech 2005).

### **3.14 STRENGTHS AND LIMITATIONS OF THE METHODOLOGY**

Although this study has attempted to interview participants from different institutional backgrounds and interests, the size of the sample could be considered a limitation of the study. Nevertheless, given the sensitive nature of the survey, the size of the sample may be less important than the significance of the affiliation of the participants. The researcher was keen to conduct a survey among a large sample. However, this appeared to be difficult primarily because of the sensitivity of the research topic involving the relationship between tax evasion and corruption. Therefore the researcher paid more emphasis to selecting the relevant sample for collecting useful and in-depth data for the study rather than the emphasising the size of the sample. As Punch (2005, p. 100) has argued, ‘it is better to have a smaller data set of good quality than a larger one of lower quality.’

The questions of the three sets of questionnaires were only intended to elicit the perceptions, views and opinions of the respondents. No direct questions were asked of them to share their

experience about tax evasion and corruption. Therefore, the questionnaires could have some limitations. However, it seemed to be difficult to ask direct questions to the respondents in this kind of research project involving a sensitive topic.

Despite the abovementioned limitations, there are a number of strengths of the methodology of the research. The focus on examining three key issues has helped the researcher penetrate deep into the problems associated with these issues. Moreover, the sample and their institutional affiliation worked as a strength for the study in gathering reliable and relevant information.

In recent years, a new wave in social research, i.e., employing mixed methods, has gained increasingly recognition (Leech & Onwuegbuzie 2009; Onwuegbuzie & Leech 2006; Onwuegbuzie & Leech 2004). Data collection and analysis utilising mixed methods of quantitative and qualitative tools and deduction-induction reasoning are another important aspect of the present research that have made it unique. As Klassen, Creswell, Clark, Smith and Meissner (2012) assert, an investigator purposefully converges quantitative and qualitative data in a mixed method study to maximise the strengths and minimise the weaknesses of each, as well as to draw a macro picture of a case.

### **3.15 CHAPTER SUMMARY**

This chapter presents the design and methodology of the research. An outline of the entire process of carrying out the project is systematically and sequentially drawn. The purpose and nature of the study is clearly stated with justifying reasons for selecting the methods. The sample and sample area and institutions of the study are introduced. Data collection techniques, data presentation and analysis methods are also depicted. The researcher's experience of fieldwork focusing on different sources of data collection is shared. This chapter also describes the nature and importance of confidentiality for the study. Limitations of the study are identified. Overall, this chapter aims to provide a systematic pathway to conducting the research using five essential components of a research design: research questions, propositions, units of analysis, the logic of linking the data to the propositions, and the criteria for analysing the findings (Yin 2009).

## **CHAPTER IV ANALYSIS OF TAX POLICY FORMULATION, TAX EVASION AND CORRUPTION**

Taxation plays a central role in political economy. Tax policy affects economic growth, business cycles, the proportion of private wealth and income allocated to the public sector, and the distribution of collective costs and benefits (Hansen 1983, p. 3).

### **4.1 INTRODUCTION**

Much of the tax evasion literature has laid emphasis on taxpayers' risk-averse attitudes and behaviour in the compliance process in order to discern the causes of tax evasion (e.g., Gcabo & Robinson 2007; Obid 2004; Elffers, Robben & Hessing 1992; Weigel, Hessing & Elffers 1987; Kaplan, Reckers & Reynolds 1986; Spicer & Thomas 1982; Warneryd & Walerud 1982; Allingham & Sandmo 1972).

More recently, researchers have attempted to identify other causes of tax evasion, including those that are social, cultural, moral, psychological and demographic in nature (e.g., Ashby, Webley & Haslam 2009; Torgler & Schneider 2009; Devos 2008; Richardson 2008; Fortin, Lacroix & Villeval 2007; Alm & Torgler 2006; Groenland & Veldhoven 1983). However, literature focusing on the behavioural aspects of policy makers in formulating tax policies which might facilitate tax evasion is scant. Furthermore, discussion on the macro issues, including the socio-political environment in which the individual tax evader works, is mostly ignored (Gupta 1992). Kim (2008) also notes a gap in research on the effects of political issues on tax evasion. Nevertheless, political-cum-bureaucratic corruption is indicated as the root of black-income activities, including tax evasion (Gupta 1992). Likewise, the weaknesses in the social, legal and administrative institutions have been pointed out as a reason for any national tax gap in developing countries (Fuest & Riedel 2009).

Based on the data collected, the objective of this chapter is twofold. Firstly, this chapter seeks to examine the shortcomings in the tax policy formulation process of Bangladesh which might be responsible for causing tax evasion. Secondly, it aims to investigate the possible nexus and involvement of various actors in the tax policy formulation process which might facilitate that evasion. Hence, an attempt has been made to analyse the behavioural aspects of policy makers from a public choice theory perspective. According to Frey and Foppa (1986, p. 137), 'Maximizing subjective expected utility is the dominant approach to explain human



behaviour in the social sciences’. This assumption about human behaviour is the key focus of the public choice approach, and accordingly it will be examined in the present study. The analysis will be based on the findings in relation to sub-propositions P<sub>1.1</sub> and P<sub>2.1</sub>. For convenience, individual questions from the study have been converted into statements.

## **4.2 TAX POLICY FORMULATION-RELATED ISSUES AND TAX EVASION IN BANGLADESH**

Formulating tax policy and undertaking effective tax reform, starting from the identification of required improvement through constant development, implementation and monitoring, is a complex process (James & Edwards 2008). In the context of Bangladesh, different drawbacks of the tax policy formulation process may be responsible for creating shortcomings in the income tax laws, policies and regulations and taxpayers try to utilise these weaknesses to avoid paying taxes. This assumption is reflected in the following proposition:

**Sub-Proposition P<sub>1.1</sub>:** *The manner in which the tax policy is formulated leaves room for tax evasion.*

Based on the data collected from Bangladesh, tax policy formulation-related issues are examined. The respondents were selected from three different professional backgrounds including the bureaucracy (senior bureaucrats either retired or in service), politicians (ruling party/oppositions), and the neutral caretaker government and corruption watchdog organisation. An attempt has been made to compare the perceptions of respondents through the use of the cross-tabulation method. Tables 4.1, 4.2 and 4.3 show the differences in the perceptions of these three subgroups of respondents.

### **4.2.1 Research, Specialisation and Reform**

Tax systems of developing countries suffer from several challenges which adversely affect tax compliance. Amongst these, lack of research and specialisation on non-compliance issues and the absence of timely and comprehensive reform of tax policies and laws are noteworthy. Regarding the weaknesses of income tax laws and policies of Bangladesh, the current ‘Outline of Modernization Plan 2011-2016’ of the NBR reports that the Income Tax Ordinance of 1984 has become out of date and complicated over time due to several amendments through successive Finance Acts (National Board of Revenue 2012a, p. 10). In this regard, to determine the importance of undertaking research on tax policies and laws of

Bangladesh, as well as the existing inadequacies of research and specialisation, four questions were asked of 30 respondents who had a direct or indirect relationship with the tax policy formulation process in Bangladesh. The responses are presented in Table 4.1 with respect to relevant issues listed on the far left column of the Table. It may be noted that there were only four key respondents in TIB and other organisation. Thus only very broad inferences can be made from the data provided by respondents of this group.

**Table 4.1 Differences in Perceptions between Respondents of Three Different Professional Backgrounds Regarding the Importance of Research, Specialisation and Reform, Bangladesh 2009-2010**

Issues/Questions	Agreement/ Disagreement	Professions			
		Public Officials (%)	Political Actors (%)	Members of TIB and Others (%)	Total (%)
(i) Tax policies are formulated without comprehensive research on the flaws of the tax system, including tax evasion, and the ways to overcome these flaws	Strongly Agree	40.0	6.2	25.0	20.0
	Agree	20.0	93.8	75.0	66.7
	Moderately Agree	40.0	0.0	0.0	13.3
	Do Not Agree	0.0	0.0	0.0	0.0
	Total (N)	100 (10)	100 (16)	100 (4)	100 (30)
(ii) While formulating tax policies in Bangladesh, the policy makers would have benefitted more by comparing Bangladeshi tax policies with similar policies of leading developing and developed countries	Strongly Agree	40.0	31.2	50.0	36.7
	Agree	50.0	18.8	50.0	33.3
	Moderately Agree	10.0	50.0	0.0	30.0
	Do Not Agree	0.0	0.0	0.0	0.0
	Total (N)	100 (10)	100 (16)	100 (4)	100 (30)
(iii) Limited specialised knowledge of some section of policy makers is responsible for formulating tax policies which do not provide enough safeguards against tax evasion	Strongly Agree	10.0	18.8	25.0	16.7
	Agree	60.0	31.2	50.0	43.3
	Moderately Agree	20.0	50.0	25.0	36.7
	Do Not Agree	10.0	0.0	0.0	3.3
	Total (N)	100 (10)	100 (16)	100 (4)	100 (30)
(iv) The Income Tax Ordinance 1984 needs a thorough revision in order to cope with contemporary Bangladesh and check tax evasion	Strongly Agree	40.0	50.0	25.0	43.3
	Agree	50.0	50.0	75.0	53.3
	Moderately Agree	10.0	0.0	0.0	3.3
	Do Not Agree	0.0	0.0	0.0	0.0
	Total (N)	100 (10)	100 (16)	100 (4)	100 (30)

Table 4.1 shows that all respondents answered the questions. All respondents but one to some extent agreed with all statements that indicate that limited specialised knowledge of some policy makers is responsible for formulating tax policies which do not provide a safeguard against tax evasion. Disagreement was insignificant (3.3%). However, 16.7% strongly agreed, 43.3% agreed, and 36.7% moderately agreed with it. Twenty per cent strongly agreed and 66.7% agreed with the statement that tax policies are formulated without comprehensive research on the flaws of the tax system, including tax evasion, and the way to overcome these flaws. In another statement about the benefit of comparing Bangladeshi tax policies with similar policies of leading developing and developed countries, 36.7% strongly agreed, 33.3% agreed, and 30.0% moderately agreed. The statement that the Income Tax Ordinance 1984 needs a thorough revision in order to cope with contemporary Bangladesh and check tax evasion was strongly supported by a very high percentage of respondents (43.3%). Moreover, 53.3% agreed with it. Only 3.3% moderately agreed.

**Issue/Question (i):** With respect to the statement whether tax policies were formulated in Bangladesh without comprehensive research, 60.0% of public officials either ‘strongly agreed’ or ‘agreed’, compared to all of the political actors and all members of the TIB and others. It may be inferred that since the legislative branch is the major actor in the policy formulation process, the respondents who belonged to the political actor subgroup perceived the problem more seriously than the public official subgroup.

The survey findings appeared to be consistent with the findings from the in-depth interviews and secondary evidence. During an in-depth interview for the study, Chairman A of TIB said that ‘Research is very weak’. The lack of research in tax policy formulation has also been identified in the recommendation reports of the MAP of the NBR. In a final ‘Inception Report’ of the MAP, Akhteruzzaman (2008b) has emphasised undertaking comprehensive research in order to ascertain the views of taxpayers regarding tax compliance and non-compliance.

From the observations of the interviewee and the reports of the MAP, it appears that the Bangladesh tax system lacks ‘Research and Development’ facilities and comprehensive research on various issues of tax evasion. The MAP has also pointed out the importance of comprehensive research for combating tax evasion (Akhteruzzaman 2008a, p. 29):

Long term solutions to tax evasion in the cash economy require the NBR to gain an understanding of the underlying structural reasons impacting on compliance behavior and the

development of appropriate systemic treatments. GOB should consider allocating fund or arranging for technical assistance for a comprehensive research and study to address this enormous problem and collect a significant amount of lost revenue.

As discussed in Chapter II, there remains a significant gap in comprehensive research on tax policies and tax evasion in Bangladesh. This information must be known to senior public officials. Given the situation, it could be expected that all respondents from the public official subgroup would strongly acknowledge the problem and would play a strong role in making political leaders and the legislative branch aware of the importance of research. However, surprisingly, in this investigation, it is found that, compared to political actors and TIB members and others, public officials are substantially less in agreement with the statement. It may be inferred that public officials sought to avoid blame for inadequate research which would have indicated their own failure. The reason behind the greater support from political actors about the weakness of tax policy formulation may be that among the respondents there were opposition political leaders who perhaps appeared more vocal. Since TIB and the CG are non-political institutions, it is very likely that the respondents from these organisations were more open in expressing their opinions. It is also understandable that the members of the non-partisan institution appeared vocal.

**Issue/Question (ii):** With respect to the statement that, while formulating tax policies in Bangladesh, policy makers would have benefitted from comparing Bangladeshi tax policies with similar policies of leading developing and developed countries, only 50.0% of political actors either ‘strongly agreed’ or ‘agreed’, compared to all of the members of the TIB and others, and 90.0% of public officials. In addition, 50.0% of political actors moderately agreed. No one from the three professional subgroups disagreed. It is surprising that the political actor subgroup appeared less supportive in acknowledging the importance of such comparisons. It may be inferred that political actors subgroup sought to avoid the challenges of comparing Bangladeshi tax policies with other developing and developed countries since the comparison might point out the weakness of Bangladesh tax policies, indicating the failure of policy makers.

However, the statement was strongly supported by Chairman A of TIB during interview. He stated that policy makers need to undertake such comparisons with the policies of countries with similar socio-economic background, e.g., India, Pakistan and Sri Lanka. He further mentioned that India has established the National Institute of Public Finance and Policy

(NIPFP) which undertakes research on public finance and contributes to the policy process related to public finance. In his opinion, Bangladesh could follow India by establishing a tax research institution. Bangladesh could also learn from the experience from many public, private, regional and international organisations throughout the world that conduct research on tax policies and issues, including the Pakistan Institute of Public Finance Accountants (PIPFA), the Japan Research Center Tax Foundation, the International Tax and Investment Centre (ITIC), and the Australian Tax Research Foundation. These institutions could become role models for Bangladesh.

It is significant to mention here that, subsequent to the fieldwork of this research, the NBR has undertaken a comprehensive and long-term modernisation plan to establish an efficient, effective, fair and responsive tax regime compatible with international standards of best taxation practices (National Board of Revenue 2012a). The outline of the modernisation plan has also emphasised updating tax laws and overcoming their weaknesses through comprehensive policy reform supported by a concurrent tax administration reform strategy. The strategy paper for the plan also reported that the NBR has been supported by several bilateral donors and multilateral organisations in reforming tax policies.

In order to collect information and ideas, and to compare and contrast the tax systems, policy makers must emphasise research and analysis. It is also important to study the anti-tax evasion strategies of developed countries, since the shadow economy is also a growing problem in high-income OECD countries (Buehn & Schneider 2012). The importance of research on tax evasion is also reflected in a report by Fuest and Riedel (2009), who recommended conducting research to improve knowledge and understanding of tax avoidance and evasion and their impact on revenue mobilisation in developing countries.

**Issue/Question (iii):** Table 4.1 shows that only 50.0% of political actors either ‘strongly agreed’ or ‘agreed’ with the statement that the limited specialised knowledge of groups of policy makers is responsible for formulating tax policies that do not safeguard against tax evasion, compared to 70.0% of public officials and 75.0% of the members of the TIB and others. However, no political actor and or member of the TIB and others disagreed with the statement. Only 10.0% of public officials (3.3% overall) did not agree. From the Table, it is also evident that political actors appeared to adopt a more moderate position (50.0%) than did public officials (20.0%) and the members of the TIB and others (25.0%). It may be inferred

that, since the statement pointed to the weakness of policy makers, political actors tended to downplay their own role in responding to the statement.

Because of the majoritarian system, the political party in power exercises authority in Bangladesh to formulate a policy and pass laws in the parliament. However, in the case of making any amendment for the reduction or abolition of any tax, a recommendation from the President is not required (Article 82, Constitution of Bangladesh, Government of Bangladesh 2010).

In theory, in tax policy procedure, the legislative branch (the parliament) plays a more direct role than the bureaucracy. In Bangladesh, the fiscal policy is mostly decided by the head of the political party in power. Moreover, the appointment of the Secretary of the IRD who is ex-officio Chairman of the NBR, depends on the political preference of the incumbent government. Doubtless, political interference in appointment and promotions of the civil servants is a common phenomenon in Bangladesh (Aminuzzaman 2004). In the policy arena, there remains an argument in Bangladesh that bureaucrats are more educated, trained and skilled than politicians because of the long tenure and career aspect of the bureaucracy. Since the tenure of the parliament is only for five years, political actors as well as MPs have a shorter time to familiarise with any particular policy aspect, whereas it is easy for bureaucrats to gain experience, expertise and specialisation throughout their long career and diversified job postings. It is also evident in Bangladesh that some MPs spent only 5% of their time in the policy formulation process (Aminuzzaman 2004).

From this perspective, since the question pointed to the weakness of policy makers, the respondents from the subgroup of political actors perhaps downplayed their own role. In contrast, public officials were found to be vocal to speak about the limited specialised knowledge of some policy makers and this might be responsible for formulating tax policies inadequate for safeguarding against tax evasion.

**Issue/Question (iv):** It can particularly be noted from Table 4.1 that most of each subgroup (90.0% of public officials, all political actors, and all members of TIB and others) either ‘strongly agreed’ or ‘agreed’ with the statement that the Income Tax Ordinance (ITO) 1984 needed a thorough revision in order to cope with contemporary Bangladesh and check tax evasion. None disagreed with the statement.

The survey findings were consistent with the findings of the in-depth interviews and secondary evidence. The necessity of a thorough revision of the ITO 1984 has been reflected in the responses at the in-depth interviews. Chairman C of the NBR strongly supported the statement and recommended formulating people-friendly tax policies in order to prevent tax evasion. A similar point was also made by Senior Official B of the Office of the Tax Ombudsman (OTO) at interview; he emphasised reforming the Ordinance in order to formulate 'Easy, modern and compliance-friendly tax laws'. A Secretary to the Government commented in response to an open-ended question that the 'Existing tax policy should be thoroughly reviewed, more transparent and user-friendly'.

It is a longstanding issue in the tax regime that the 1984 version of the income tax laws should be updated. Ironically, every government amends, includes and excludes some laws, rules and policies during the national budget sessions of the parliament. However, a substantial revision of the entire Ordinance and other relevant rules and policies has not yet occurred. It is relevant to mention here that the latest version of the Ordinance was published by the GOB in 1999 (*Income Tax Manual Part-I*, 2009). The copy printed by the government is no longer available for sale. At present, a compiled copy of the Ordinance, privately published by staff of the NBR, is serving those who deal with taxation matters and need to learn about Bangladeshi income tax law (*Income Tax Manual Part-I*, 2009). Since 1999 both influential political parties, the Awami League and the Bangladesh Nationalist Party, have formed government, but ironically no policy makers have realised the importance of publishing the Ordinance, which is one of the fundamental bases for facilitating internal revenue collection.

In this regard, in a report of the MAP, Akhteruzzaman (2008a, p. 5) has recommended:

The authority should undertake a comprehensive review of its laws, regulations and administrative authorities related to IT, VAT and Customs Duty. The reform should aim to achieve improving transparency, improving taxpayers' services, consistency, efficiency, fairness and administrable.

He (2008a, p. 7) again placed an emphasis on political commitment for initiating a thorough revision of the tax laws:

This is a universal fact that without the sustained political commitment and support successful implementation of any reform and changes will not happen. It is the responsibility of the politician to make sure for proper utilisation of taxpayer money.

#### **4.2.2 Participation, Opinion and Vision**

No policies can influence citizens' daily life as much as tax policies (Hansen 1983). Hence the importance of citizen representation, involvement, participation and expression of interest in the tax policy formulation process cannot be overemphasised (Torgler & Schneider 2009). In a 'Final Report' of the tax review, McLeod, Patterson, Jones, Chatterjee and Sieper (2001) have laid emphasis on public participation and consultation in tax reform process. Given the importance of tax policy and its impact on citizens' lives, we sought to examine whether the tax policy formulation process of Bangladesh reflects popular participation, opinion and views. Four questions were asked of the 30 participants belonging to the policy formulation group. Analysis of the responses shows that tax policy formulation lacks public inclusion and the reflection of public opinion. Table 4.2 shows the survey results regarding weak participation and short-term vision in the tax policy formulation, which facilitates tax evasion.

Most questions were supported by the respondents. A statement regarding the absence of effective participation by all political parties in the process was strongly supported by 40% and supported by a further 40% of respondents. Only 3.3% denied it. Sixty per cent agreed with the statement that tax policies are formulated in Bangladesh in a manner which does not reflect public opinion and participation concerning their views on tax evasion. Moreover, the statement was strongly supported by 26.7%. A small percentage of respondents (3.3%) disagreed with the statement.

The study investigated whether colonial legacies are still reflected in the ITO1984. It found that 31.0% strongly felt and 58.6% felt the existence of colonial legacies in the Ordinance; 10.3% moderately agreed with the statement; none disagreed. Respondents were also asked whether tax policy formulation reflects a short-term orientation that, in effect, deters the government from minimising tax evasion and maximising long-term benefit. Table 4.2 shows that an equal percentage (36.7%) strongly agreed and agreed with the statement, but a significant percentage (23.3%) moderately agreed; only 3.3% disagreed.



**Table 4.2 Differences in Perceptions between Respondents of Three Different Professional Backgrounds Regarding the Lack of Participation of Political Parties and People, Bangladesh 2009-2010**

Issues/Questions	Agreement/ Disagreement	Profession			
		Public Officials (%)	Political Actors (%)	Members of TIB and Others (%)	Total (%)
(i) There is an absence of effective participation by all political parties in the tax policy formulation process, which is responsible for making such policies inadequate to combat tax evasion	Strongly Agree	50.0	31.2	50.0	40.0
	Agree	10.0	56.2	50.0	40.0
	Moderately Agree	30.0	12.5	0.0	16.7
	Do Not Agree	10.0	0.0	0.0	3.3
	Total (N)	100 (10)	100 (16)	100 (4)	100 (30)
(ii) Tax policies are formulated in Bangladesh in a manner which does not reflect people's opinion and participation for their views on tax evasion	Strongly Agree	40.0	18.8	25.0	26.7
	Agree	20.0	81.2	75.0	60.0
	Moderately Agree	30.0	0.0	0.0	10.0
	Do Not Agree	10.0	0.0	0.0	3.3
	Total (N)	100 (10)	100 (16)	100 (4)	100 (30)
(iii) Colonial legacies are still reflected in the Income Tax Ordinance 1984	Strongly Agree	44.4	31.2	0.0	31.0
	Agree	33.3	62.5	100.0	58.6
	Moderately Agree	22.2	6.2	0.0	10.3
	Do Not Agree	0.0	0.0	0.0	0.0
	Total (N)	100 (9)	100 (16)	100 (4)	100 (29)
(iv) Tax policy formulation reflects a short-term orientation that, in effect, deters the government from minimising tax evasion and maximising long-term benefit	Strongly Agree	40.0	31.2	50.0	36.7
	Agree	30.0	37.5	50.0	36.7
	Moderately Agree	20.0	31.2	0.0	23.3
	Do Not Agree	10.0	0.0	0.0	3.3
	Total (N)	100 (10)	100 (16)	100 (4)	100 (30)

Table 4.2 also provides a comparative analysis of the perceptions of respondents about lack of participation of political parties and people in the tax policy formulation process. It can be noticed from the Table 4.2 that the perceptions of respondents varied according to their professions. Moreover, varied professional backgrounds of respondents might have significantly influenced the nature of responses.

**Issue/Question (i):** Table 4.2 shows that, with respect to the statement that the absence of effective participation by all political parties in the tax policy formulation process is responsible for making such tax policies inadequate for combating tax evasion, 60.0% of the public officials either 'strongly agreed' or 'agreed', compared to all of the TIB members and

others and 87.4% of the political actors. Interestingly, 10.0% of the public officials disagreed with the statement indicating that they believe that all political parties are represented in the tax policy formulation process. It can readily be assumed that the members of TIB and former member of the CG fully supported the statement because they belong to politically neutral institutions and are the strong advocates of establishing a democratic culture in Bangladesh.

Senior Official B of the OTO strongly supported the statement and contended that ‘Lack of political commitment and participation is responsible’ for this. Bangladesh politics, despite following a parliamentary democracy, has failed to establish a democratic culture of listening to opposition parties and being tolerant and respectful of their opinions. As it has been noted by Monir, As-Saber and Woodward (2009), the working relationship between the party in power and the opposition in the parliament is not at all satisfactory in Bangladesh. There is no reason to believe that the tax policy formulation process would be an exception to this culture. Boycotting the parliament by the opposition political parties is another common aspect of Bangladesh politics (Mohsin & Guhathakurata 2007; Alamgir, Mahmud & Iftekharuzzaman 2006). In most of the cases, these decisions come from the top of the party and they may not always reflect the opinions of other politicians who work at the grassroots level of the same party. In this present study, since the political actors were selected from different levels, including existing and former MPs of ruling and opposition parties and politicians working in different wards, the views of all are reflected in the findings. They presumably have recognised the importance of the participation of all political parties in the policy formulation process and they did not hesitate to express their opinions to that effect.

Despite the importance of greater participation in the decision making process, the incumbent government of Bangladesh often fails to encompass all the political parties. Opposition parties also feel reluctant to participate in parliamentary debate and discussions since their opinions are often not taken into account. Overall, the dominant attitude of the political party in power creates a poor parliamentary culture (Aminuzzaman 2004).

Participation of all political parties in the decision making process is an essential precondition of formulating an effective and efficient tax policy to combat tax evasion. A number of scholars have stressed the importance of facilitating voice and participation as an element of participatory democracy to enhance economic growth (Fuest & Riedel 2009; Dixit 2007; Rodrik 2000). The importance of inclusion of citizens in tax policy formulation can be better understood from the following comment (Hansen 1983, p. 5):

Not all citizens benefit from other governmental policies, and many are not aware of the role of governments in providing such public goods as clean air or water. But nearly everyone pays taxes, and the tax bite is evident to even the most apolitical citizens at the gasoline pump, at the checkout counter, or on the payroll stub.

It can be argued that absence of effective participatory democracy jeopardises the overall effectiveness of policy formulation.

**Issue/Question (ii):** Table 4.2 demonstrates that only 60.0% of the public officials, compared to all the political actors and all the TIB members and others, either ‘strongly agreed’ or ‘agreed’ with the statement that tax policies are formulated in Bangladesh in a manner which does not reflect public opinion and participation concerning their views on tax evasion. Interestingly, 10.0% of the public officials disagreed with the statement. The political actors and TIB members and others were found to be more supportive than the public officials, the last reflecting the rigidity characteristic of the bureaucracy.

Tax compliance and tax evasion are mainly decisions taken by taxpayers, i.e., citizens. Therefore they know better what inspires them to pay or not to pay taxes. In this context, taxpayers might have their own views and opinions about tax policies and laws. They might have negative views about government tax policies and these prevent them from paying taxes. In the case of Bangladesh, since the ratio of taxpayer identification numbers (TIN) and total population is significantly low (1.5% of the population), it is important to integrate public opinion and participation in the tax policy formulation process to identify problems and dissatisfaction about tax policies (if any). From this viewpoint, the question above was asked to learn respondent opinion. At interview, Chairman C of the NBR strongly supported the statement:

...income tax law does not reflect the will, aspiration, culture, habit, economic way of life of Bangladeshi people... Tax laws or rules are normally changed or revised or reformed at the behest of donor funds and agencies and by their appointed paid consultants who do not have personal involvement in the economic affair of the country.

Public opinion and support for the tax system is important for its effective implementation (Kemp 1980), but even though ensuring taxation with representation is extremely important, the relationship between popular preferences and tax policy legislation remains problematic (Hansen 1983).

**Issue/Question (iii):** Table 4.2 shows that 77.7% of the public officials, compared to all members of the TIB and others, and 93.7% of the political actors, either ‘strongly agreed’ or ‘agreed’ with the statement that colonial legacies are still reflected in the ITO. No respondent from the three subgroups disagreed. The full support from members of the TIB and non-party CG are not surprising, since they represent non-political institutions; they have neither political affiliation nor are under governmental restriction or bound by directions. Therefore they expressed their views in a straightforward way. The public officials may have been understandably cautious in answering such a sensitive statement.

The survey findings were consistent with the findings of in-depth interviews and secondary evidence. During an interview, Chairman C of the NBR strongly supported the statement and contended that ‘It carries *in toto* those thoughts, ideas, contemplations of the British rulers who didn’t bother to take care for the hopes and aspiration of the masses’. When interviewed, Senior Official B of the OTO also acknowledged that the language of the statutory notices is inappropriate and requires immediate modification.

It has become a long-sought item on the public agenda that the outdated ITO 1984, originally enacted in 1922, should be modified. As Mazid (2010) has stated, ‘tax laws in Bangladesh are old and should be appropriately reformed to matching the norms, nature and culture of the people, and rephrased to follow a pro-taxpayer philosophy’. In the final report of the MAP on ‘Recommendations: Income Tax Policy’, Dietz (2008) has suggested the NBR upgrade income tax laws, rules and procedures in the areas of enforcement, audit, inspection and record keeping. However, a substantial revision of the whole Ordinance, as well as other relevant rules and policies, has not yet taken place.

**Issue/Question (iv):** In order to understand the situation better, a question was asked whether tax policy formulation reflected a short-term orientation that in effect had deterred the government from controlling tax evasion. Table 4.2 shows that 68.7% of the political actors either ‘strongly agreed’ or ‘agreed’ with the statement, compared to all members of TIB and others and 70.0% of the public officials. This is not surprising, since the policy makers were indirectly blamed in the statement. Qualitative data revealed the consistency of the statement.

The respondents in the in-depth interviews and the discussants at the roundtable seminar further reinforced the findings of the survey. During an interview, a Minister, from the Ministry of Finance, contended that:

Tax policy formulation is possibly suffering negligence mainly because the Board of Revenue that has too much on its plate in terms of administering tax and other revenue matters. So, we are thinking to have, within the Board, a separate branch or vein for policy... Tax policy in this country historically has evolved according to needs, not by following any strategic planning.

The comment of the Minister has clearly pointed to the absence of long-term policy planning in tax policy formulation. Chairman B of TIB, in an interview, also supported the statement, saying, ‘Yes, very short-sighted’.

At the roundtable seminar, a similar point was made by the President of the Foreign Investor’s Chamber of Commerce and Industry (Discussant 10); he indicated the lack of long-term tax policies, the absence of which poses a great hindrance to foreign investment and industrialisation.

Furthermore, some secondary evidence has indicated the shortcomings of the government policies of Bangladesh as lacking long-term vision and mission. As a recent instance, in a cabinet meeting on 13 September 2010, the incumbent government abolished the Office of the Tax Ombudsman by approving the Tax Ombudsman (Abolition) Bill 2010 (*The New Nation* September 14, 2010; *The Daily Star* September 13, 2010c;). It is worth noting that the GOB could provide no proper reason for the abolition of such an important office. The Press Secretary to the Prime Minister said to the press, ‘The Cabinet took the decision as the previous Tax Ombudsman Act 2005 was found to be confrontational with the rules and laws of the taxes and import duties’ (*The New Nation* September 14, 2010, p. 1). Other reasons for abolishing the Office, as reported in the press, were the poor performance of the Office and tax officials’ apathy (*The Daily Star* September 13, 2010c, p. 1). By abolishing the Tax Ombudsman Office, the government returned to old ways of addressing taxpayer grievances through bureaucratic means with lesser accountability. Although, according to the Annual Report of the Tax Ombudsman (Office of the Tax Ombudsman, Bangladesh 2010, p. 4), the number of complaints to the Tax Ombudsman by aggrieved taxpayers increased from 10 in 2006 to 119 in 2007, 241 in 2008 and to 355 in 2009, the reason for abolishing the Office remains a mystery. In fact, such a rate of increase suggests a need for a complaint mechanism – it serves to stimulate complaints, so abolish it! Moreover, the Office establishment had

already cost the public exchequer around BDT 100 million (*The Daily Star* September 13, 2010c, p. 1) which has also been wasted. This rushed decision was taken by not following proper procedure and while also ignoring the people's views. There is no evidence that the government obtained feedback from taxpayers about the performance and effectiveness of the Office. Rather, taxpayers appeared to be happy with its establishment, since it was working to bring transparency and accountability to the tax regime and reduce harassment of taxpayers by tax officials. Taxpayers' dissatisfaction regarding the abolishment of the Office has been reflected in an online poll by the *Daily Star* newspaper which revealed that 74.3% have not supported government's decision (*The Daily Star* September 19, 2010d). In fact, the Constitution of Bangladesh in 1972 advised creation of an Ombudsman's Office, empowering it to investigate any action taken by a Ministry, a public official or a statutory public authority (Article 77, Constitution of Bangladesh, Government of Bangladesh 2010). Since 1972, however, no Ombudsman has been appointed by any government except for the Tax Ombudsman.

The decision to close the Office reflects the government's short-term vision and has further supported the statement tested in this study. It may be surmised that the Office was abolished because of pressure from interest groups whose interests were hampered by the establishment of this alternative to the adversarial bureaucratic system. The tax administration itself might be one of those pressures.

The reason behind formulating short-term oriented policy can be explained from the public choice viewpoint. One of the central arguments of public choice theory is that the ruling political party strives for re-election and opposition political parties strive to attain power (Downs 1957). Therefore the policies a party in power formulates are aimed at gaining political support for the subsequent election. Because of such political imperatives, a government, without considering long-term prospects, often formulates policies which immediately please the voters but fail to resolve perennial problems such as tax evasion. This is the case in Bangladesh, where the government generally enacts and amends tax laws, policies and rules during the budget session annually. Many of the tax policy initiatives appear to be inconsistent and lack beneficial long-term implications. These policies, however, satisfy influential voters – various interests and lobbyist groups.

Another reason for formulating short-term tax policies might be the influence of the 'political business cycle' which is defined by Buchanan (1978, p. 15) as 'the alleged attempt by

politicians in office to create economic conditions timed so as to further their own electoral prospects'. While discussing 'tax revenues in political equilibrium', Buchanan and Lee (1984, p. 195, 196) have further argued that politicians have little concern about the long-run consequences of policies; rather, they account for near-term policies which intensify their immediate advantage, despite costing revenue collection. This may also be the case in Bangladesh politics.

#### **4.2.3 Shortcomings of Income Tax Laws and Policies**

There appear to be numerous shortcomings with respect to income tax laws and policies in Bangladesh. The answers to the four questions related to the inappropriateness of these laws and policies are summarised in Table 4.3. It is demonstrated in the Table that 34.5% strongly agreed and 58.6% agreed with the statement that there is a necessity for a clear definition of 'tax evasion'. A specific definition of the offence of tax evasion might be helpful in detecting evaders. Forty per cent strongly agreed, and 30.0% agreed and moderately agreed, that the various loopholes and anomalies of the tax laws and policies were responsible for causing tax evasion. More than 40.0% also agreed that frequent changes in tax-related documents were also responsible for causing evasion, whereas only 3.6% did not agree. Table 4.3 has also shed light on the views of respondents on the shortcomings of tax amnesty policies, revealing that nearly 60.0% strongly agreed with the statement that such amnesty policies are formulated in a manner which encourages tax evasion, and these policies are formulated in order to benefit vested interests.

**Table 4.3 Differences in Perceptions between Respondents of Three Professional Backgrounds Regarding the Shortcomings of the Income Tax Laws and Policies, Bangladesh 2009-2010**

Issues/Questions	Agreement/ Disagreement	Profession			
		Public Officials (%)	Political Actors (%)	Members of TIB and Others (%)	Total (%)
(i) A clear definition of tax evasion is needed in order to detect it	Strongly Agree	33.3	31.2	50.0	34.5
	Agree	44.4	68.8	50.0	58.6
	Moderately Agree	22.2	0.0	0.0	6.9
	Do Not Agree	0.0	0.0	0.0	0.0
	Total (N)	100 (9)	100 (16)	100 (4)	100 (29)
(ii) Various loopholes or anomalies of tax laws and policies are responsible for causing tax evasion in Bangladesh	Strongly Agree	40.0	37.5	50.0	40.0
	Agree	40.0	25.0	25.0	30.0
	Moderately Agree	20.0	37.5	25.0	30.0
	Do Not Agree	0.0	0.0	0.0	0.0
	Total (N)	100 (10)	100 (16)	100 (4)	100 (30)
(iii) Frequent changes in tax-related documents (for example: income tax return forms, statement of assets and liabilities, statement regarding particulars of lifestyle) are responsible for causing tax evasion in Bangladesh	Strongly Agree	0.0	6.7	25.0	7.1
	Agree	22.2	60.0	25.0	42.9
	Moderately Agree	66.7	33.3	50.0	46.4
	Do Not Agree	11.1	0.0	0.0	3.6
	Total (N)	100 (9)	100 (15)	100 (4)	100 28
(iv) Tax amnesty policies (the government may forgive tax evaders for their offences without any penalty and prosecution) are formulated in Bangladesh in a manner which encourages a tax evasion culture	Strongly Agree	55.6	50.0	100.0	58.6
	Agree	44.4	18.8	0.0	24.1
	Moderately Agree	0.0	31.2	0.0	17.2
	Do Not Agree	0.0	0.0	0.0	0.0
	Total (N)	100 (9)	100 (16)	100 (4)	100 (29)

**Issue/Question (i):** Table 4.3 shows that 77.7% of public officials either ‘strongly agreed’ or ‘agreed’ with the statement that a clear definition of tax evasion was needed in order to detect it, compared to all political actors and members of the TIB and others. Moreover, a significant percentage (22.2%) of public officials moderately agreed with the statement. Comparatively less support by public officials for the statement was surprising.

In order to detect and prevent an offence, a clear and easily understandable definition of that offence is essential to detect and prevent it. For instance, the World Bank, the Asian



Development Bank, Transparency International and all other organisations who work against corruption have defined and explained ‘corruption’ in a very simple manner so that people can easily understand what corrupt conduct is. A number of developed countries, including Australia, Canada and Denmark have defined ‘tax evasion’ as a form of crime. If one browses the webpage of the Australian Tax Office (Australian Taxation Office 2010), he/she would quickly be able to know about ‘tax evasion’ and ‘tax crime’. In the case of Bangladesh, the principal basis of income tax law is the Income Tax Ordinance 1984, which has provisions relating to avoidance of tax (Chapter XI), imposition of penalty (Chapter XV), and offences and prosecution (Chapter XXI) (*Income Tax Manual Part-I*, 2009). However, to date there has been no simple and easy definition of ‘tax evasion’ in the Ordinance. Furthermore, the language of the relevant laws is not easy for taxpayers to understand and interpret. Ironically, the website of the NBR has not explained what tax evasion is. Therefore it can be assumed that incorporating a clear and simple definition of the offence would be helpful for both parties: for the taxpayer to be aware of the offence, and for the tax authority to detect tax evaders. Furthermore, an easily understood definition would make the law transparent.

The importance of a clear definition of tax evasion was emphasised by Chairman B of the NBR in an interview, who contended that people usually took advantage of the lack of clarity and specific definition of tax evasion. He further indicated the difficulties for courts in interpreting the crime of tax evasion due to the lack of a clear definition. As a result, in most of court cases, he said, the verdict goes in favour of tax evaders, not the government. In another interview, Chairman A of TIB also emphasised the need for a clear definition and its legal implications.

From this perspective, then, it could be expected that all respondents would support the statement. However, this was not the case. The public official subgroup were relatively less supportive. Their lower support can be explained from the viewpoint of public choice theory: bureaucrats are more interested in their own personal welfare as an interest group rather than their goals and satisfaction as citizens (Breton 1978). It may be inferred that the respondents of the public official subgroup who moderately agreed with the statement perhaps overlooked the public interest aspect.

**Issue/Question (ii):** Table 4.3 shows that 80.0% of public officials either ‘strongly agreed’ or ‘agreed’ with the statement that loopholes/anomalies in tax laws and policies were responsible for causing tax evasion, compared to 62.5% of political actors and 75.0% of TIB members and others. However, a significant percentage from the three subgroups, i.e., 20.0% of public officials, 37.5% of political actors and 25.0% of TIB members and others, moderately agreed. The stronger support from the public official subgroup is noteworthy. Since these officials are more involved in implementing laws and policies, perhaps they noticed loopholes and anomalies more comprehensively than did political actors and members of the TIB and others.

Bangladesh inherited the ITO from the British colonial administration (Mazid 2010). Yet the language and structure of the laws have not yet been fully simplified and modified to make them user-friendly. Complicated tax codes, framed in a different context in the colonial period, have created anomalies and loopholes. These anomalies, complexity and ambiguity were pointed out by respondents during the interviews. Chairman A of the NBR mentioned the presence of various anomalies. Senior Official B of the OTO pointed out various anomalies which facilitated evasion. A similar point was also made by Senior Official A of the Office, who also opined that income tax laws seemed to be difficult in Bangladesh, especially given the low literacy rate, and he further said that first or second generation businesspeople in Bangladesh found income tax laws complex, and therefore they felt reluctant to pay taxes.

As indicated by respondents, there remain a number of loopholes in the income tax laws which arguably facilitate taxpayers evading payment of the proper amount of taxes.

**Issue/Question (iii):** Table 4.3 shows that a high percentage of respondents from each subgroup moderately agreed with the statement that frequent changes in tax-related documents are responsible for causing tax evasion in Bangladesh: 66.7% of public officials moderately agreed, compared to 33.3% of political actors and 50.0% of members of TIB and others. Eleven per cent of public officials disagreed. Only 22.2% of public officials either ‘strongly agreed’ or ‘agreed’, compared to 66.7% of political actors and 50.0% of the members of TIB and others as ‘agreed’. The high percentage of the score ‘moderately agreed’ indicates that respondents were not entirely sure whether frequent changes in tax-related documents exercise a negative or positive influence on tax evasion.

On the basis of the findings in Table 4.3, it can be assumed that changes in tax-related documents might be appropriate to bring the tax regime up-to-date, make it convenient for taxpayers and facilitate tax payment. Therefore this change plays a positive role in reducing tax evasion.

However, Chairman B of the NBR, in an in-depth interview, expressed a different view:

...Because [of] the stability - one well-designed return form should continue for 10 to 15 years so that people can understand it. For the first year, it may be a bit difficult for the taxpayers to go through [it].

Based on the findings of the survey and in-depth interview, it can be argued that income tax-related forms need to be updated; however, scope should be given to taxpayers so that they can cope with the changes. Otherwise, frequent changes may become an obstacle for the taxpayers in complying with their legal obligations to pay taxes.

**Issue/Question (iv):** As discussed earlier, another disturbing feature of Bangladesh tax policy is the occasional amnesty that encourages nurturing a culture of tax evasion. In this regard, the statement in Table 4.3 was fully supported (either ‘strongly agreed’ or ‘agreed’) by two subgroups, public officials and members of TIB and others, whilst only 68.8% of political actors either ‘strongly agreed’ or ‘agreed’. It may be inferred that, being political actors, some respondents downplayed their role in expressing their views against tax amnesty policies.

Tax amnesties are government schemes that allow tax evaders for a short period of time to voluntarily pay previously evaded taxes without fear of being prosecuted or being subject to penalties (Luitel & Sobel 2007). In the case of Bangladesh, tax amnesty policies have been formulated by most governments since independence and endless trials and errors continue every year to decide what tax amnesties are to be granted to which groups of the taxpayer community (see Chapter II). Tax amnesties can be extended in the form of special tax treatment with respect to investment in new industry, investment in the property market, and so on. The amnesty policies referred to as ‘black money white provision’, forgiving tax evaders for their concealed income and evaded taxes, were provided in Bangladesh in 1987-1989, 1991-1996, and 2000-2011 (*The Daily Star* April 23, 2012c; *The Daily Star* November 22, 2011d; Adhikari 2009; *The Daily Star* June 30, 2009c). It is relevant to mention here that the NBR has defined black money as ‘any legally or illegally earned money, which is not

declared to the government agency, and on which no income tax is paid to the government’ (*The Daily Star* May 20, 2012d). Most of the amnesty schemes have not only provided a lower rate of taxes but also encouraged the black economy by providing taxpayers legal support in investing their black money without facing questions about the source of such income. It is frustrating to observe that black money holders and tax evaders have again been provided with a tax amnesty for the current fiscal year of 2012-2013 (*News Today* June 9, 2012).

Although, a number of economists, academics, civil society and think-tank organisations continue to argue that governments not provide an opportunity to make illegally earned as well as black money ‘white’ or legal, neither government (democratic or military) has stopped it. To date, no initiative has been taken by any government to conduct research on the size of the black economy in relation to the amount of revenue collected from tax amnesty schemes. The negative impact of tax amnesty policies can be understood from the following comment of Chairman D of the NBR, during an interview:

The existence of a large underground economy is responsible for the low tax base in Bangladesh. The average size of the underground economy of Bangladesh was 37.7% of the official GDP in FY 2001-02 (Park 2005). This apart, the Income Tax Ordinance 1984 offers a variety of tax exemptions and incentives and their continued and excessive use erodes the tax base and puts strains on an already heavily challenged tax administration.

This comment clearly pointed to tax exemption schemes, provided by the Ordinance, working as impediments in checking tax evasion. Tax exemption schemes are continually provided by most governments with an objective to facilitate investment, employment and export. However, the impacts of those schemes on macroeconomic factors have never been examined. The Chairman further indicated the link between tax evasion and tax amnesties and argued that tax incentives and exemptions significantly facilitated tax evasion. Tanzi and Zee (2000) have argued that tax incentives which do not emphasise other fundamentals and are not carefully and narrowly targeted create fertile ground for rent-seeking. Similar point is also made by McLeod et al. (2001, p. iii); as they assert, ‘tax incentive policy can easily become politicised with resources being captured by concentrated interest groups’. Most of the amnesty schemes in Bangladesh have encouraged the black economy by providing tax evaders legal support for investing their black money without questions about its source.

There are hardly any statistics or research on the impact of tax amnesty policies. It has not been examined whether these schemes have enhanced revenue collection and facilitated industrialisation and infrastructure development before the extension of existing facilities or the incorporation of new ones. Moreover, it has not been monitored whether these schemes are facilitating tax evasion in Bangladesh. In an interview, an Executive of TIB asserted that such policies weaken the transparency and accountability of the tax regime by creating incentives for evasion and corruption, benefitting only certain categories of people. According to the Executive, through enacting the ‘black money white’ provision, the Bangladesh tax regime imposes more on honest taxpayers than dishonest taxpayers and thus negatively affects the horizontal equity of taxation. The negative impact of a tax amnesty has also been indicated in a large body of tax evasion literature. Tanzi and Shome (1993, p. 813) reiterate this reality:

The tax amnesties used in some countries also have important implications for tax evasion because in many ways they encourage tax evasion, at least over the longer run, and by so doing they have an impact on the equity of the tax system, tax revenue, and the tax administration.

Interestingly, the findings of this present study revealed that a substantial percentage of respondents from the political actor subgroup shared a less strong view that a tax amnesty encourages tax evasion. A very common aspect of Bangladesh politico-economy is that most politicians are themselves big businessmen (Ahmed 2009a). Therefore, despite the apparent conflict of interest, it is not unusual for policy makers to make fiscal policies which favour businesses but jeopardise state interests. Since the respondents of this study have political affiliations, they may show a lenient attitude towards tax amnesty policies encouraging evasion.

It can be expected that a government’s tax policy should essentially be related to the social welfare of a state. Interestingly, the tax amnesty policies, formulated at different times by different governments in Bangladesh, do not reflect the social utility aspect, as was revealed by the present study. Rather, the findings match the public choice approach, which has rejected the notion of benevolent government. Public choice theorists have viewed a state as a person who has his/her own interests which are not necessarily identical with the interests of citizens. According to this theory, a state, like any rational individual, seeks to maximise its own welfare or utility by manipulating allocation of government resources and taxation. As Downs (1957) stressed, it is the government’s intention to maximise votes instead of public

welfare because of competition with other political parties in keeping control. Hettich and Winer (1999) have pointed out that a government's tax policy formulation is determined by its intention to maximise votes at the next election. By offering tax amnesties to segments of the elites in a society, politicians ensure votes for the next election. Although policy makers claim that they formulate tax amnesty policies in order to enhance revenue collection and attract investment, employment and industrialisation, the plausible outcome of these politically attractive tax policies is, in essence, encouraging and further facilitating a tax evasion culture.

Overall, it can be argued that tax amnesty, exemption, and incentive policies facilitate tax evasion, bribery, inequality, and concentration of wealth. The continuous formulation of tax amnesty policies by different governments has significantly distorted the fairness approach of the tax regime by creating scope for tax evasion and affecting the tax morale of honest taxpayers.

#### **4.3 NEXUS BETWEEN ACTORS IN THE TAX POLICY FORMULATION PROCESS AND TAX EVASION IN BANGLADESH**

Several actors play a role in the tax policy formulation process. Their involvement may create a nexus between them, with an aim of formulating such policies as might serve their respective interests. As tax evaders need protection and patronage from political leaders and administrators, while politicians need money and support from business for their election or re-election, they tend to join hands (Gupta 1992). This collaboration facilitates tax evasion. Big business and interest groups also seek to influence policy decisions in order to secure formulation of their preferred tax policy. Using political power in supporting tax evaders is not only evidenced in Bangladesh. Protection of major tax evaders by politicians, including politicians themselves, is found in other developing countries (Gray 2001). Therefore, it is assumed that:

**Sub-PropositionP<sub>2.1</sub>:** *The nexus of three actors (politicians, public officials, and other interest groups, including businesspeople) contributes to the tax policy formulation process, which is often aimed at facilitating tax evasion.*

Six questions were asked of 30 participants about the perceived nexus of interest groups, including political actors, public officials, business people and other taxpayers in the tax policy formulation process, which might be a cause of tax evasion in Bangladesh.

#### **4.3.1 Nexus of Actors**

Four questions were asked to examine respondents' opinions about the nexus of several actors groups in the tax policy formulation process. Table 4.4 presents the survey results. It can be noticed that 43.3% of respondents strongly agreed with the statement that a conflict of interest in formulating tax policies might occur, since a significant number of MPs are businesspeople in Bangladesh. In addition, 26.7% supported and 30.0% moderately supported the statement. No respondent disagreed.

For the statement that political actors are likely to influence the tax policy formulation process in order to attract personal direct or indirect advantages, 13.3% strongly agreed and 46.7% agreed. None disagreed. In addition, 40.0% moderately agreed. In a similar statement indicating the influence of public officials in the tax policy formulation process, only 3.3% strongly agreed and 40.0% agreed. However, 10.0% disagreed and a significant percentage (46.7%) moderately agreed. Another statement, that businesspeople and other taxpayers influence the tax policy formulation process in order to attract personal direct or indirect advantages, was strongly supported by 6.7% and supported by 56.7%. Moderately agreed was 33.3% and disagreed 3.3%.

**Table 4.4 Differences in Perceptions between Respondents of Three Professional Backgrounds Regarding the Nexus of Actors, Bangladesh 2009-2010**

Issues/Questions	Agreement/ Disagreement	Professions			
		Public Officials	Political Actors	Members of TIB and Others	Total
		(%)	(%)	(%)	(%)
(i) A significant number of the Parliament Members are leading businesspeople in Bangladesh, which creates a conflict of interests in formulating tax policies	Strongly Agree	50.0	43.8	25.0	43.3
	Agree	20.0	18.8	75.0	26.7
	Moderately Agree	30.0	37.5	0.0	30.0
	Do Not Agree	0.0	0.0	0.0	0.0
	Total (N)	100 (10)	100 (16)	100 (4)	100 (30)
(ii) Political actors are likely to influence the tax policy formulation process in order to attract personal direct or indirect advantages	Strongly Agree	10.0	18.8	0.0	13.3
	Agree	70.0	25.0	75.0	46.7
	Moderately Agree	20.0	56.2	25.0	40.0
	Do Not Agree	0.0	0.0	0.0	0.0
	Total (N)	100 (10)	100 (16)	100 (4)	100 (30)
(iii) Public officials are likely to influence the tax policy formulation process in order to attract personal direct or indirect advantages	Strongly Agree	0.0	0.0	25.0	3.3
	Agree	30.0	50.0	25.0	40.0
	Moderately Agree	50.0	50.0	25.0	46.7
	Do Not Agree	20.0	0.0	25.0	10.0
	Total (N)	100 (10)	100 (16)	100 (4)	100 (30)
(iv) Businesspeople and other taxpayers are likely to influence the tax policy formulation process in order to attract personal direct or indirect advantages	Strongly Agree	0.0	6.2	25.0	6.7
	Agree	80.0	37.5	75.0	56.7
	Moderately Agree	10.0	56.2	0.0	33.3
	Do Not Agree	10.0	0.0	0.0	3.3
	Total (N)	100 (10)	100 (16)	100 (4)	100 (30)

**Issue/Question (i):** In relation to the parliamentary membership of businesspeople and their conflict of interest in formulating tax policies, Table 4.4 shows that 62.6% of political actors either ‘strongly agreed’ or ‘agreed’ with the statement, compared to all members of TIB and others, and 70.0% of public officials.

It may be inferred that, since the statement indicated the failings of politicians, public officials were understandably more vocal in expressing their opinions compared to political actors, since the former could downplay their own role. Members of TIB and others adopted a straightforward position.



More open views were reflected in the interviews. Chairman B of the NBR contended that if stakeholders become lawmakers, they will satisfy their own interests; he also commented:

Lawmakers should be lawmakers; they should not be businessmen. If the same person plays both roles, it is quite natural from our human tendency - if I am an industrialist, I will try to protect my best interests.

It has become a trend in Bangladesh politics that a considerable number of the MPs are elected from the business community. Leading politicians, especially MPs, control big businesses (Ahmed 2009a). According to an Executive of TIB, among MPs 27% in the 1970s, 40% in the 1990s, 60% in 2001 and 55% in 2009 were directly or indirectly involved in various businesses. He argued that politics in Bangladesh has become an avenue for investment and a source of profit (not often wholly legal), which he termed the business of politics. During the interview, he further commented that tax evasion is very much linked to this political culture and there is a serious lack of highest-level political commitment to generating internal resources.

If a stakeholder becomes a legislator, there is a strong possibility that he/she will protect the interests of stakeholders. The typical image of a politician, sketched by Tullock (1965, p. 26) as an ‘intelligent, ambitious, and somewhat unscrupulous man in an organizational hierarchy’, looks to be aptly for what emerged from this study. Legislators/politicians, being ambitious and self-seeking, are likely to rationalise their own actions from selfish motives (Tullock 1965). Therefore it can be assumed that MPs who are also professionally big businesspeople in Bangladesh will advocate for tax policies that support their own business interests.

**Issue/Question (ii):** An interesting finding reported in Table 4.4 shows that only 43.8% of the political actor subgroup either ‘strongly agreed’ or ‘agreed’ with the statement that political actors are likely to influence the tax policy formulation process in order to attract personal direct or indirect advantages, compared to 80.0% of public officials and 75.0% of members of TIB and others. Moreover, the majority of the political actor respondents (56.2%) moderately supported it. It can particularly be observed that the statement indicated the self-interest aspect of politicians. Therefore respondents with a political affiliation tended to downplay their own role in responding. It may be inferred that public officials were more supportive because the statement blamed politicians.

The statement was strongly supported and explained by interview respondents. Chairman A of TIB pointed out the presence of a political nexus in the tax policy formulation process. According to Senior Official B of the OTO, political leadership in tax policy formulation lacks commitment; further, in the process everybody indulged in bargaining over tax policies. Chairman B of the NBR also said that the political leaders of Bangladesh, in general, lacked patriotism; in his opinion, the existence of tax evasion depends on the political will of the government. A similar point was made by a Deputy Commissioner of Taxes in response to the survey's open-ended question:

Political will is one of the major factors to make the taxpayers accountable. They are the actors who can play an important role to create an atmosphere where, if you evade tax, you will be punished.

The findings from the in-depth interviews and survey have thus portrayed an overall negative image of political actors in Bangladesh. Based on these perceptions, it can be argued that political actors, lacking in patriotism and commitment, are likely to influence the tax policy formulation process to satisfy their self-interest.

The findings and interpretation of the study were consistent with the literature. For example, in a study on India's Black economy, Gupta (1992, p. 48) remarks:

Tax evasion and political corruption are inseparable and mutually reinforcing. One causes the other. Thus, tax evaders need protection against the rigors of law. Most of them also seek a share in the distribution of government largesse and patronage. Politicians and bureaucrats provide both, but only in return for appropriate economic rewards.

Just as in India, a corrupt nexus of political actors and tax evaders in the tax policy formulation process exists in Bangladesh. Politicians, as is suggested by Downs (1957, p. 28), 'act solely in order to attain the income, prestige, and power which come from being in office'. There is no reason to believe that politicians in Bangladesh will emphasise the public interest while formulating public policies. Rather, in accordance with Muller's view (1979, p. 1), it can be argued that politicians and policymakers are 'egoistic, rational and utility maximizers'. Thus, they may be motivated to earn direct and indirect personal advantages while formulating tax policies and laws. Furthermore, the common suspicion about the moral standards of politicians is as Tullock (1965) has described it: in most cultures, politicians are perceived as immoral; they make the best use of their political privileges and connection to collect illicit income.

**Issue/Question (iii):** A similar question was asked in relation to public officials' possible influence on the tax policy formulation process. Table 4.4 reveals an interesting scenario. Here, the public official subgroup was found to 'moderately agree' in its responses. Twenty per cent of public officials disagreed. The reason might be that the statement highlighted a negative aspect of public authority, i.e., their own self-interested behaviour within the nexus. Therefore, public officials probably sought to sidestep blame since the statement reflected negatively on them.

The corrupt practices of the bureaucrats can be understood from the following observation of Blackburn, Bose and Haque (2005, p. 19):

Corruption on the part of public officials may mean a world of difference between what policies are good for a nation and what policies are actually implemented. The latter may have much less to do with the promotion of growth and reduction of poverty, and much more to do with the personal enrichment of a privileged few following their own hidden agenda.

Niskanen (1978) argues that bureaucrats (civil servants/public officials) are similar to any human beings who are motivated by personal objectives and behave purposively. In the 'Bureaucrat's Maximind' model, Niskanen (1971, p. 38; 1978, p. 164) argued that bureaucrats are generally keen about their income, perquisites, power, prestige, the public good, and an easy life. In light of this model, there seems no reason to doubt that the public officials of Bangladesh, being driven by their self-interest, will influence tax policy formulation in order to attract personal direct or indirect benefits.

**Issue/Question (iv):** The lobbying of businesspeople and other taxpayers in influencing tax policy is another important area to consider. Table 4.4 shows that only 43.7% of political actors either 'strongly agreed' or 'agreed' with the statement, compared to all members of TIB and others, and 80.0% of public officials.

The survey findings revealed the lenient attitude of political actors. They probably sought to avoid blame for allowing businesspeople and other taxpayers to influence tax policy formulation. It can also be assumed that, since a number of politicians are involved in leading businesses in Bangladesh, respondents belonging to the political actor subgroup meant to downplay their own role to avoid perceptions of a conflict of interest.

When interviewed, and strongly supporting the statement regarding the influence of businesspeople and other taxpayers in tax policy formulation, Chairman A of TIB commented, ‘Businesspeople are obvious. But other taxpayers are not organised. They use their personal network’.

If previous and recent tax amnesty policies are closely examined, it is easy to discern a trend of government support for defaulting businesspeople. For instance, in 2007, through a tax amnesty policy, the incumbent government forgave tax evaders and black money holders for their previous five years’ concealment of income and investment in land, buildings, cars, banks, the stock exchange and the like (Adhikari 2009). In 2008, a tax policy was again formulated allowing tax evaders and black money holders to whiten their black money when buying a flat or a house (Adhikari 2009). It is quite understandable that both groups, the real estate businesses who sold land and apartments and the businesspeople and others who purchased them, benefitted from these policies. In this regard, a newspaper report has revealed that the businesspeople, politicians, former bureaucrats, and bankers are the major buyers of the apartments (*New Age* June 1, 2009). Real estate businesspeople are an influential interest group in Bangladesh and are said to have a relationship with politicians. Therefore, they are in a convenient position to bargain with the incumbent government. More recently, between 2009 and 2012, the GOB encouraged dishonest people to invest their black money in the stock market without fear of being prosecuted for the illegal source of their income or not paying taxes in due time (*News Today* June 9, 2012; *The Daily Star* November 30, 2011e; *The Daily Star* February 1, 2011a; *The Daily Star* June 30, 2009c).

Buchanan and Tullock’s perceptions (1962, p. 306) about an individual in the market place can indirectly be applied to responses to the statement of the study:

The man who spends his time at the television set or in his automobile in private life is not the man who is likely to vote for more taxes to finance libraries, concerts, and schools.

It is not unlikely that the businesspeople and other taxpayers in Bangladesh whose motivation is maximising profit will be tempted to evade taxes or to gain special tax treatment without thinking of the greater public interest. It can be argued that, in order to meet their self-interest, businesspeople and other taxpayers will influence tax policy formulation.

#### **4.3.2 Influence of Interest Groups and the Role of Party Donations**

The influence of interest groups in tax policy formulation is evident in the literature. As Toma and Toma contend (1986, p. 142):

Political entrepreneurs enter into ‘contracts’ with interest groups that take the form of decreases in tax rates on different taxable activities, decreases in the broadness of the tax base through deductions, and the enactment of special spending programs. Politicians benefit from the distribution of these favors either because of enhanced election prospects or through direct increases in private income.

When examining the nexus between the various actors, an interesting issue to examine is the influence of interest groups and the role of party donations in influencing tax policies.

Table 4.5 shows that the statement that interest groups play a vital role in pressuring the government to enact provisions legalising black money was strongly supported by 43.3% of respondents and supported by 23.3%; 33.3% moderately agreed. Another statement, that in return for party donations, the political party in power may formulate tax policies that favour particular interest groups in evading tax, was strongly supported by 20.0% and supported by 40.0%; 40.0% moderately agreed.

**Table 4.5 Differences in Perceptions between Respondents of Three Professional Backgrounds Regarding the Influence of Interest Groups, Bangladesh 2009-2010**

Issues/Questions	Agreement/ Disagreement	Professions			
		Public Officials (%)	Political Actors (%)	Members of TIB and Others (%)	Total (%)
(i) Interest groups play a vital role to push the government to formulate provisions to legalise black money as a tool to evade tax	Strongly Agree	40.0	43.8	50.0	43.3
	Agree	30.0	12.5	50.0	23.3
	Moderately Agree	30.0	43.8	0.0	33.3
	Do Not Agree	0.0	0.0	0.0	0.0
	Total (N)	100 (10)	100 (16)	100 (4)	99.9 (30)
(ii) In return for party donations, the political party in power may formulate tax policies that favour particular interest groups in evading tax	Strongly Agree	30.0	18.8	0.0	20.0
	Agree	40.0	31.2	75.0	40.0
	Moderately Agree	30.0	50.0	25.0	40.0
	Do Not Agree	0.0	0.0	0.0	0.0
	Total (N)	100 (10)	100 (16)	100 (4)	100 (30)

**Issue/Question (i):** It was further examined if interests groups, in general, influence tax policy formulation in Bangladesh in order to legitimise their black money. Table 4.5 shows that only 56.3% of political actors either ‘strongly agreed’ or ‘agreed’ with the statement, compared to all the TIB members and others, and 70.0% of public officials; 43.8% of political actors moderately agreed.

Since the statement has directly cited the bias of the tax policy making process and the influence of interest groups, it is not surprising that the political actor subgroup downplayed their role when they responded to it.

Despite comparatively lower support from the political actor subgroup, the statement was strongly supported by Chairman A of TIB. When interviewed, he blamed the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) and Bangladesh Garments Manufacturers and Exporters Association (BGMEA) for lobbying the incumbent government in formulating tax amnesty policies. It is known in Bangladesh that before every budget session of the parliament, influential interest groups, especially the FBCCI and the BGMEA, seek to pressure the government to continue providing for legalising black money (*The Daily*

*Star* June 14, 2009b; *News From Bangladesh* June 11, 2005b; *News From Bangladesh* May 19, 2005a). Initially, incumbent government tried to remain firm in not continuing the policy in order to impress citizens with its stance; however, eventually it backed down to the demands of the interest groups.

It is interesting to observe the influence of interest groups when taxes are imposed on the real estate sector. In Bangladesh, variant rates of taxes have been imposed for selling apartments depending on their geographical location. It is evident from the budget for 2011-2012 that the groupings of areas for charging taxes have been re-arranged following the recommendations of Real Estate & Housing Association of Bangladesh (REHAB), an influential interest group (Ministry of Finance 2011a).

The hypothesis of Buchanan and Tullock (1962) can be cited here to explain the influence of interest groups on the government's fiscal policy formulation. They have argued that organised interest groups attempt to gain favour from the government by offering a vote-bank and in turn government grants them differential tax privileges. Kemp also comments (1980, p. 286):

Private organisations and individuals may claim particular attention from politicians in the making of tax policy because they can conceivably affect public attitudes towards the government's measures to the electoral disadvantage of the government, ...

A similar point is made by Parle and Hirlinger (1986), when they conducted a study on evaluating the use of tax amnesties in the United States of America. They reported on interest group activities that lay behind the legislation of tax amnesty policies.

**Issue/Question (ii):** Table 4.5 demonstrates that only 50.0% of the political actor subgroup either 'strongly agreed' or 'agreed' with the statement that in return for party donations, the political party in power may formulate tax policies that favour particular interest groups in evading tax, compared to 70.0% of public officials and 75.0% of TIB members and others. It is critical to determine whether the ruling political party in Bangladesh formulates specific tax policies to favour interest groups in return for donations. It is certainly difficult to find evidence of financial exchanges in the political market place. However, receiving party donations is not an uncommon practice in the political sphere globally. A recent anti-corruption study of Denmark (one of the cleanest country) reports that secretive political financing is the biggest corruption issue in the country (Transparency International 2012c).

Moreover, it is also evident that lobbyist and interest groups pressure governments for special tax treatment, tariff preference or protection. Hence, it would not be surprising to discover that a political party in power favoured specific groups in formulating tax policies in return for party benefit, especially in the case of Bangladesh, where political and administrative corruption has been reported as the highest in the world for a consecutive number of years (*The Daily Star* October 27, 2010e; Transparency International Bangladesh 2008b; 2008a; 2007a). As-Saber (2011) also comments that corrupt legislators in Bangladesh are driving the country to political bankruptcy and economic mayhem. Contributions to party funds and the influence of black money in politics are elements of an all-too-common culture not only in Bangladesh but also in other South Asian states. Referring to India, Jain (1987, p. 244) asserts that ‘it is common knowledge that much of politics is financed out of black money earnings’. A similar scenario exists in Bangladesh since ‘there is no transparency in political fundraising’ (Aminuzzaman 2004, p. 10).

The statement of the study can be explained from the viewpoint of public choice theory. Downs (1957), using the self-interest axiom, has argued that politicians treat policies entirely as instruments for attaining private benefit, which they can achieve only by being elected. Therefore, he says (1957, p. 28), ‘parties formulate policies in order to win elections, rather than win elections in order to formulate policies’. In this light, it is no exaggeration to argue that in the political marketplace of Bangladesh, the ruling political party and interest groups indulge in exchanging party donations and preferential tax policies, as has clearly been reflected in interview responses.

#### **4.4 CHAPTER SUMMARY**

The primary objective of this empirical study was to investigate whether various failures in the tax policy formulation process facilitated tax evasion and whether the nexus and influence of various actors in tax policy formulation, including political actors, public officials, businesspeople and other taxpayers, are responsible for causing tax evasion.

With reference to sub-proposition P<sub>1.1</sub>, this study has analysed issues regarding the tax laws, policies and policy formulation process that are potentially responsible for causing tax evasion in Bangladesh. With reference to sub-proposition P<sub>2.1</sub>, the behavioural characteristics of policy makers and the involvement of a number of actors in formulating tax policies, both of which might facilitate tax evasion, were examined.



An important and interesting finding in this empirical study is the variance of responses in line with the implied accusations of responsibility in the statements that invited answers. The findings suggest that the perceptions of respondents were substantially influenced by their professional affiliations and the core meaning of statements as they perceived them. In most cases, members of TIB and others were strong in expressing their views and supporting the statements. Overall, guarded responses were conveyed by public officials; however, they could on occasion become vocal when the statements focused on the failings of politicians. On the other hand, the political actor subgroup downplayed its role when questions attributed blame to politicians and highlighted the latter's self-interested behaviour in formulating tax policies.

When participants were requested to answer the open-ended question, they were more detailed and straightforward. Similarly, during in-depth interviews, as discussion proceeded respondents became more expressive in explaining the issues.

One of the important findings of the study in reference to sub-proposition P1.1 was that the Income Tax Ordinance 1984 needs thorough revision in order to cope with contemporary Bangladesh and to check tax evasion; this was supported overall by 96.6% of survey respondents (which was the highest support amongst all the statements in reference to P1.1). A number of participants in interviews also supported this statement.

Another significant finding in reference to sub-proposition P2.1 was that a significant number of Parliament Members are leading businesspeople in Bangladesh and this creates a conflict of interest in formulating tax policies; this was supported by overall 70.0% of survey respondents (which was the highest support amongst all the statements in reference to P2.1) and participants in interviews.

Overall, it appeared from the results in Tables 4.1 to 4.5 that most respondents to some extent agreed with the issues explored in the questionnaire. Despite the sensitivity of the issues, participants responded to the questions. It may also indicate that the respondents have seriously considered the problem.

The empirical findings suggest that the issues reported on have a considerable impact on tax policy formulation in Bangladesh. Some of the issues are responsible for creating tax evasion whereas some are identified as mechanisms for detecting and preventing tax evasion. If the

frequency scores of ‘strongly agree’ and ‘agree’ are combined, it can be observed that 11 statements out of 12 were supported by the majority of respondents (ranging from 60.0% to 96.6%). Based on these results, it can be stated that the weight of the evidence supports sub-proposition P<sub>1.1</sub>, viz., *the manner in which the tax policy is formulated leaves room for tax evasion*.

The statistical evidence shows that most of the issues regarding the nexus and involvement of various interest groups were supported. The combined frequency scores of ‘strongly agree’ and ‘agree’ show that five statements out of six were supported by the majority of respondents (ranging from 60.0% to 70.0%). Therefore, based on the survey findings, in-depth interview finding and secondary data, it can be stated that the weight of evidence is supportive of sub-proposition P<sub>2.1</sub>, viz., *the nexus of three actors (politicians, public officials, and other interest groups, including businesspeople) contributes to the tax policy formulation process, which is often aimed at facilitating tax evasion*.

The theoretical argument of the study has emphasised the basic behavioural premises of the public choice approach that man is rational and a utility maximiser and politicians and bureaucrats are similar to any individual in being motivated by self-interest. The empirical findings of the study were consistent with the argument of public choice theory in regard to the utility-maximisation behaviour of policy makers in dealing with the tax evasion issue.

In summary, both sub-propositions, P<sub>1.1</sub> and P<sub>2.1</sub> were supported by the research findings, suggesting that the tax policy formulation process in Bangladesh leaves room for tax evasion and that the involvement and nexus of actors that include politicians, public officials, interest groups, businesspeople and other taxpayers, contribute to the tax policy formulation process and this often facilitates tax evasion in Bangladesh.

## CHAPTER V ANALYSIS OF TAX POLICY IMPLEMENTATION, TAX EVASION AND CORRUPTION

Tax revenue does not collect itself. Instead its collection invites several forms of dishonesty and malpractice: taxpayers may try to evade their legal liabilities, while tax inspectors may solicit bribes in order to connive at such evasion or, more generally, may abuse the authority with which they are entrusted (Hindriks, Keen & Muthoo 1999, pp. 395-396).

### 5.1 INTRODUCTION

A good tax administration can ensure a good tax system free of corruption (Kangave 2005). While crafting effective tax-related policies is important, efficient implementation of these policies relies primarily on the capacity and performance of the tax administration. Corrupt practice by tax authorities may create scope for dishonest businesspeople to evade taxes. Appropriate vigilance, capacity and honesty of tax officials are, therefore, essential to curb corruption in the tax administration and tax evasion. Both corruption and tax evasion have detrimental effects on government finances, growth and wealth distribution (Litina & Palivos 2011). In this regard, a growing number of tax literatures have found that corrupt practices of tax collectors are responsible for widespread tax evasion (e.g., Attila 2008; Akdede 2006; Julious 2006; Katsios 2006; Uslander 2003; Sanyal, Gang & Goswami 2000).

Given the prevalence of pervasive corruption and tax evasion in Bangladesh (see Chapters I and II), the role of tax administration cannot be overlooked. According to Section 4 of the Services (Reorganization and Conditions) Act 1975 (Act No. XXXII of 1975), the Bangladesh Civil Service (BCS) is comprised of 29 Cadres<sup>22</sup> (Debnath, Barmon & Biswas 2011). BCS 'Taxation Cadre' is one of them. The tax administration operates mainly through permanent civil servants (Class I Officials) who are recruited into the 'Taxation Cadre' through the 'Bangladesh Civil Service Examination'. There are also Class II officials (generally less senior, including the 'Inspectors of Taxes'), and Class III (generally clerical posts) and Class IV staff (e.g., messengers, night guards and the like). Class II officials are recruited by the PSC and Class III and Class IV are directly recruited by the IRD and the NBR. Personnel working under the BCS Taxation Cadre are responsible for income tax

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<sup>22</sup> Cadres distinguish specific occupational groups to which a civil servant might belong, and the National Pay Scale (NPS) and Unified Grade System (UGS) apply to the officials of each cadre (Mukherjee, Gokcekus, Manning & Landell-Mills 2001).

assessment, computation, and collection. They directly interact with taxpayers in conducting hearings, auditing and inspection.

The Bangladesh tax administration is facing a double-edged problem. On the one hand, taxpayers complain against tax authorities for corruption, malpractice and harassment. On the other, tax officials suffer from institutional weaknesses which prevent them from delivering efficient and dedicated service. It is paradoxical that, in Bangladesh, the tax administration, which is the most significant government organ of revenue mobilisation, is far from representing a modern, well-equipped and integrated public sector agency. As the 'Outline of Modernization Plan 2011-2016' of the NBR says, despite being the central authority of tax policy and administration in Bangladesh, the NBR faces problems in its operations because of its administrative structure, manual processes, shortage of trained manpower and infrastructure (National Board of Revenue 2012a).

The thrust to follow in this chapter is twofold. First, it examines the weaknesses of tax policy implementation that might be responsible for causing tax evasion. Second, it investigates the possible nexus and influence of different actors in the tax policy implementation process who might facilitate tax evasion. In examining the causes of tax evasion, it is important to better understand how tax policies are implemented. If there remain weaknesses in the tax policy implementation process, taxpayers may seek to exploit these to evade taxes. This study also assumes that there is a nexus between the tax officials and other actors that might facilitate tax evasion. Given the level of corruption in the tax administration of Bangladesh and the undue advantages in the form of rents accrued by dishonest tax officials and taxpayers, we analyse tax evasion and corruption according to rent-seeking theory, which describes 'the activities and expenditures of individuals who seek to change rights to earn the above normal profits described as rents' (Khan 1996, p. 687).

The analysis is based on the findings in relation to propositions P<sub>1.2</sub> and P<sub>2.2</sub>. The empirical data collected from the survey sample, in-depth interviews, and the researcher's participant observation at the tax roundtable seminar are utilised. Furthermore, secondary data, such as official reports and documents and literature relevant to the study, are employed. Frequency distribution and qualitative method are concurrently utilised to analyse the data. No attempt has been made to compare the perceptions of the respondents based on their professional background because all survey respondents are tax officials representing one single professional group. For convenience, all personnel of the tax administration are referred to in

this study as ‘tax officials’. Individual questions from the study have been converted into statements.

## **5.2 TAX POLICY IMPLEMENTATION-RELATED ISSUES AND TAX EVASION IN BANGLADESH**

Conventional wisdom argues that institutional weakness is responsible for poor public service and bureaucratic corruption in Bangladesh (Roy 2006). Hence it is assumed in this study that weaknesses within the tax administration, including lack of human resources and co-ordination, inadequate infrastructural and logistical strength, insufficient professional support for tax officials, behavioural aspects of tax officials and corruption might be responsible for contributing to tax evasion. This assumption is reflected in the following proposition:

***Sub-Proposition P<sub>1.2</sub>** The manner in which the tax policy is implemented leaves room for tax evasion.*

This section will examine proposition P<sub>1.2</sub> on the basis of empirical data collected from Bangladesh. The summaries of frequency distribution of responses are presented in Tables 5.1, 5.2 and 5.3 for analysis.

### **5.2.1 Institutional Weaknesses in Tax Administration**

Slemrod and Yitzhaki (2002, p. 1463) argue that, ‘the possibilities for evasion and the difficulties of administration have always shaped tax systems. Until recently, formal analysis of taxation largely ignored these realities’. Bangladesh’s tax administration is no exception in facing severe difficulties. This is acknowledged in the ‘Outline of Modernization Plan 2011-2016’ of the NBR (National Board of Revenue 2012a, p. 5):

The NBR is woefully short on administrative resources in terms of manpower, finance as well as physical infrastructure. Its tax management procedures and business rules are desperately in need of review and improvement and its processes are cumbersome, being largely manual and paper intensive. There are obvious leakages of tax revenue from even tax filers on account of inadequate accounting procedures.

This study thus sought to examine the weaknesses of the tax administration that might create the room for tax evasion. Table 5.1 presents the responses to five questions regarding such weaknesses.

**Table 5.1 Issues Related to Weaknesses of the Tax Administration, Bangladesh 2009-2010**

Issues/Questions	Strongly Agree (%)	Agree (%)	Moderately Agree (%)	Do Not Agree (%)	Total (N)
(i) Shortage of staff in the tax administration is responsible for the failure to check tax evasion	40.0	40.0	20.0	0.0	100 (30)
(ii) Inadequate infrastructural and logistic strength of the tax administration is responsible for tax evasion	50.0	36.7	13.3	0.0	100 (30)
(iii) Inadequate automation and computerisation in the tax administration is responsible for causing tax evasion	46.7	33.3	20.0	0.0	100 (30)
(iv) Inadequate co-ordination inside the tax administration works as a factor in causing tax evasion	3.3	46.7	33.3	16.7	100 (30)
(v) Flaws in enforcement and work process work as a factor in causing tax evasion	23.3	60.0	16.7	0	100 (30)

Table 5.1 shows that all respondents answered all questions. None disagreed with four of five questions, indicating that the respondent tax officials to some extent perceived these issues as weaknesses in the tax administration and contributing to tax evasion. It is noteworthy that only one question, regarding inadequate co-ordination inside the tax administration, was denied by 16.7% of respondents. As a possible interpretation it could be argued that, since the statement cast blame on lack of co-ordination among officials themselves, they refrained from acknowledging that.

**Issue/Question (i):** This question was asked to learn the perceptions of officials as to whether they acknowledged that shortage of staff in the tax administration was responsible for failure in checking tax evasion. Table 5.1 shows 40.0% each ‘strongly agreed’ and ‘agreed’, totalling 80%. None disagreed. However, a significant 20.0% moderately agreed. The trend of answers to this statement may be interpreted in two ways. The respondents who did not strongly support it probably felt complacent about the importance of human resources in their department or might have been extra cautious in expressing their opinions related to tax evasion.

Responses to the survey open-ended question and in-depth interviews and the discussions at the seminar elaborated on and supplemented the survey findings. Several senior officials

acknowledged the shortage of staff as one of the major problems of the NBR as well as an impediment to combating tax evasion. At interview, Chairman B of the NBR pointed out that ‘at the implementation level, the NBR needs sufficient manpower’. A former Chairman of the NBR at the seminar laid emphasis on the expansion of the tax department (Discussant 7). He indicated that a number of businesspeople living on the periphery have remained out of the tax net due to inadequate tax network and lack of human resources in the tax department (Discussant 7). At the seminar, a Member of the Parliament also pointed out that ‘the NBR does not have manpower, logistic support and efficiency’ (Discussant 15). A Member of the Parliamentary Standing Committee also indicated that ‘They do not have manpower’ (Discussant 17). It is important to note that the current ‘Outline of Modernization Plan 2011-2016’ of the NBR has pointed to the shortage of efficient manpower as one of the crucial reasons for the NBR’s failure to combat pervasive tax evasion (National Board of Revenue 2012 a).

In addition, lack of proper management of human resources (HRM) also appeared to be an important issue. Regarding inappropriate management of human resources, Senior Official C of the OTO commented in the open-ended question that tax officials with appropriate expertise and experience are not posted in the most appropriate positions, and this was one of the causes of tax evasion.

As Ehsan (2008, p. 59) argues, ‘the weaker the human resource management framework in Bangladesh, the less efficient, effective, capable, impartial and responsive is the public administration system’. This observation is also reflected in the tax administration. During fieldwork for the study, the researcher observed that the entire tax administration had to depend on manual processes. In a Circle office, one tax official had to manually perform all the duties, including dealing with taxpayers, record keeping, file management, computing, auditing and collection. As a consequence, in most tax offices, staff are overloaded with work. The need for adequate staff and effective HRM cannot be overlooked. The following Table shows the total count of personnel employed in the Income Tax Department during 2007-2008, as against overall requirements.

**Table 5.1.1 Income Tax Department Personnel, Bangladesh 2007-2008**

No	Class	Approved Number (Manpower)	Actual Number Working	Number of Vacancies
1	I	511	383	128
2	II	142	93	49
3	III	2,901	2,159	742
4	IV	1,695	1,648	47
Total		5,249	4,283	966

Source: The Annual Report of the National Board of Revenue, Bangladesh 2007-2008 (National Board of Revenue 2009).

The Table clearly shows that the government did not even meet the approved number of staff across all categories (Classes I-IV), leaving a huge number of the posts vacant. It has become apparent from the findings and discussion that the tax administration has a significant shortage of staff, resulting in limited capacity of the administration to check tax evasion. It is also obvious that manually performing all tasks in collecting income tax with an NBR workforce of 4283 is wholly inadequate, given a population of 152 million.

**Issue/Question (ii):** Table 5.1 shows that half the respondents strongly supported the statement that the inadequate infrastructural and logistic strength of tax administration is responsible for tax evasion. In addition, 36.7% agreed with it. If the percentage of ‘strongly agree’ and ‘agree’ are combined, 86.7% of respondents supported the statement. The survey findings revealed that, when the statement blamed the inadequacies of the department rather than those of tax officials, respondents were more supportive of such assumptions.

The survey findings were consistent with the findings from the in-depth interviews and the seminar. A Member (Income Tax Policy) of the NBR at the seminar pointed to the infrastructural weakness of the tax administration as one of the reason for tax evasion (Discussant 2). A similar point was made by a Deputy Commissioner of Taxes in response to the open-ended question for the survey: ‘Development of adequate infrastructure within the tax department is required to stop tax evasion’. When interviewed, Senior Official A of the OTO said:

...in our country, logistics support, including transport and official accommodation of Bangladesh tax officials, is important to make the tax department efficient and effective. Tax offices are located in different parts of the city, and, you know, the traffic jam of ...Dhaka city. And the office of the tax department should be located in such a way, so that it is easily accessible to taxpayers.



At the seminar, a Member of the Parliamentary Standing Committee (Discussant 17) pointed to weaknesses in the tax department: ‘Their workplaces are scattered, situated in different places, they are working in rented places. So, they are not able to work in an organised or systematic manner’.

Regarding insufficient logistic support, the Commissioner of Taxes, Office of Tax Intelligence and Investigation, Dhaka, reported in 2000 that the Office did not have adequate logistic support to perform its duties (Commissioner of Taxes, Office of the Tax Intelligence and Investigation, Dhaka 2000). According to the report, two out of three vehicles were found to be out of order; many of the photocopy machines were also out of order; and the number of typewriters was inadequate. It is important to mention here that, for strengthening intelligence and investigation activities against tax fraud and evasion, the Central Intelligence Cell (CIC) of the NBR was established in 2004 by abolishing this office. However, the CIC lacks technical ability, a trained workforce, and the physical resources to fight the high extent of tax evasion (Karim & Alauddin 2012).

At a workshop on tax affairs, the Commissioner of Taxes, Taxes Zone Rajshahi, in the annual report for FY 2000-2001, stated that the long distances between tax headquarters and field offices in this Zone were an impediment to carrying out orders (Commissioner of Taxes, Taxes Zone Rajshahi 2000). In his opinion, a poor communication system and inadequate workforce and transport further worsened the situation. The Commissioner further opined that it was beyond the capacity of any one Tax Official and Tax Inspector of a field office to implement laws and policies for enhancing the tax net of a district and to prevent tax evasion (Commissioner of Taxes, Taxes Zone Rajshahi 2000).

In order to enhance revenue collection and combat tax evasion, ensuring adequate infrastructure and logistic strength of the tax administration is a prerequisite. However, it can be assumed from the findings that the tax administration suffers from a severe lack of infrastructure and logistics, including having its own office buildings, transport facilities, and other essential equipment. During fieldwork, the researcher observed that the NBR, the apex body in the tax regime, consisted of an old building which lacked adequate offices, kitchens, restrooms, lighting and air conditioning for officials. The Circle offices and the Zonal offices are scattered around the capital in rented buildings and this often inconveniences taxpayers’ access. The condition of the tax offices at district level is even worse than those in the capital. Lack of transport facilities for tax officials also works as an obstacle to get to the office and

initiate field inspections and inquiries. There is a longstanding demand from tax officials and taxpayers for a modern, well-equipped central tax infrastructure ('tax-building'), bringing together all the rented tax offices. One central multi-storied building could serve several purposes, including saving the large amount of rents every month the government is paying to building owners, reducing communication costs of tax officials and taxpayers, and minimising information gaps between different tax offices. Although recently in Dhaka a number of modern, multi-storied, luxurious buildings were constructed by the government for various departments, the NBR has somehow failed to attract proper attention from the government to shift it to a better environment.

**Issue/Question (iii):** Table 5.1 shows that 46.7% of respondents strongly agreed and 33.3% respondents agreed with the statement that inadequate automation and computerisation in the tax administration is responsible for causing tax evasion. It is interesting to see that a statement indicating such a major problem was not strongly supported by at least half the respondents. Furthermore, a significant 20.0% only moderately supported it. In the new millennium, when information and communication technology (ICT) is leading trade and commerce as well as daily affairs across the globe, the urgency for computerising the tax administration cannot be overemphasised. It can be inferred that respondents who did not strongly support the statement or moderately agreed might perceive any modernisation move through computerisation and automation as a threat, since it would make the entire system transparent, reducing the scope for informal and corrupt negotiation.

The problem was acknowledged by other respondents in in-depth interviews as an important reason for tax evasion. According to Senior Official A of the OTO:

...if we can automate the tax systems in our country, then it will be easier to monitor taxpayers, including corporate bodies, resulting in reduced levels of tax evasion.

In the report of MAP of the NBR, Akhteruzzaman (2008a) has stressed the urgent need for computerisation of all aspects of revenue operations, including tax collection. The current 'Outline of Modernization Plan 2011-2016' of the NBR also highlights the existing manual and paper-based work process as inefficient and ill-equipped to improve tax compliance (National Board of Revenue 2012a). When interviewed, Chairman A of the NBR suggested that random sampling for auditing income tax returns should be achieved by using computers to check tax files. In response to the survey open-ended question, two respondents

emphasised the importance of introducing automation for the NBR as a strategy to check tax evasion. A Senior Official of the Anti Corruption Commission stressed establishing automation and free access to information as a deterrent to tax evasion in the open-ended question. Likewise, an Inspector of Taxes indicated introducing computerisation and automation as a strategy to increase the number of taxpayers and the amount of income tax collected.

Despite the dire need for computerisation and automation of the NBR to combat tax evasion, this has long been neglected by the government. In 2005 a senior Tax Official was assigned by the then Chairman of the NBR to outline the whole process of immediate computerisation of the Income Tax Department (Roy 2005). The Official, drawing on his knowledge, experience and expertise, submitted a comprehensive report in May 2005 recommending the implementation of the whole process in two phases, including the rapid computerisation of the Tax Department, and bringing all Income Tax Offices within a single Network (Roy 2005). However, to date this plan has not been endorsed by the incumbent government – it has remained on the shelf of the NBR’s library, together with many other policy recommendations.

**Issue/Question (iv):** Table 5.1 shows that an insignificant percentage of respondents, 3.3 %, agreed with the statement that inadequate co-ordination inside the tax administration worked as a factor in causing tax evasion. A significant percentage, 33.3%, showed moderate support; 46.7% ‘agreed’ with the statement but a high percentage, 16.7%, did not agree. Survey findings indicate that half the respondents did not perceive that co-ordination problems in tax administration might cause tax evasion. Since lack of co-ordination is directly linked to the inefficiency and weakness of tax officials, most respondents might have downplayed their role in responding to a statement implying their failure.

However, responding to the open-ended question, some respondents appeared to be more supportive. For example, a Deputy Commissioner of Taxes emphasised the importance of an integrated system and co-ordination between the various government agencies to mobilise internal resources and minimise tax evasion. The final report of the MAP of the NBR has also emphasised establishing rules for sharing knowledge, experience and information between the three wings of the NBR, including Income Tax, Customs and VAT (Akhteruzzaman 2008a).

Revenue collection involves several types of activities in different steps, including serving notices to taxpayers, arranging hearings, gathering information, assessing and computing income and taxes, and auditing. In most cases, a relevant tax official working in a Circle needs information about taxpayers from inside and outside his/her office, including from the Head office, other Taxes Zones and the NBR. However, it takes time and effort for the official to collect information or documents from other sections, as was observed by the researcher during fieldwork. Sometimes, it took several days merely to moving a tax file from one office to another. Therefore, strong co-ordination inside the tax administration is the key factor in expediting the whole work process. Lack of co-ordination may create scope for taxpayers to conceal information about their income and evade tax.

**Issue/Question (v):** Table 5.1 shows that 23.3% of respondents ‘strongly agreed’ and 60.0% ‘agreed’ to the statement that flaws in enforcement and work processes are a factor in causing tax evasion; 16.7% moderately agreed to it and no negative response was registered. The relatively low number of ‘strong’ agreement may indicate that respondents belonging from the tax administration tried to downplay their own incapacity or unwillingness to enforce law and work processes in a systematic manner.

Clearer views emerged from the qualitative data obtained through in-depth interviews and at the roundtable seminar. Delivering a speech at the seminar, a Member (Income Tax Policy) of the NBR argued that a weak enforcement of income tax administration was a reason for tax evasion by the majority of taxpayers (Discussant 2). In an interview, Senior Official B of the OTO pointed to poor enforcement as the cause of tax non-compliance. He also emphasised the strengthening of the OTO, improving the judicial process and the litigation management system in order to quickly dispose of income tax cases; he also suggested appointing ‘Tax Recovery Officers’ to strengthen the enforcement process.

An Inspector of Taxes emphasised in the open-ended question the strengthening of the intelligence branch for checking tax evasion. On the inadequacy of enforcement and capacity of tax administration, an Executive of TIB commented:

I mean, there are predicaments against enforcement of the rules and also against adopting laws to really introduce better transparency and accountability in the tax administration. ...

Regarding various institutional weaknesses of the Bangladesh tax administration, a clear scenario was revealed in tax department official records and documents collected for the study. One of the important offices of the tax administration is the ‘Income Tax Inspection Directorate’. According to the Finance Act 1997, the span of control of the Directorate includes: to carry out inspection of income tax cases, to investigate or cause investigation in respect of cases involving leakage of revenue or evasion of taxes; and to carry out audits of cases or offices involving income tax revenues only (Director General, Income Tax Inspection Directorate 2000). The Director General of the Directorate (2000) reported at a ‘Workshop on Income Tax Affairs’ that it had become increasingly difficult to run the office efficiently because of the shortage of staff and lack of adequate logistic support. It is an irony that the shortage of manpower of such an important tax enforcement office has not been addressed in the six years that have elapsed its being documented in a report of the then Director General of the Directorate in 2006 (Director General, Income Tax Inspection Directorate 2006) (see Appendix IV).

The enforcement system and work process are not up to the mark to check large-scale tax evasion. The NBR has neither a separate enforcement wing nor trained and specialised personnel to carry out enforcement orders. The officials and staff who work in different Taxes Circles are responsible for enforcing laws and orders. A ‘Tax Recovery Officer’ is empowered by Provision 139 of the ITO 1984 to recover taxes in arrears from taxpayers by taking legal action, including confiscation and sale of movable or fixed property of a defaulter, arrest or imprisonment, and so on (*Income Tax Manual Part-I*, 2009). The provision is appropriate for recovering arrears. However, to date nobody has been appointed to the post to enforce the law. The Collector of District and Special Magistrate are also empowered by Provisions 142 and 142 A of the ITO 1984 to recover tax on behalf of the tax administration (*Income Tax Manual Part-I*, 2009). However, both have other departmental responsibilities, which have made the tax recovery process difficult and slow. Based on the empirical data and secondary evidence, it can be argued that the entire enforcement system of the NBR is inefficient and inadequate for combating tax evasion.

Other evidence revealed serious institutional weaknesses in the tax administration and provided the recommendations of senior tax officials about how to overcome them. Only recently, the GOB has approved a set of recommendations of the NBR demanding adequate HR and other logistic and infrastructural support and expansion of tax administration

(Secretary, Internal Resource Division 2010). However, there still remains a big gap between the demands of the NBR regarding the manpower and logistical support and any allocation by the GOB (see Appendixes V, VI, VII, and VIII).

On the basis of these findings and discussion, it can be argued that negligence in reforming, renovation, and modernising the tax administration is at least partially responsible for pervasive tax evasion as well as for poor revenue mobilisation.

### 5.2.2 Lack of Professional Support for Tax Officials

Lack of support and incentives for tax officials may reduce their enthusiasm and morale (Kangave 2005). This study has examined whether support for tax officials is adequate in Bangladesh.

**Table 5.2 Issues Related to Inadequate Facilities for Tax Officials, Bangladesh 2009-2010**

Issues/Questions	Strongly Agree (%)	Agree (%)	Moderately Agree (%)	Do Not Agree (%)	Total (N)
(i) Inefficient risk management and insufficient protection and safety of tax officials are responsible for allowing tax evasion	20.0	40.0	40.0	0	100 (30)
(ii) Professional training system of tax officials is not efficient and adequate to check tax evasion	41.4	41.4	17.2	0	100 (29)
(iii) Salary structure of the civil servants is not adequate to maintain subsistence living	83.3	16.7	0	0	100 (30)

Table 5.2 shows responses to three questions related to the lack of professional support for tax officials. No respondent disagreed with any of the statements, indicating that all tax officials participating in the survey to some extent agreed that these issues actually have the potential to contribute to tax evasion. It should be particularly noted that of the three statements, only one, that the ‘salary structure of the civil servants is not adequate to maintain subsistence living’ was strongly supported by surprisingly high proportion of tax officials (83.3%). In addition, none indicated they ‘moderately agreed’.

**Issue/Question (i):** Table 5.2 shows that a relatively lower 20% of respondents strongly supported the statement that inefficient risk management and insufficient protection and

safety of tax officials were responsible for allowing tax evasion. Although 40.0% agreed with the statement, a significantly high 40.0% only moderately agreed. Overall, the findings indicated less decisive views of respondents on the statement.

Based on the survey findings, it may be argued that the respondents are not conscious enough of the risk factors associated with tax collection. Checking and monitoring tax evasion might affect the safety, security and career of tax officials. If the tax evader has influence in society and politics and connections at the top policy level, any step initiated against him might jeopardise the career of the official. As reported by MAP of the NBR, risk management, including identification of risk factors and areas of weaknesses in revenue systems, procedures, management and audit system, need to be in place to effectively combat tax evasion (Akhteruzzaman 2008b).

**Issue /Question (ii):** Table 5.2 reveals that a similar proportion of respondents, 41.4%, strongly agreed and 41.4% agreed with the statement that professional training system of the tax officials is not efficient and adequate to check tax evasion; 17.2% moderately supported it. None disagreed. Respondents, in general, appeared to be supportive of the statement since it indicated institutional weaknesses of the tax department instead of weaknesses of tax officials as a reason for tax evasion. Moreover, through the statement, the need of professional training for tax officials emerged as an important precondition for combating tax evasion.

The findings of the in-depth interviews and secondary data further supplemented the survey findings. When interviewed, Chairman B of the NBR contended that the ‘NBR is incapable of detecting tax evasion. Training and motivation are needed’. The importance of specialised knowledge, training and computer proficiency to combat tax evasion was pointed out by Senior Official A of the OTO.

When interviewed, Senior Official B of the OTO also pointed out that tax officials lacked appropriate training and orientation. According to the MAP report on the ‘Identification of Weaknesses in the Revenue System and Procedures’ (Akhteruzzaman 2008a, p. 22):

The existing training facilities in the academy and institutes are not adequate to meet the requirements of the staff at different level in order to perform their duties and responsibilities in the continuously changing environment.

Regarding inefficient training of civil servants, Zafarullah and Rahman (2008, p. 745) assert that ‘the relevance of officers’ specialist training...is problematic’. Newly appointed civil

servants (Class I) have to undertake compulsory foundation training for four months at the Bangladesh Public Administration Training Centre (BPATC). After completion of that training, they have to undertake departmental training from the respective training institutions. For instance, the Bangladesh Civil Service Taxation Academy provides training for officials of the Tax Cadre. However, both training institutions suffer from ineffective and lecture-oriented training modules and inadequate infrastructural and logistic support. In addition, instead of appointing permanent and skilled instructors, these training institutions have become the 'dumping centre' for civil servants not admired by the government. Public officials who do not have enough influence or somehow disappoint higher authorities or the ruling party are transferred to the BPATC or Tax Academy as a form of punishment. Therefore the training programs lack efficiency; as Kim and Monem (2011) argue, the training program of the BCS is neither linked to career planning nor related to managerial skills and dimensions. Jacobs (2009) also has pointed out several weaknesses of the BPATC.

This observation is also applicable to the Tax Academy. Furthermore, the training situation for Class II, III and IV staff is even worse, since there is no compulsory training program for them. Based on the empirical findings and the literature, it can be argued that lack of appropriate training of tax officials and other employees is an impediment to checking tax evasion.

In a monthly meeting of the Taxes Zone 6, Dhaka, in April 2000, the Commissioner stated that in most cases, officials collected bank statements but did not explain them properly (Commissioner of Taxes, Taxes Zone 6, Dhaka 2000). According to the Commissioner, if bank and reconciliation statements were seriously considered, improper or unusual transactions could be detected (Commissioner of Taxes, Taxes Zone 6, Dhaka 2000). The Commissioner also mentioned that, although producing a wealth statement was compulsory for taxpayers, tax officials did not properly analyse such statements. Another Commissioner, Taxes Zone 8, Dhaka, in the report 'Workshop on Income Tax Affairs', said that in many cases of deduction at source, tax officials proved their lack of knowledge and expertise (Commissioner of Taxes, Taxes Zone 8, Dhaka 2000); he suggested training tax officials properly by utilising the resources of the Tax Academy.



In the open-ended question, a Senior Official of the Anti Corruption Commission commented that a change of mind set of tax officials in order to adopt new policies was a must at the tax implementation process. During an interview, Senior Official B of the OTO also pointed out gross inefficiency in the tax department and suggested ensuring effective training for tax officials.

Specialised knowledge and training of the workforce are prerequisites for ensuring efficiency in an organisation. Ironically, the Bangladesh Civil Service as a whole has been blamed for its inefficiency. According to a World Bank Report, bureaucratic inefficiency of Bangladesh is rated at 4.7 on a 0 to 10 scale (10=best), compared to Sri Lanka at 6.7, India at 5.5 and Pakistan at 4.3 (Mukherjee, Gokcekus, Manning & Landell-Mills 2001).

**Issue/Question (iii):** It is important to note that a significantly high 83.3% of respondents strongly supported the statement that the salary structure of the civil servants is not adequate to maintain subsistence living. In addition, 16.7% agreed with the statement; none disagreed and none moderately agreed. These findings revealed the grave dissatisfaction of tax officials with their pay structure. It may be inferred that there is likely to be a correlation between dissatisfaction about salary and the temptation to seek inappropriate benefits.

The survey findings were consistent with the findings of the in-depth interviews and secondary data. During interview, Senior Official A of the OTO commented:

... Government should consider providing at least sustainable salaries to revenue officials to make them work sincerely and without temptation. This will satisfy tax collectors and help increase tax revenue.

The MAP of the NBR also suggested revising the salary structures and allowances of tax officials in line with the cost of living or at par with the private sector in its final report (Akhteruzzaman 2008a). In responding to the open-ended question in the survey, a former Member of the CG (2007-2009) also stated that public officials should be provided with better salaries. On the poor public sector pay structure of Bangladesh, a World Bank study reported (Mukherjee et al. 2001, p. 5):

The average monthly salary of surveyed officials was about Tk 7000, with ministry officials earning 37 percent more than the district officials. Although measures of adequacy of government wages are difficult to obtain, public salaries are normally considered low. Some of the non-survey evidence is suggestive: bureaucrats in the top management level in Bangladesh earn one-seventh the salaries of their private-sector counterparts. Also, salaries

in the private sector remain four to six times above the public sector for mid-to-senior level officials.

Since the independence of Bangladesh, between 1972 and 2009, pay scales of public servants have been increased seven times (bdnews24.com 2009). However, in most cases the incumbent government took two to three years to fully implement the increased scales without pursuing any policy strategy to control market prices and inflation. Consequently, when the new pay scale was declared, prices started to rise and within two to three years the price of goods and services increased to a level where the increased pay was more inadequate than before. The situation of the latest pay scale appears to be the same. On November 11, 2009, the new pay scale was approved with a plan to upgrade salaries from July 2009 and implement the increased allowances from July the next year (bdnews24.com 2009, *The Daily Star* December 4, 2009d). The gazette fixed the highest salary at BDT 40,000 and the minimum at BDT 4,100 per month (US\$ 500 and US\$ 50 respectively) (*The Daily Star* December 4, 2009d). Such an income threshold is not adequate for maintaining a level of subsistence after serving for at least 25 in the public Service. It is important to note that the ruling Prime Minister of GOB also expressed her concern at a cabinet meeting about possible price hikes as a consequence of declaring the new national pay scale in 2009 (Mondal 2009).

It can further be argued that policy makers failed to conceive a pragmatic approach to adjusting the pay structure of civil servants to examine whether an adequate salary scale would reduce corrupt practice. The empirical findings and secondary evidence revealed that in no case can it be claimed that the salary structure of the civil servants is adequate to maintain subsistence living and this might act as an incentive for them to indulge in corruption.

### **5.2.3 Behavioural Aspects of Tax Officials and Corruption in the Tax Administration**

Pervasive corruption in tax administration is a common feature of developing and transitional economies (Torgler 2004). In an empirical study, Pashev (2008) has revealed that perceived low wages, poor ethics, mixing personal benefits and administrative responsibilities, and greed among tax officials were causes of corruption in the Bulgarian tax administration. This reflects the rent-seeking tendency of tax officials and taxpayers within developing countries' tax administration. Bangladesh appears to be no exception to this trend. While analysing public sector corruption in Bangladesh, Aminuzzaman (2004, p. 6) contends:

It is a matter of concern that, over the years, the civil bureaucracy has earned an unsavoury reputation for insensitivity to service ethics, self-centeredness, opportunism, rent-seeking and other corrupt practices.

With the objective of examining corruption in the Bangladesh tax administration and the relationship between corruption and tax evasion, ten questions were asked of tax officials. Table 5.3 presents the survey responses to those questions.

**Table 5.3 Behavioural Aspects of Tax Officials that Might Contribute to Tax Evasion, Bangladesh 2009-2010**

Issues/Questions	Strongly Agree (%)	Agree (%)	Moderately Agree (%)	Do Not Agree (%)	Total (N)
(i) Deviation in the standard recruitment practices of officials work as a factor in causing tax evasion	3.3	36.7	26.7	33.3	100 (30)
(ii) The negligence of some sections of tax officials is responsible for causing tax evasion	0.0	31.0	48.3	20.7	100 (29)
(iii) The desire to accumulate inappropriate wealth within the shortest time of some sections of tax officials is a major factor in allowing tax evasion	16.7	30.0	30.0	23.3	100 (30)
(iv) The mixing of administrative roles and personal interests of some sections of tax officials is responsible for tax evasion	0.0	48.3	37.9	13.8	100 (29)
(v) Too much discretionary power of tax officials might lead them to be corrupt	0.0	23.3	26.7	50.0	100 (30)
(vi) Inadequate disciplinary action is responsible for corruption in the tax department	24.1	10.3	34.5	31.0	100 (29)
(vii) The ambiguity of tax laws facilitates corrupt practices	25.0	28.6	32.1	14.3	100 (28)
(viii) A higher tax rate may increase the possibility of higher negotiated inappropriate benefits	3.3	33.3	36.7	26.7	100 (30)
(ix) Inadequate remuneration of tax officials compels them to become involved in taking inappropriate benefits	37.9	34.5	24.1	3.4	100 (29)
(x) The reward system of tax officials for excess collection of tax by finding tax evasion can reduce corruption	46.7	30.0	20.0	3.3	100 (30)

In Table 5.3, unlike previous groups of responses, not a single statement was strongly supported by at least 40.0% of respondents except for one (x), which was related to the

beneficiary aspect of tax officials themselves. It can particularly be noted that statements regarding the negligence of tax officials (ii), the mixing of administrative roles and personal interest (iv) and too much discretionary power (v) were not strongly supported by any respondents. A large percentage denied the influence indicated in the statements which would reflect badly on them personally. It may be inferred that the respondents meant to adopt a lenient attitude towards statements which could suggest blame for themselves for contributing to tax evasion. Moreover, the percentage of responses to ‘moderately agree’ appeared significantly high for all statements. They might be cautious about strongly supporting the statements but could not altogether ignore the implications. Of the ten statements in Table 5.3, the statement highlighting the aspect of benefits for tax officials (x) rated the highest percentage as strongly agreed (46.7%). It may be interpreted that the respondents, being tax officials, were vocal in supporting the statement since it emphasised the importance of a better reward system for themselves. Another statement that inadequate remuneration compelled them to become involved in taking inappropriate benefits was strongly supported by 37.9%, which was the second highest strong agreement, indicating that tax officials meant to offer excuses for accepting inappropriate benefits. Overall, the data in Table 5.3 show a relatively lenient attitude by respondents towards the questions. They replied with guarded answers since questions dealt with a sensitive issue – corruption and their alleged involvement in it. Discussing corruption issue is not an easy task, especially when it particularly involves the discussants’ own department. Therefore respondents may have shown lenient attitudes towards questions regarding corruption of the tax department.

**Issue/Question (i):** Table 5.3 shows that an insignificant 3.3% strongly agreed with the statement that deviation in the standard recruitment practices of officials, works as a factor in causing tax evasion. It is surprising to note that a significant 33.3% disagreed. Moreover, a large 26.7% moderately agreed; 36.7% supported it. These findings reveal that fewer than half supported the statement whereas most either did not agree or moderately agreed. A possible explanation of this lenient attitude may be that, as public officials, they sought to avoid blame for deviations from the standard recruitment process which could be perceived as blaming themselves personally.

Allegations of corruption, manipulation, bribery, nepotism, politicisation, and even leakage of examination papers in the recruitment process in the Bangladesh Civil Service have been well-documented in secondary data. According to Articles 137-141 of the Constitution of

Bangladesh, the Bangladesh Public Service Commission (BPSC) is the constitutional body for conducting BCS and other examinations for selecting and recruiting Class I officials, including officials for the Taxation Cadre (Constitution of Bangladesh, Government of Bangladesh 2010; Transparency International Bangladesh 2007b ). In recent years, the public, civil society, mass media, and aggrieved examinees have blamed the BPSC for its faulty and unfair recruitment process. The serious failings of the BPSC have been diagnosed in a TIB study conducted in 2007; deficiencies include leaking of BCS question papers, taking bribes for ensuring BCS jobs, changing or replacing exam scripts, changing marks, inclusion of failed candidates in the merit list as a result of bribes, calling candidates to the BPSC immediately after the *viva voce*, and partisan influence on the recruitment process (Transparency International Bangladesh 2007b). The BPSC had to cancel the 24<sup>th</sup> BCS preliminary test because of an allegation of question paper leaking (*The Daily Star*, August 11, 2003). The 27<sup>th</sup> BCS examination (2005-2007) again raised serious controversy and legal disputes about adopting unfair means and manipulation (*The Daily Star* March 7, 2007). Regarding that examination, the then Chairman of the BPSC, Dr Saadat Hussain, appointed by the CG (2007-2008) to revitalise and restore BPSC integrity and image, said (*Bangladesh News* March 7, 2008, p. 1):

I interviewed some 400 BCS candidates at the viva voce board. I saw some candidates who did not have the ABC knowledge of English.... had not read a newspaper in the last two months. There must be something wrong in the process. There were serious irregularities.

A TIB study revealed the existence of rampant bribery and irregularities in the BPSC when conducting the BCS Examination (Transparency International Bangladesh 2007b); it blamed the BPSC for selecting and recruiting candidates for BCS selection in return for bribes – according to the study, bribes of BDT eight to ten *lakh* (i.e., 800,000 to 1,000,000) change hands in exchange for a job in either the Customs or Taxation Cadre (Transparency International Bangladesh 2007b).

These secondary sources show deviation from standard recruitment practices that are in contrast to the opinion of the survey respondents. The TIB report has found that the greatest bribe has to be paid for getting a job in the Taxation Cadre (Transparency International Bangladesh 2007b). The underlying finding is that the greater the possibility of gaining improper money and benefit from a job, the more in demand that job is. A dishonest candidate who pays BDT eight to ten *lakh* to join the BCS Tax Cadre must have an improper

intention to earn more than the bribe amount through illegal means. It can be assumed that in the tax department, if an official wants to earn improper money, he or she has to negotiate with taxpayers by allowing underreported income and profit and this ultimately causes tax evasion. In the case of recruiting Class III and Class IV employees, irregularities have also reached very high levels. There is no central examination system for recruiting staff. The NBR recruits its staff often based on nepotism, favouritism, political influence and bribery. A taxpayer has to encounter Class III and Class IV employees after entering a tax office and becomes the victim of harassment. The first step in negotiation for evasion of tax and petty corruption starts at this level. As Zakiuddin and Haque (2002) say, the need for paying petty cash or ‘*bakshish*’ to an employee at a bureaucrat’s office is a common feature of Bangladesh.

**Issue/Question (ii):** Table 5.3 demonstrates that no respondent strongly supported the statement that the negligence of some sections of tax officials is responsible for causing tax evasion. Only 31.0 % of respondents agreed with the statement. Tax officials were reluctant to support a statement highlighting the weaknesses of officials. As a result, nearly half (48.3%) ‘moderately agreed’, showing an ambivalent attitude. In addition, 20.7 % disagreed.

The data show that most respondents downplayed their role by not strongly supporting the statement, which blamed the irresponsibility of tax officials for causing tax evasion. An explanation may be that the respondents sought to avoid conflict of professional interest. Data collected from other primary sources, including in-depth interviews and the roundtable seminar, revealed a number of complaints against the attitude of tax authorities, including negligence in delivering service and harassing taxpayers. During an interview, Chairman B of the NBR commented that ‘the attitude of the public tax officials is not positive. They lack self-discipline’.

To date, the Bangladesh tax regime has introduced no specific ‘Code of Conduct’ for tax officials which could act as a safeguard for taxpayers. In the final report of MAP of the NBR, Dietz (2008, p. 17), an Income Tax Policy Advisor, has recommended: ‘With the cultural change within the tax system, a sound, effective Code of Conduct is required for the NBR officials’.

The Public Administration Reform Commission (PARC) in 2000 recommended that a number of government agencies introduce the ‘citizens’ charter’ (*The Daily Star* September 16, 2008d). In 2007 the then CG advised all ministries to formulate the ‘citizens’ charter’

(*The Daily Star* January 13, 2012a). Recently, the Bangladesh tax administration, including the NBR, formulated such a charter. However, the practice of following the charter has not yet been developed. A report in a daily newspaper commented in general about the application of the citizens' charter, 'there is no system in place to monitor whether the performance of an agency is in conformity with the charter, and evaluate if the charter is in line with the clients' expectations' (*The Daily Star* September 16, 2008d, p. 1). In tax administration, the OTO was working to hear and mitigate complaints and grievances of taxpayers. Ironically, this office was abolished in 2010 (see Chapter III & IV).

Negligence of civil servants in delivering services and spending their time and efforts elsewhere for their personal advantage is a common expression of corruption in Bangladesh (Zafarullah & Siddiquee 2001). Since the Bangladesh tax regime primarily depends on manual performance, and requires taxpayers to meet tax collectors in person for filing and submitting returns and hearings, any kind of inappropriate dealing by tax officials, including negligence or misuse of official power, may impede tax collection and allow tax evasion to occur.

**Issue /Question (iii):** Table 5.3 shows that a small percentage of respondents, 16.7%, strongly agreed whilst a significant 30.0% moderately agreed about the statement that the desire of some sections of tax officials to accumulate inappropriate wealth within the shortest time was a major factor in allowing tax evasion. Moreover, disagreement appeared to be fairly large: 23.3 %. If the percentages of 'strongly agree' and 'agree' are combined to assess total agreement, fewer than 50% supported the statement. Overall, the findings revealed the lenient attitude of respondents. It may be inferred that by being less forthright in answering a statement which indicated corrupt practice of officials, respondents intended to avoid conflict of their professional interest.

The findings of in-depth interviews and secondary data revealed a different scenario that indicated pervasive corruption of tax officials. Corruption in the Bangladesh tax administration was pointed out by Abdul Mueeed Choudhury, the then Chairman of the NBR, in an interview with *The Daily Star* newspaper in 1999 (30 April, p. 6):

We want to get rich overnight by hook or by crook. In the process, we don't mind trampling the rights and interests of others, defrauding the government...cheating the customers. We are ready to do it as long as our bank account keeps going up.

The Chairman used 'we' to indicate tax officials and taxpayers. His observation is equally applicable to both. Greed for wealth brings them into the same frame of corruption where they forget about duties, responsibilities, ethics and principles. Personal interest in accumulating inappropriate wealth impedes the government objective of earning revenue. Even, after a decade the situation has not changed, which can be observed from the present study's interview with Chairman A of the NBR during 2010:

There is so much corruption in the system itself... I know many cases where people have truthfully submitted returns, but tax officials arbitrarily have determined tax liability, presumed income and so people are forced to enter into an arrangement.

The findings of other empirical studies also point to extra money-making by public officials in Bangladesh. A recent study of TIB on 'National Board of Revenue: Challenges of Transparency and Accountability and Way of Remedies' has revealed that illegal income earned by tax officials and employees during the last 35 years is equal to the annual national budget of Bangladesh (Khan & Nahar 2011). A similar point is also made by a study by the World Bank which indicates that some public officials make seven times more than their salaries from bribes (Mukherjee et al. 2001).

The accumulation of inappropriate wealth by tax officials and their practices in acquiring this wealth reflect the arguments of rent-seeking theory. Such wealth can be referred as 'rent' since it does not arise from normal income (Khan & Sundaram 2000). In order to achieve this rent, tax officials must deal with taxpayers in such a way that taxpayers are forced to negotiate with tax authorities in what the Chairman A called an 'arrangement'. The major consequences of such rent-seeking arrangements include the revenue loss by the government, personal gain by tax authorities and tax evasion by taxpayers. In such rent-seeking activities, tax officials utilise their monopoly power of a government position and taxpayers are on the receiving end of the monopoly. As Buchanan (1980) argues, the efforts and expenditure of potential recipients of the monopoly refer to rent-seeking.

**Issue/Question (iv):** Table 5.3 shows that no participant strongly agreed with the statement that the mixing of administrative roles and personal interest of some sections of tax authorities was responsible for tax evasion. In addition, a significantly large 37.9% moderately agreed. It may be inferred that respondents intended to downplay their own role since the statement directly blamed tax authorities for corrupt practices. The respondents



sought to avoid conflict of their professional interests. However, 48.3% agreed with the statement indicating the pervasiveness of the problem.

Although survey respondents downplayed their own role, an interviewee pointed out the corrupt practice of tax officials: a lawyer and the former Secretary of the Supreme Court Bar Association clearly pointed to corrupt practices of tax officials, saying that, ‘Bureaucrats are always thinking of ways to extort gains from businesspeople for their own personal gain, not for the benefit of the country’.

Also, secondary data and evidence have shed light on corruption in the tax department. According to a TIB report, corrupt practices of tax authorities include allowing tax evasion in return for bribes, extortion, nepotism and concealing information (Khan & Nahar 2011). This study also refers to the ‘National *Khana* Survey on Corruption in Service Sector’, which reported that in 51.3% of the total *Khana*<sup>23</sup> at least one member encountered corruption, harassment and irregularity while obtaining tax services (Khan & Nahar 2011). For TIN registration and income tax assessment, 43.9% of the *Khana* encountered compulsory bribing, 30.3% experienced harassment and incorrect assessment, 1.4% suffered from a complex tax payment system, 6.4% faced inappropriate dealings by the tax employee, and 18.0% faced intentional delays in order to extort bribes, losing the file, applying complex legal language, and complexity regarding tax cases (Khan & Nahar 2011).

A corrupt tax official, instead of performing administrative duties properly in order to enhance revenue collection, seeks to allow dishonest taxpayers to evade tax in order to personally enrich him- or herself. On corruption in the Indian tax administration, Gupta (1992, p. 50) states:

Other things being the same, an efficient and honest tax administration is a positive asset to the economy and the government; but, an inadequate, inefficient and corrupt tax administration is an open invitation to all and sundry (and more particularly to habitual tax evaders) for tax evasion. Unfortunately, the tax administration in India is much closer to the second category than to the first.

Ironically, the Bangladesh tax administration is also closely associated with Gupta’s second category. In fact, both countries have inherited the same tax regimes and bureaucracies from their colonial legacies.

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<sup>23</sup> A Bangla word which means ‘Household’.

Although the survey findings did not strongly confirm the statement, the lax attitude of respondents revealed an important attitudinal aspect of public officials in their tendency to conceal or downplay their own responsibility for corruption.

**Issue/Question (v):** The findings in Table 5.3 show that no respondent strongly supported the statement that too much discretionary power for tax officials might lead them to be corrupt, whilst 50% of respondents disagreed. In addition, a significant 26.7% only moderately agreed. Only 23.3% supported it. Overall, agreement for the statement appeared to be significantly low. However, the findings did not reveal any surprising or new trend of perceptions among respondent tax officials. Perhaps they refrained themselves from supporting the statement for fear of losing their discretionary power.

Interestingly, when interviewed, a Deputy Commissioner of Taxes disagreed with the statement, saying that he did not believe that discretionary power led tax officials to become corrupt; he said that there might be pressure from political parties, higher officials and the business community; he also sought to establish that not only tax officials but also other government officials working in various sectors were also corrupt. Perhaps the Deputy Commissioner wanted to shift blame for corruption from the shoulders of tax officials onto other public officials; at the same time, he was trying to justify the corruption by his own department.

Despite the reluctance of survey respondents and the Deputy Commissioner to unconditionally support the statement, senior officials of the NBR took the opposite view. When interviewed about the abuse of discretionary power of tax officials, Chairman B commented:

Different rates of penalty and different types of punishment do exist, based on the discretion of the officials. Discretionary power of the officials should be curtailed. There should be no discretionary power, no discretionary power. ...Any penalty, any punishment should be specific and it should be equal for all.

When interviewed, Senior Official B of the OTO also blamed too much discretion among tax officials for corruption and tax evasion. The excessive discretion power of tax authorities is also indicated in the ‘Outline of Modernization Plan 2011-2016’ of the NBR (National Board of Revenue 2012a). The literature has shed light on the misuse of discretionary power of public officials, including tax officials. For example, in a study on the financial accountability of Bangladesh conducted by the World Bank (2002), it has been argued that discretionary

power can be used corruptly. In the context of the Bangladesh tax administration, the famous formula given by Klitgaard (1998) can be cited: ' $C = M + D - A$ ', which says that Corruption (C) equals monopoly power (M) plus discretion by officials (D) minus accountability (A).

According to Tanzi (1999), the discretion of tax administrators for taking important decisions, such as assessing tax liabilities, selection of audits, litigation, and providing tax incentives, leads them to be corrupt. While conducting a study on venal tax officials in Taiwan, Chu (1990) observes that tax officials exploit taxpayers by using their discretion in interpreting complicated tax laws. Mahmood (2005) has argued that excessive power generally facilitates government officials' hankering after money, and the lack of accountability paves the way for corruption. Officials and employees of the tax department in Bangladesh are no exception. Tax officials, exercising excessive discretionary power and having weak principles, are likely to be corrupt. Consequently, corrupt tax officials tend to allow dishonest taxpayers to evade taxes in return for bribes. Hence, the well-known quote by Lord Acton may be relevant here: 'power tends to corrupt and absolute power corrupts absolutely' (1887, Letter to Bishop Creighton, cited in Waite & Allen 2003, p. 281).

Based on the findings of empirical data and the literature, it can be argued that there is a positive correlation between the discretionary power of tax authorities and scope for corruption and tax evasion.

**Issue/Question (vi):** Table 5.3 shows that only 24.1% of respondents strongly supported the statement that inadequate disciplinary action is responsible for corruption in the tax department whilst a significant 31.0% disagreed and 34.5% moderately agreed. A small 10.3% agreed. The survey findings were similar to previous questions in this section: respondents, in general, appeared to be less supportive of statements because they were tax officials and sought to avoid conflict of professional interests. Being less forthright, respondents downplayed two issues: the importance of disciplinary action and the prevalence of corruption in tax department, as well as its relationship with tax evasion.

The survey responses thus reflect the trend in the BCS in which disciplinary punishment against public officials is seldom applied (Mukherjee et al. 2001). Respondent tax officials who denied or moderately agreed with the statement did not see any impact of disciplinary action since they were not used to seeing exemplary punishment for wrongdoing by public

officials. However, an Advisor of the non-party CG, in an open-ended question for the survey, pointed to punishment for tax officials as a strategy to combat corruption and tax evasion.

The literature has shown that absence of disciplinary action against corrupt practices of tax officials is likely to make them more corrupt (Tanzi 1999). As Tanzi contends, the crucial reason for corruption in tax administration is that in most cases corruption of tax administrators is not revealed, and if revealed is not penalised or is penalised partially. A similar point is also made by Flatters and Macleod (1995). It may be thus be said that, because of lack of exemplary punishment, corrupt tax officials tend to become more corrupt, leading to tax evasion.

**Issue/Question (vii):** Table 5.3 reveals a mixed scenario about the responses of tax officials, indicating that 25 % of respondents strongly agreed, 28.6% agreed and 32.1% moderately agreed with the statement that ambiguity of tax laws facilitates corrupt practices.

Dietz (2008, p. 26), in the final report of MAP has commented that the tax rules and regulations are ‘random, non-explanatory, and inconclusive’; he (p. 26) also asserts that ‘the obscure numbering system is inadequate for the unseasoned taxpayer to follow’.

Complexity in tax laws makes them ambiguous for taxpayers and creates scope for tax authorities to misinterpret the law to the taxpayer in order to extort inappropriate benefits (Toye 1989). Tanzi (1998, p. 567) also points this out:

Taxes based on clear laws and not requiring contacts between taxpayers and tax inspectors are much less likely to lead to acts of corruption. However, when the following situations arise, corruption is likely to be a major problem in tax and customs administrations: the laws are difficult to understand and can be interpreted differently so that taxpayers need assistance in complying with them.

The TIB report on the NBR has also indicated that complexity of income tax laws creates scope for corruption causing tax evasion and a lower tax-GDP ratio in Bangladesh (Khan & Nahar 2011).

Based on these findings, the complicated income tax laws may be blamed for creating opportunities for corruption and tax evasion in Bangladesh.

**Issue/Question (viii):** The data in Table 5.3 show that a very low 3.3% strongly supported the statement that a higher tax rate may increase the possibility of higher negotiated inappropriate benefits, whilst significant 26.7% disagreed and 36.7% moderately agreed. Although it is assumed that the higher the tax rate, the higher will be the frequency of negotiated inappropriate benefits by both tax officials and taxpayers, respondents did not offer strong support for the statement.

In a high tax-rate regime, the taxpayers will always view paying taxes as a heavy burden and will find possible ways to avoid paying legal taxes. Driven by this tendency, taxpayers seek to negotiate with tax authorities. Dishonest tax officials also seek to earn inappropriate benefits. Therefore they also collaborate with taxpayers who are willing to evade paying taxes. In this situation, both parties tend to negotiate and gain. The possible outcomes of this negotiation is tax evasion on the taxpayers' part and receiving inappropriate benefits either in cash or kind on the tax officials' part, both of which are consistent with the major premises of rent-seeking theory (Hilman 2003; Mueller 2003; Khan & Sundaram 2000; Krueger 1974).

The Bangladesh income tax rate appears to be quite high compared to other South Asian countries (see Chapter I). Given the context of an underdeveloped tax culture, the high income tax rate was cited by a number of speakers at the roundtable seminar and Chairman B of the NBR in an interview for this study. This high tax rate might be a possible cause for the existence of a large underground economy in Bangladesh, as well as pervasive corruption in tax administration, resulting in tax evasion.

**Issue/Question (ix):** Table 5.3 shows that a significant 37.9% strongly agreed and 34.5% agreed that inadequate remuneration of tax officials compelled them to become involved in accepting inappropriate benefits. These findings revealed, importantly, that, despite being tax officials, significant percentage of them appeared to be strongly supportive of the statement which blamed tax officials for corruption. A possible explanation could be that respondents intended to justify corruption in tax administration by strongly supporting the statement because this indicated a 'rationale' behind corruption of tax officials.

Findings from in-depth interviews and secondary data supplemented the survey results.

Senior Official A of the OTO commented at interview:

If you don't pay sustainable wages, there is scope for corruption for tax officials... Suppose a tax official has a four-member family with responsibilities for a part of an extended family, such as parents, your brothers and sisters, which is not uncommon in Bangladesh. With the current level of remuneration, especially in the revenue department, they could easily be tempted by corrupt income.

A similar point was also made by the MAP of the NBR in its final report on 'Identification of Weaknesses in the Revenue Systems and Procedures' (Akhteruzzaman 2008a, p. 21, quotation *sic*):

...This was inadequate salary structure compared to [the] present cost of living and neighbouring countries... I have found lack of any incentives or motivations to the staff for their sincere and hard work. This is high time for the government to take serious and positive measures to give life support to the key players in earning revenue and reduce level of forced corruptions or taking bribes.

From these two comments, a relationship between the low wages of tax officials and their indulgence in corruption can be inferred. The study findings are consistent with the literature. Several research and opinion pieces by economists, policy analysts and academics have emphasised the issue and sought to determine the correlation between low salary and corrupt practices of public servants. Moreover, both governments and multilateral organisations have viewed raising salaries as an anti-corruption strategy (Sosa 2004). Rijckeghem and Weder (2001; 1997) have identified a strong negative correlation between the level of wages and the degree of corruption across developing countries. They have particularly emphasised the problem of low wages of tax collectors, since these deal with the income of other people. Ahmed (2009b) has blamed the poor salary structure of the civil servants for the dysfunctional bureaucracy of Bangladesh. It can be assumed that if tax officials are not adequately paid by government, they may tend to collude with dishonest businesspeople or other taxpayers. Mahmood (2005, p.68) comments, 'now it is well regarded that, for controlling corruption, the government officials should be adequately paid to overcome their temptation for corruption'. Similar points are also made by Tanzi (1998) and Riggs (1963), asserting that corruption in tax administration is widely noticed when the wages of tax authorities are low. Gorodnichenko and Peter (2007) find the wage gap between the public and private sectors (public sector employees receive 24-32% lower salaries than their private sector counterparts) is a major reason for the high extent of bribery in Ukraine.

The relationship between the low level of remuneration of public officials and the high level of temptation to be corrupt, a crucial finding of the present study, has significantly been supported by survey respondents and validated by interview responses, as well as by secondary evidence.

**Issue/Question (x):** Table 5.3 shows that a relatively high 46.7% of respondents strongly supported the statement that a reward system of tax officials for excess collection of tax can reduce corruption. Of all the statements in Table 5.3, this received the highest percentage of strong support. Moreover, 30% also supported it. An insignificant 3.3% did not agree. If the percentages of ‘strongly agree’ and ‘agree’ are combined to assess total agreement, the statement was supported by 76.7 % of respondents, which is the highest percentage of agreement for an individual question in this Table. Most respondents overwhelmingly supported the statement because it related to providing additional benefits to them.

During an interview, Chairman B of the NBR commented that, ‘Dedicated honest officials should get incentives’. The Chairman further pointed out that, during his tenure, he suggested to the government that if tax officials could collect excess tax beyond the set target, they should be rewarded 10% of the excess collection as an incentive in order to reduce corruption. However, he said, this policy was not fully implemented. The importance of a reward system was also pointed out by a Deputy Commissioner during an interview.

The literature also supports the positive effect of incentives for public officials. Bardhan (1997) mentions that many countries, including Singapore and Hong Kong, have introduced an incentive wages policy for public officials. In particular, the tax policies of many countries provide bonuses to tax officials on the basis of the amount of tax collected, significantly improving tax compliance (Bardhan 1997).

In order to inspire officials in the tax administration, the GOB in 2000 introduced a ‘Reward for Collection and Detection of Tax Evasion’ by incorporating a new provision (184D) in the ITO 1984 (*Income Tax Manual Part-I*, 2009). In the fiscal year 2010-2011, the government has amended the provision in order to make it more encouraging. According to the previous provision, a reward was given for outstanding performance in collection, detecting tax evasion, and providing relevant information. The amended version specifically incorporated the provision of a reward for collection of taxes exceeding the target of the relevant financial year (National Board of Revenue 2011).

Although the present study and the literature supported the statement that the reward system for tax officials for excess collection of tax can reduce corruption, this scheme is not beyond contradiction and controversy in Bangladesh (Khan & Nahar 2011). The recent TIB report on the NBR has revealed that the provision of a reward system itself creates scope for corruption and extortion (Khan & Nahar 2011). The TIB study has found corruption, violation of law, and manipulation in selecting officials for rewards, as well as in allocating reward money. It has reported serious complaints of receiving 10% of the award money (around BDT 1.25 crore) by higher authorities as bribes when selecting and rewarding 100 officials of the Income Tax Department (Khan & Nahar 2011).

### **5.3 NEXUS BETWEEN ACTORS IN THE TAX POLICY IMPLEMENTATION PROCESS AND TAX EVASION IN BANGLADESH**

Although tax officials are the major actors in the tax policy implementation process, taxpayers also play a crucial role. The success of tax policy implementation depends on fair play by both these actors. In a corrupt tax administration, underreporting of income saves tax money of taxpayers and helps assessing tax officials receiving bribes (Marjit, Mukherjee & Mukherjee 2000; Faltters & Macleod 1995). Moreover, in a corrupt regime, the politicians may also appear as actors in manipulating and manoeuvring tax policy implementation and so benefit themselves inappropriately. As Zafarullah and Rahman (2008) argue, corrupt practices are not merely limited to public officials; politicians, businessmen, professionals and military personnel are also involved in this unholy nexus. It is assumed in this study that there might develop a nexus between actors in this process, which facilitates tax evasion and corruption. This assumption is reflected in the following proposition:

***Sub-Proposition P2.2** The nexus of three actors (politicians, public officials, and other interest groups, including businesspeople) contributes to the tax policy implementation process, which is often aimed at facilitating tax evasion.*

This section will examine proposition P2.2 on the basis of empirical data.

#### **5.3.1 Nexus of Interest Groups**

In order to ascertain the perceptions of participants on the nexus between actors in the tax policy implementation process, four questions were asked. The survey results are presented in Table 5.4.



**Table 5.4 Nexus of Interest Groups in the Tax Policy Implementation Process, Bangladesh 2009-2010**

Issues/Questions	Strongly Agree (%)	Agree (%)	Moderately Agree (%)	Do Not Agree (%)	Total (N)
(i) Taxpayers might offer inappropriate benefits to tax officials in return for showing underreported income or claiming undue tax benefits	0.0	51.7	44.8	3.4	100 (29)
(ii) Taxpayers might ask officials a favour for escaping audit in return for inappropriate benefits	0.0	41.4	41.4	17.2	100 (29)
(iii) Sometimes powerful political actors pressure the tax officials to settle tax disputes in their own favour	10.0	63.3	23.3	3.3	100 (30)
(iv) Pressure from taxpayers, colleagues, and superiors is responsible for making tax officials facilitate tax evasion	0.0	48.3	41.4	10.3	100 (29)

The data in Table 5.4 reveal interesting findings. No respondent strongly agreed that taxpayers might offer inappropriate benefits to tax officials in return for underreporting income or claiming undue tax benefits, or that they might ask favours of officials in order to escape being audited in return for inappropriate benefits. Strongly supporting these two statements might lead tax officials to appear to confess to corruption, since these two statements directly pointed to alleged corrupt relationships with taxpayers. Although respondents were reluctant in ‘strongly’ expressing agreement, a majority agreed with the statements – a very large majority when ‘moderately agree’ is taken into account.

It is noticeable that 63.3% agreed with the statement that sometimes powerful political actors pressure tax officials to settle tax disputes in their favour. In addition, more than half (51.7%) agreed with the statement that taxpayers might offer inappropriate benefits to tax officials in return for declaring underreported income or claiming undue tax benefits. However, a large percentage appeared to be equivocal in responding to the questions, indicating a cautious attitude.

**Issue/Question (i):** Table 5.4 demonstrates that no participant strongly supported the statement that taxpayers might offer inappropriate benefits to tax officials in return for showing underreported income or claiming undue tax benefits, whereas a significant 44.8% moderately agreed. An insignificant 3.4% disagreed. In addition, the statement was supported

by 51.7%. It may be inferred that, being tax officials, many downplayed their own role in strongly supporting the statement. Although the statement blamed taxpayers for offering bribes, in being less supportive of the statements, respondents perhaps intended to protect the interests of taxpayers as well as themselves.

A clearer view is reflected in comments made by an Executive of TIB at an interview:

...If you want to pay your tax honestly, you have a problem; if you want to pay tax in a dishonest way, or in other words you evade tax, your life can be much easier... if you have some mechanism to get some people who will help you in making tax payment lower than actual or bypassing the due dates, then you will have a lot of people to help you.

The TIB executive intended to explain the corrupt and ‘backdoor’ mechanism of tax policy implementation in Bangladesh. Under this mechanism, dishonest businesspeople or other taxpayers and dishonest tax authorities are available to benefit each other in their rent-seeking activities – bribes for tax officials and tax evasion for taxpayers. As Ngo (2009) shows, corruption and rent-seeking, being highly intertwined, allow a public official to create rent as a means of bribe seeking by misusing power. Other economic actors frequently pay bribes as a means of rent-seeking (Ngo 2009). Rose-Ackerman (1999) also argues that taxpayers may collude with tax officials in order to lower the tax burden. In this context, the negotiation/bargaining for a bribe may be initiated either by the taxpayer or the tax official (The World Bank 1997) who can hinder the collection of legal/due revenue from taxpayers and increase the scope and speed of tax evasion.

The co-existence of corruption and tax evasion was highlighted by Chairman B of the NBR during an interview; he mentioned with frustration that ‘corruption, tax evasion, and money-making are socially and politically accepted in Bangladesh’. In an unpublished paper, Hossain, a Commissioner of Taxes, GOB, pointed to corrupt negotiation between tax officials and middle and big business, mediated by tax agents (Hossain 2010); he further noted that, in the case of large files – those involving high income – senior tax officials, including the Inspecting Additional/Joint Commissioner of Taxes, indulge in corruption by misusing their power to approve the less-than-appropriate income reporting.

Tax officials exercise the power to issue TIN certificates, assess income, estimate expenditure, compute tax, impose penalties, select returns for audit, and undertaking audits (*Income Tax Manual Part-I*, 2009). By entering the BCS, tax officials acquire the privileges of exercising these powers, which they often exploit to earn more than their normal salary, i.e., rent (Khan

& Sundaram 2000; Khan 1996). On the other hand, taxpayers who intend to decrease their obligation to pay legal tax may negotiate with tax officials. Accordingly, both actors tend to indulge in rent-seeking through a secret bargaining process, resulting in tax evasion.

The findings of the study were consistent with the literature. Conducting research in Bulgaria, Pashev (2008) shows corruption in the tax department as an effect of transactions between two beneficiaries. He points out that in this corrupt transaction taxpayers receive undue favours from tax officials in return for bribes. According to his study, one out of four officials experienced direct pressure from bribers. The scenario in Bangladesh may be no different from the Bulgarian case, since 50% of respondents in this study acknowledged that taxpayers might offer inappropriate benefits to tax officials in return for showing underreported income or claiming undue tax benefits. The tradition of receiving bribes by revenue officials could be well understood from a quotation of a philosopher cum finance minister of ancient India, Kautiliya, who wrote in his famous book, *Arthasastra* (cited in Bardhan 1997, p. 1320):

Just as it is impossible not to taste the honey (or the poison) that finds itself at the tip of the tongue, so it is impossible for a government servant not to eat up, at least, a bit of the king's revenue.

**Issue/Question (ii):** Table 5.4 shows that no respondent strongly agreed to the statement that taxpayers might ask officials for a favour in escaping audit in return for inappropriate benefits. Moreover, a significant 41.4% moderately agreed, and 41.4% agreed. Of the four statements listed in the Table, this was rejected by the highest percentage, at 17.2%. A possible explanation may be that respondents did not feel comfortable in strongly acknowledging this grey area of tax policy implementation.

During the in-depth interviews, Chairman A of the NBR contended that the income tax return auditing system was a subjective selection by a tax official. The opinion of the former Chairman confirmed the existence of corrupt practice during the tax auditing and inspection process. Subjective selection of returns by tax officials indicates that tax officials may either catch an income tax return for underreporting or may turn a blind eye to it.

Anecdotal evidence regarding collaboration between tax audit authorities and taxpayers is relevant here. According to Hossain (2010, p. 7), a Commissioner of Taxes in Bangladesh, influential taxpayers (medium and large):

...are very sharp, witty and are somewhat knowledgeable with the tax implications on account of practical experience over a fairly long period of time. So, first of all they manage an untrue audited statement of accounts... The Deputy Commissioner of Taxes [DCT] knows fully well that this sort of account, if accepted wholly, would deprive the govt. of its share of revenue totally. So they, on verification of accounts, take recourse to section 35 of the [Income Tax Ordinance] 1984, which empowers a DCT to go for estimation, if in his opinion, the submitted accounts were not the true accounts. The taxpayers who are in some degree, educated, remain weak-minded and nervous because of his amoral designs and lies. So the compromising TRs [Tax Representatives] and the DCTs are thus provided with a chance of striking a bargain with the taxpayers by allowing the clever taxpayers to get away with a certain portion of concealed income left acceptably unexplored in keeping with the law and past records of the cases.

As a senior tax official, Hossain may have observed this while serving in the tax department. A TIB study on the Bangladesh tax administration has also reported the prevalence of bribery between tax officials and taxpayers during auditing of tax returns (Khan & Nahar 2011).

Chander and Wilde (1992) argues that a comprehensive audit might be overlooked in a tax administration where some taxpayers are eager to offer bribes and some tax officials are interested in accepting these. Blackburn, Bose and Haque (2003, p. 11) express a similar view:

Corruption occurs if a high-income household and a corruptible bureaucrat find it mutually advantageous (or non-advantageous) to conspire with each other in concealing information from the government. Under such circumstances, there is bribery and tax evasion.

It may be assumed that in the Bangladesh tax administration connivance might develop between taxpayers and tax officials during the auditing process. This connivance can be explained by rent-seeking. In Bangladesh, escaping proper audit (evading due taxes) by taxpayers and acceptance of inappropriate benefits by tax officials are activities that indicate rent-seeking. As Lambsdorff (2002, p. 115) argues, 'Opportunities for rent-seeking emerge as a result of officials' desire for personal financial gain'. Self-interested and rent-seeking tendencies of government officials are also noted by Hopkin and Rodriguez-Pose (2007). Private parties also seek to pursue their self-interest through corruption (Vostroknutova 2003; Lambsdorff 2002). Hence the amount of bribes and the amount of tax evaded through escaping audit are the expenditures of rent-seeking. The official time tax officials spend in

this rent-seeking to capture the rent which could otherwise be utilised in revenue earning incurs social cost.

**Issue/Question (iii):** An insignificant 10.0% strongly supported the statement that sometimes powerful political actors pressure tax officials to settle tax disputes in their favour, whereas 23.3% moderately agreed and 63.3% supported it; only 3.3% did not consider the issue a reason for tax evasion. It may be inferred that some respondents downplayed the role they play in responding to political pressure. Being government officials, many respondents did not perhaps want to air claims against politicians and they thus provided somewhat guarded answers.

A number of researchers have pointed to the negative impact of political influence in Bangladesh. Politicisation is not a new phenomenon in Bangladesh and can be traced back to independence in 1971 and can be observed in every arena of the state, including the bureaucracy, business, constitutional institutions, media, elections, and so on (Monir, As-Saber & Woodward 2009). Mukherjee et al. (2001) identified politicisation as the fundamental reason for the poor performance of Bangladesh's bureaucracy. Roy (2006, p. 16) observed: 'The political parties coming to power politicize the bureaucrats'. Zafarullah and Siddiquee (2001), Jahan and Shahan (2008) and Zafarullah and Rahman (2008) have also noted serious political influence in the bureaucracy. On this view, the tax administration in Bangladesh, despite being one of the cornerstones of bureaucracy, cannot avoid political pressure. A similar situation may be observed in other developing countries. For example, in Madagascar and Tanzania, the tax administration frequently faces political interference where politicians use their power to protect major tax evaders, including themselves (Gray 2001).

In a corrupt political regime, political actors (the president, prime minister, ministers, their close relatives, and cronies) may compel tax administrators to be involved in rent-seeking (Tanzi 1999). The Bangladesh trend of utilising the tax department as an instrument for satisfying political interests is an example of a corrupt political culture. While turning a blind eye to tax evasion by influential taxpayers, including pro-government politicians, the incumbent government uses tax authorities to file tax evasion cases against those whom the government does not like. This was widely observed in 2007-2008, during the then CG regime (see Chapter I). Interestingly, after the downfall of the CG, the tax evasion cases filed by the NBR against politicians, businesspeople and bureaucrats have been stalled in the High Court without final settlement of the disputes. Very recently, the NBR filed a tax evasion

case against Nobel Laureate Dr Muhammad Yunus, founder and the then Managing Director of the Grameen Bank, a private organisation for providing micro credit to the poor. The government's step against Dr Yunus attracted national and global attention (Microfinance Africa, April 6, 2011). The media and civil society in Bangladesh and abroad have suggested that the government initiated the tax evasion case as a political vendetta against Yunus – the ruling government targeted Dr Yunus because he publicly criticised the corrupt political culture of Bangladesh during the CG in 2007-2008 (Microfinance Africa, April 6, 2011).

It can be argued that political actors in Bangladesh seek to manoeuvre the tax decisions of the tax administration to satisfy their self-interests.

**Issue/Question (iv):** No respondent strongly agreed with the statement that pressure from taxpayers, colleagues and superiors was responsible for making tax officials facilitate tax evasion; 48.3 % agreed while 41.4% moderately agreed, and 10.3% disagreed. Some might have sought to downplay their role since it blamed tax officials for causing tax evasion.

Regarding pressure from peers or superiors, what actually happens in the bureaucracy has rightly been sketched by Mauro (1998, p.13):

You are a new junior civil servant in an administration where everybody, including your superiors, is very corrupt. Somebody offers you a bribe to help him avoid paying taxes. You decline the offer. A few hours later, you receive a telephone call from your boss, who would have liked a cut of your bribe. Your boss suggests that if you treat a friend nicely (by accepting the bribe), you may be promoted, while if you don't, you will be transferred to a remote provincial office. You then take the bribe and share it with your boss and colleagues. If, instead, the administration in which you work is very honest, you are likely to behave honestly to avoid the risk of being fired.

When superiors or peers create pressure to favour some taxpayers, this means that taxpayers are not paying their legal tax liability and are using their personal network to influence the relevant tax officials to allow them to evade tax.

## **5.4 CHAPTER SUMMARY**

Based on the perceptions of tax officials, the key objective of this chapter was to examine tax policy implementation-related issues contributing to tax evasion in Bangladesh. The chapter also aimed to investigate the nexus of actors in tax policy implementation which might be responsible for facilitating tax evasion. The survey sample was selected from tax officials entrusted with the responsibility of tax policy implementation. With reference to sub-

proposition P<sub>1.2</sub>, this chapter examined institutional weaknesses of the Bangladesh tax administration and behavioural aspects of tax officials which are responsible for causing tax evasion. Issues of corruption in tax administration were also analysed. Furthermore, with reference to sub-proposition P<sub>2.2</sub>, this chapter investigated the nexus between actors in the tax policy implementation process, including tax officials, taxpayers and politicians. Overall findings are summarised below that show reasonable support for sub-propositions P<sub>1.2</sub> and P<sub>2.2</sub>.

One important findings of the study in reference to sub-proposition P<sub>1.2</sub> was that the salary structure of civil servants is not adequate to maintain subsistence living and this received the highest percentage of strong agreement (83.3%) from survey respondents. Key informants in in-depth interviews also strongly supported and elaborated on the statement. Another statement in reference to sub-proposition P<sub>1.2</sub>, that inadequate remuneration of tax officials compels them to become involved in taking inappropriate benefits, was also supported by a large percentage of respondents. These two findings suggest a major reason for pervasive corruption in the Bangladesh tax administration.

An interesting, significant finding in reference to sub-proposition P<sub>1.2</sub> was that too much discretionary power of tax officials might lead them to be corrupt, which was supported by fewer than fourth quarter of tax officials. However, in contrast to the survey finding, a key informant interviewed, a Chairman of the NBR, fully supported the statement. From this finding, it is apparent that most tax officials sought to preserve their discretionary power, which could be blamed for creating scope for pervasive corruption and tax evasion. Conversely, the top tax official was vocal against such power, since at the policy-decision level an official did not need to exercise power in the way that tax collectors did.

In summary, the findings suggest the presence of corruption and rent-seeking in the tax policy implementation process. In this regard, tax officials, as rent-seekers, seek bribes (rent) and taxpayers do the same by evading tax (rent). Their rent-seeking behaviour reflects a mutually negotiated outcome at the expense of government revenue. During their rent-seeking activities, dishonest tax officials cause wastage of government resources by misusing their official power, office hours, and allowing tax evasion. Dishonest taxpayers also take part in this wastage of resources by not paying taxes. The rent-seeking of tax officials and taxpayers can be blamed for creating the significant tax gap – the ‘difference between taxes

legally owed to State and the tax actually paid and collected’ (National Board of Revenue 2012a, p. 22).

With reference to sub-proposition P<sub>1.2</sub>, institutional weaknesses of the tax department and behavioural aspects of tax officials have been analysed in order to identify the causes of tax evasion. Survey findings with respect to sub-proposition P<sub>1.2</sub> suggest that the perceptions of the respondents who belong to Tax Cadre of the BCS significantly vary, depending on the two major trends of questions, the institutional problems of tax department and behavioural aspects and corruption of tax officials for causing tax evasion. When a statement implicated the tax department, respondents appeared to be strong in expressing their views. Conversely, when the tax officials were implicated, they tried to downplay their role.

Based on these results, it could be deemed that the weight of the evidence partially supported sub-proposition P<sub>1.2</sub>, viz., *the manner in which the tax policy is implemented leaves room for tax evasion*.

With reference to sub-proposition P<sub>2.2</sub>, the nexus between actors, including tax officials, taxpayers and politicians, has been examined. The findings suggest that respondents were less vocal in supporting the statements. If the percentages of ‘strongly agree’ and ‘agree’ are combined to assess support for sub-proposition P<sub>2.2</sub>, it appeared that, out of four questions, only one was supported by a majority of respondents (73.0%), one was supported by half (51.7%), and two were supported by less than half (41.4% and 48.3%). More detailed views about the statements were reflected in the findings of the in-depth interviews and secondary evidence. Overall, it could be deemed that the weight of the evidence has been somewhat supportive of sub-proposition P<sub>2.2</sub>, viz., *the nexus of three actors (politicians, public officials, and other interest groups, including businesspeople) contributes to the tax policy implementation process, which is often aimed at facilitating tax evasion*.



## **CHAPTER VI ANALYSIS OF TAX POLICY COMPLIANCE, TAX EVASION AND CORRUPTION**

Almost everyone must pay taxes, and few of us enjoy doing so (Hansen 1983, p 176).

### **6.1 INTRODUCTION**

Every taxation regime involves actions by the government and taxpayers. The government levies tax on citizens earning taxable incomes. However, tax imposition by the government does not necessarily ensure that citizens pay taxes as estimated by the government. Taxpayers have two options: either to comply with the demand for taxes or to evade it (Slemrod 2007; Lewis 1982). As Slemrod (2007, p. 25) contends:

No government can announce a tax system and then rely on taxpayers' sense of duty to remit what is owed. Some dutiful people will undoubtedly pay what they owe, but many others will not. Over time the ranks of the dutiful will shrink, as they see how they are being taken advantage of by the others.

As a consequence, tax collection has long been considered a complex area, fraught with widespread non-compliance, resulting in tax evasion. This scenario is reflected in the question posed by Alm, McClelland, and Schulze (1992, p. 21): 'why do people pay taxes when they have an opportunity, even an incentive, to evade?' No doubt, paying tax is not a popular task (Lewis 1982).

In Bangladesh, tax evasion issue appears to be fairly complicated. Despite having a large tax base (given a population of 152 million), the Bangladesh government repeatedly performs poorly in internal resource mobilisation (see Chapter I). Non-compliance and tax evasion by potential taxpayers are considered to be major stumbling blocks in achieving this objective.

This chapter firstly analyses problems and issues in relation to tax compliance in Bangladesh. Secondly, it examines the possible nexus and influence of various actors in the tax compliance process who might facilitate tax evasion. The A-S model and relevant literature are also utilised to validate the data.

The analysis is based on sub-propositions P<sub>1.3</sub> and P<sub>2.3</sub>. The empirical data collected from the survey, face-to-face interviews, and roundtable seminar observation are utilised. Finally, the chapter examines whether perceptions about tax compliance differ across the various

taxpayer groups based on their respective professions. The 30 survey respondents were divided into three subgroups based on their professional backgrounds. Hence, the ‘professional’ subgroup represents doctors and engineers, the ‘businesspeople’ subgroup represents business and self-employed people, and the ‘tax agent’ subgroup represents income tax practitioners, chartered accountants and lawyers who are authorised to represent taxpayers.

For convenience, individual questions in the study have been converted to statements.

## **6.2 TAX POLICY COMPLIANCE RELATED-ISSUES AND TAX EVASION IN BANGLADESH**

It is assumed that problems and issues in the tax compliance process, including the ethical, behavioural and financial aspects of the taxpayers, fairness and complexities of the tax regime, taxpayer service, rates of taxes, probability of detection, penalty and punishment, and tax amnesty may influence decisions about tax compliance or evasion. This assumption is reflected in the following sub-proposition:

**Sub-Proposition P<sub>1.3</sub>** *The manner in which the tax policy is complied with leaves room for tax evasion.*

This section will examine sub-proposition P<sub>1.3</sub> on the basis of empirical data collected from Bangladesh. Tables 6.1 to 6.7 show the differences in the perceptions of three subgroups of respondents.

### **6.2.1 Ethical and Behavioural Aspects of Taxpayers**

A growing number of scholars have stressed behavioural and ethical issues while analysing the causes of tax evasion. They argue that moral, social, cultural, legal, behavioural, psychological, norms, values, attitudes, and level of education can be considered important driving factors in tax evasion decisions of individuals (e.g., Smatrakalev 2012; McGee 2012; Ashby, Webley & Haslam 2009; Torgler & Schhneider 2009; Richardson 2008; Fortin, Lacroix & Villeval 2007; Alm & Torgler 2006). With an aim to examine the influence of ethical reasoning and socio-cultural aspects of taxpayers on their tax compliance or non-compliance decisions, five questions were asked. Responses are provided in Table 6.1.

**Table 6.1 Differences in Perceptions between Respondents of Three Different Professional Backgrounds Regarding the Ethical and Behavioural Aspects of Taxpayers, Bangladesh 2009-2010**

Issues/Questions	Agreement/ Disagreement	Professions			
		Professionals (%)	Tax Agents (%)	Business- people (%)	Total (%)
(i) Paying tax is a moral, social and legal obligation	Strongly Agree	90.0	0.0	42.9	50.0
	Agree	0.0	66.7	57.1	40.0
	Moderately Agree	10.0	33.3	0.0	10.0
	Do Not Agree	0.0	0.0	0.0	0.0
	Total (N)	100 (10)	100 (6)	100 (14)	100 (30)
(ii) There is an absence of a tradition of voluntary tax compliance in Bangladesh	Strongly Agree	40.0	20.0	35.7	34.5
	Agree	40.0	80.0	50.0	51.7
	Moderately Agree	20.0	0.0	14.3	13.8
	Do Not Agree	0.0	0.0	0.0	0.0
	Total (N)	100 (10)	100 (5)	100 (14)	100 (29)
(ii) Cultural, behavioural, and psychological aspects of taxpayers are responsible for evading tax	Strongly Agree	10.0	16.7	0.0	6.7
	Agree	70.0	83.3	71.4	73.3
	Moderately Agree	20.0	0.0	28.6	20.0
	Do Not Agree	0.0	0.0	0.0	0.0
	Total (N)	100 (10)	100 (6)	100 (14)	100 (30)
(iii) Norms, values and attitudes of taxpayers are responsible for causing tax evasion	Strongly Agree	10.0	0.0	0.0	3.3
	Agree	80.0	66.7	71.4	73.3
	Moderately Agree	10.0	16.7	21.4	16.7
	Do Not Agree	0.0	16.7	7.1	6.7
	Total (N)	100 (10)	100 (6)	100 (14)	100 (30)
(iv) The low level of education of the population influences tax evasion	Strongly Agree	10.0	0.0	7.1	6.9
	Agree	90.0	60.0	42.9	62.1
	Moderately Agree	0.0	40.0	35.7	24.1
	Do Not Agree	0.0	0.0	14.3	6.9
	Total (N)	100 (10)	100 (5)	100 (14)	100 (29)

Table 6.1 shows that most of the questions were to some extent supported by respondents. Two questions were rejected by insignificant percentage (6.7% and 6.9%). Of the five questions, three were answered by all participants (total 30), two were not answered by one participant (total 29), indicating a strong rate of responses.

**Issue/Question (i):** In order to examine the tax morale and ethical reasoning of the respondents, as well as to understand the relationship between ethics and tax compliance or

non-compliance, it was asked whether paying tax was a moral, social and legal obligation. Table 6.1 shows that 50.0% of respondents strongly agreed with the statement that paying tax is a moral, social and legal obligation; 40% agreed; only 10.0% moderately agreed. None disagreed. If the scores of 'strongly agree' and 'agree' are combined, 90.0% supported the statement. This finding is consistent with Torgler's study (2004) that shows the prevalence of a relatively high tax morale in Bangladesh. However, this perceived high tax morale is not entirely reflected in the rate of tax compliance.

Coexistence of high tax morale and high tax evasion in Bangladesh appears to be surprising, since the literature shows a strong negative correlation between the degree of tax morale and the size of the shadow economy (Torgler & Schneider 2009; Alm & Torgler 2006). It may, however, be argued that the respondents in the present study gave normative answers. As human beings do not always act in accordance with their beliefs, citizens in Bangladesh might tend to believe that paying tax is a moral, social, and legal obligation. However, in practice, they might feel reluctant to pay the requisite amount of tax to the government since other issues might also be at work behind tax compliance decisions, including enforcement of laws, fairness in the tax regime, taxpayer services and so on.

A clearer view about the statement was reflected in a comment by a discussant at the roundtable seminar, who explained the attitude of taxpayers towards payment as follows:

People pay tax because they are afraid of the consequence of not paying tax. It's lot of money. People do not pay happily... They do pay because they have to pay. It is a legal bond (Discussant 12).

In line with this comment, it can be assumed that of the three obligations of tax payment, i.e. moral, social and legal, taxpayers tend to lay more emphasis on legal obligations. When interviewed, Chairman B of the NBR stressed awareness building activities for taxpayers in order to raise their moral, social and legal obligations. He suggested the government initiate awareness building programs targeting every household in the country. He further advised that government should publicise widely and advertise in the newspapers and other media about tax matters. In the final report on 'Identifications of Weaknesses in the Revenue Systems and Procedures' of MAP of the NBR, Akhteruzzaman (2008a) also recommended raising awareness among citizens about their moral and social obligations to society and the nation. He suggested effective use of electronic and print media to make taxpayers aware of filing correct returns, penalties, and 'naming and shaming' for evading taxes.

**Issue/Question (ii):** Table 6.1 shows that 34.5% of respondents strongly agreed and 51.7% agreed with the statement that there is an absence of the tradition of voluntary tax compliance in Bangladesh. ‘Moderately agree’ was only 13.8%. None disagreed.

Survey results appeared to be consistent with the finding of the in-depth interview. When interviewed, an Executive of TIB opined:

...tax [is] being looked at as something forced upon the society, rather than something accepted in a spontaneous way as a part of someone’s duty to the state. It could be one of the reasons for the tax base being very low.

This suggests that voluntary tax compliance is not a tradition in Bangladesh and taxpayers perceive tax payment as some sort of punishment. An Inspector of Taxes, in the open-ended survey question, emphasised awareness building as a strategy to increase voluntary tax compliance. He recommended advertising the importance of tax payment and punishment for non-compliance. He further suggested including an income tax subject in school textbooks. Voluntary tax compliance and the willingness of citizens to pay taxes depend on a number of factors. Stella (1991, p. 385) contends that ‘tax evasion exists because individuals will generally not voluntarily finance the optimal level of public goods’. A similar point is made by Torgler (2004): people do not like to pay taxes. Accordingly, if citizens perceive they are being cheated, if they find that corruption is widespread in society, that their tax burden is not well utilised and they are not well protected by the rule of law, their motivation for voluntary tax compliance will undoubtedly decrease (Torgler & Schneider 2009). These might be the reasons for the significant absence of voluntary tax compliance in Bangladesh, given the context that corruption, wastage of government funds, rent-seeking, lawlessness, and anti-democratic culture are widespread (As-Saber 2011; Monir, As-Saber & Woodward 2009; Aminuzzaman 2004; Zakiuddin & Haque 2002; Zafarullah & Siddiquee 2001).

**Issue/Question (iii):** Table 6.1 shows that 73.3 % supported the statement that cultural, behavioural, and psychological aspects of taxpayers are responsible for evading tax. However, only 6.7% strongly supported the question whilst a significant 20.0% moderately agreed. If the scores of ‘strongly agree’ and ‘agree’ are combined, 80.0% agreed.

Respondents in the in-depth interviews strongly support the statement. Senior Official B of the OTO contended that ‘tax evasion has become a habit, culture’. This comment clearly

indicated the prevalence of a tax evasion culture in Bangladesh and that the public had become culturally habituated to tax evasion. Discussant 12 at the seminar commented:

We have to develop a tax culture in Bangladesh. In America, you have to pay tax, even if the amount is insignificant. It is a part of developing a tax culture.

The same discussant further pointed out the importance of developing such a tax culture, given that people are not yet culturally oriented towards tax payment. The underlying message is that the government has to make people realise that they must pay tax regardless of amount. Discussant 17 also stressed enhancing the tax culture. The discussant, a Member of the Parliamentary Standing Committee, stated: ‘I believe that we need to enhance tax culture. There is an absence of tax culture in the country at the moment’.

Based on these views, it is apparent that, in the views of senior officials, cultural aspects can significantly influence a prospective taxpayer’s decision. The data have revealed a perception of a significant absence of an appropriate tax culture in Bangladesh, making the citizens somewhat reluctant in paying taxes as a consequence. The present Finance Minister of Bangladesh has stated that it is a matter of embarrassment for the nation that such an insignificant number of people comply with tax requirements (Bangladesh Civil Service Taxation Association 2009). Hence he has placed strong emphasis on building a tax culture. Psychological and socio-cultural factors have been pointed to as reasons for tax evasion in the ‘Final Inception Report’ of the MAP of the NBR: ‘Some researchers have indicated that taxpayers’ compliance decision can be affected by factors which can be categorised as psychological, sociological and economical’ (Akheteruzzaman 2008b, p. 10).

On the basis of the findings of the survey, in-depth interviews, roundtable seminar and secondary evidence, it can be argued that cultural, behavioural and psychological aspects of taxpayers can influence their tax evasion decisions. In Bangladesh, a significant absence of a tax culture, as pointed out by participants in the study, can be blamed for contributing to rampant tax evasion.

**Issue/Question (iv):** Table 6.1 shows that 73.3 % of respondents supported the statement that norms, values and attitudes of taxpayers are responsible for causing tax evasion. However, strong agreement appeared to be significantly low at 3.3%. Moreover, 16.7% only moderately agreed. However, if the percentages of ‘strongly agree’ and ‘agree’ are combined, the total agreement reaches 76.6%. Although respondents in the in-depth interviews and discussants

at the seminar did not shed much light on the issue, secondary evidence has been reported of a relationship between the norms, values attitudes of taxpayers and their tax evasion decisions. This is reflected in the final report of the MAP of the NBR: ‘Issues including cultural differences, age, gender, class, life style, time and place have a major influence on the behaviour of the taxpayers’ (Akteruzzaman 2008a, p. 29).

The underlying meaning of that statement is that a taxpayer’s decision to evade depends on his/her individual characteristics as well as the environment of the society. The violation of social norms is closely related to involvement in informal activities (Torgler & Schneider 2009). A similar point is made by Ashby, Webley and Haslam (2009, p. 226):

Paying tax is about hearts and minds as well as carrots and sticks, and those hearts and minds are structured not in a social vacuum, but by group memberships and the values and norms these instill.

In Bangladesh, tax compliance has not yet gained a place in the norms, values and attitudes of citizens and this is likely to be a major reason for the high level of tax evasion.

**Issue/Question (v):** Although no exact relationship between the level of education of a person and aversion to paying tax is found in the literature (McGee 2012), it may be argued that, for better understanding of the obligation and procedure of tax payment, citizens require a minimum level of education and some knowledge about the tax system. Participants in this study were thus asked whether they thought that the low level of education of the population influenced tax evasion. Table 6.1 shows that 62.1% of respondents agreed with the statement; 6.9% strongly agreed; and 24.1% moderately agreed. Disagreement was insignificant at 6.9%. Hence it can be argued that a low level of education is a cause of tax evasion in Bangladesh. In Bangladesh, because the bulk of the population does not receive an adequate education<sup>24</sup>, it perceives taxation as a complex process. A large segment of the illiterate population in Bangladesh, despite having taxable income, might indeed not be aware of their tax obligations.

The survey finding was validated by the findings of the in-depth interviews and roundtable seminar. A number of respondents emphasised the importance of mass education for increasing tax compliance. They argued that, because of low levels of education, citizens

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<sup>24</sup> Literacy Rate in Bangladesh (7 Years and Above as on March 15, 2011): Both Sex: 51.8%. Male: 54.1%, Female: 49.4%, Disable Person (Enumerated): 1.4% (Bangladesh Bureau of Statistics 2012).

might not be aware about their obligation to comply. Therefore, they might be evading taxes unintentionally.

The need for taxpayer education to inform the public about relevant tax law and policy, tax calculation and the payment system can be cited specifically. Only ensuring mass education can further create a platform for taxpayer education. Given the importance of that education, the NBR has launched a special program to educate taxpayers about their obligations (Interview with Chairman D of the NBR).

An absence of adequate taxpayer knowledge about income tax law and obligations as a reason for tax evasion was indicated by a Member (Income Tax Policy) of the NBR during his speech at the seminar (Discussant 2). When interviewed, Senior Official A of the OTO commented: ‘the low literacy rate of our people is a major issue. And that’s why we should simplify the tax law’.

It is understandable that if citizens are not aware of their tax obligations and face difficulties in tax payments due to the complexities of tax laws and systems, they are likely to feel reluctant to pay taxes. This may be the case in Bangladesh where the literacy rate is significantly low and tax rules are fairly complex. While answering the survey’s open-ended question, a Senior Official of the Anti Corruption Commission emphasised the importance of tax education and conscience of taxpayers and reducing tax rate as strategies for checking tax evasion. The importance of taxpayer education to make them aware of their rights and responsibilities under the law and thus increase voluntary tax compliance is also pointed out by Akhteruzzaman (2008a). It is important to note that a similar recommendation for taxpayer education is made in the ‘Modernization Plan 2011-2016’ of the NBR (National Board of Revenue 2012a).

The discussion in this section has, until now, highlighted the overall perceptions of the participants about ethical and behavioural aspects of taxpayers. However, within the tax policy compliance cohort of respondents, there were particular subgroups, such as professionals, tax agents and businesspeople, and these on occasion showed varied perceptions about some issues. An attempt has been made to discern any pattern of perceptions across professions about various issues associated with the ethical and behavioural aspects of tax evasion (see Table 6.1).



It is interesting to see that, while 90.0% of professionals and 42.9% of businesspeople strongly supported the statement that paying tax is a moral, social and legal obligation, no tax agent was found to be strongly supportive. Rather, a significant 33.3% of tax agents moderately agreed. Tax agents are authorised to represent taxpayers and them in preparing tax returns and dealing with tax matters, including appearing before tax authorities on their behalf (*Income Tax Manual Part-1*, 2009, p. 288). It could thus be expected that tax agents' perception about the moral, social and legal obligation of tax payment would be stronger, so that they might encourage their clients towards tax compliance. However, the findings have shown a different picture, revealing a significant absence of 'strong' agreement with the statement on moral, social and legal issue of tax payment. Based on the empirical findings, it can, however, be assumed, that the tax agents subgroup of the study were morally weak on the issue of tax compliance because they were likely to assist dishonest taxpayers to evade tax. It is ironical that, as legal practitioners, tax agents tend to show less support for the legal aspects of tax payments when compared to other professionals. The personal experience of an Advisor to the Prime Minister of being financially cheated by a tax consultant may raise a question mark over the role and moral and ethical reasoning of tax agents in Bangladesh (an issue that is further explained later in the chapter). The tax agent subgroup possibly did not support the moral, social and legal obligation of tax payment strongly because of their role as intermediaries in arranging illegal payments between their clients and tax officials. They also act as facilitators in minimising tax burdens of their clients, using legal loopholes and encouraging collusion between them and the tax authority. The finding is consistent with tax practitioner literature (e.g., Doyle, Hughes & Summers 2012; Marshall, Smith & Armstrong 2005; Erard 1993). Interestingly, an empirical study conducted by Erard (1993) suggests that the use of tax agents significantly increases tax non-compliance and thereby affects tax equity and efficiency.

The percentage of 'strong' support was relatively low from the professional subgroup in relation to the statement focusing on the absence of voluntary tax compliance. Lower numbers of 'strong' supporters has been registered across the three professions on the impact of cultural, behavioural, psychological, norms, values, attitudes and educational aspects of taxpayers as causing tax evasion. Surprisingly, only 10.0% of the professionals supported these factors strongly as possible causes. No businesspeople provided 'strong' support. Similarly, no tax agents agreed 'strongly'. The findings suggest that, despite having clear professional affiliation and strong educational backgrounds, most respondents tended not to

acknowledge such influences as 'strong'. An explanation could be that respondents considered economic benefit as the primary motivator to evade tax. It can be assumed from the findings that a tax culture has not yet been established in Bangladesh.

It has become apparent from the discussion above that inadequate taxpayer education and lack of a tax culture are major reasons for tax non-compliance and tax evasion by citizens in Bangladesh.

### **6.2.2 Financial Condition of Taxpayers**

People generally do not like to pay taxes (Alm 1999; Hansen 1983). However, there can be differences for such dislike between individuals depending on their financial condition. To examine the relationship between financial condition of taxpayers and a tendency to evade tax, four questions were asked. Responses are presented in Table 6.2.

**Table 6.2 Differences in Perceptions between Respondents of Three Different Professional Backgrounds Regarding the Financial Condition of Taxpayers, Bangladesh 2009-2010**

Issues/ Questions	Agreement/ Disagreement	Professions			
		Professionals	Tax Agents	Business-people	Total
		(%)	(%)	(%)	(%)
(i) The majority of those eligible to pay tax are still out of the income tax net of Bangladesh	Strongly Agree	80.0	16.7	42.9	50.0
	Agree	20.0	16.7	42.9	30.0
	Moderately Agree	0.0	66.7	14.3	20.0
	Do Not Agree	0.0	0.0	0.0	0.0
	Total (N)	100 (10)	100 (6)	100 (14)	100 (30)
(ii) Taxpayers in higher-income brackets, who pay tax at higher rates in progressive tax systems, are more likely to underreport their income and evade tax	Strongly Agree	60.0	0.0	57.1	46.7
	Agree	20.0	66.7	35.7	36.7
	Moderately Agree	20.0	33.3	7.1	16.7
	Do Not Agree	0.0	0.0	0.0	0.0
	Total (N)	100 (10)	100 (6)	100 (14)	100 (30)
(iii) The tendency to evade tax of 'middle income people' might be lower than of 'rich people'	Strongly Agree	10.0	33.3	15.4	17.2
	Agree	20.0	50.0	53.8	41.4
	Moderately Agree	50.0	16.7	23.1	31.0
	Do Not Agree	20.0	0.0	7.7	10.3
	Total (N)	100 (10)	100 (6)	100 (13)	100 (29)
(iv) Businesspeople, professionals, self-employed people, and house and land owners evade tax in order to quickly maximise their income	Strongly Agree	20.0	0.0	7.1	10.0
	Agree	50.0	33.3	64.3	53.3
	Moderately Agree	30.0	66.7	28.6	36.7
	Do Not Agree	0.0	0.0	0.0	0.0
	Total (N)	100 (10)	100 (6)	100 (14)	100 (30)

Table 6.2 shows that only one question of four is rejected by an insignificant 10.3% of respondents, showing the consistency of the four questions asked. Moreover, only one respondent did not answer one question.

**Issue/Question (i):** 50.0% of all respondents strongly agreed with the statement that the majority of those eligible to pay tax remain out of the income tax-net of Bangladesh; 30.0% agreed; none disagreed, but 20.0% moderately agreed. The survey finding does not appear surprising since the literature also shows that people do not like paying taxes (Alm 1999).

The survey finding was further elaborated on and explained by participants in the in-depth interviews. Indicating a significant gap between the number of taxpayers and the total population of Bangladesh, Chairman D of the NBR said:

The number of TIN<sup>25</sup> holders in Bangladesh is 2.238 million, out of which 97.63% are non-corporate TIN holders and the remaining 2.37% are corporate. For a country with about 150 million people, it means that the number of TIN holders is only 1.5% of the population.

These statistics provided by one of the most senior taxation officers make it clear that majority of Bangladeshi citizens who could pay income taxes tended to remain outside of the tax net. Chairman B of the NBR commented: ‘Normally people do not want to pay tax’.

‘Nobody wants to pay tax’ – the tendency to dislike paying taxes – was also pointed out by Senior Official A of the OTO during his interview. A possible trend of tax non-compliance amongst the Bangladeshi citizens has been reflected in these two comments. A key interviewee from the corporate sector (Ha-Meem Group) also asserted that everybody, including political actors, public officials and businesspeople, are to some extent involved in tax evasion in Bangladesh.

It should be noted that both players in the Bangladesh tax regime, public officials and businessman, were unanimous about the statement. The survey data and the findings of the in-depth interviews have presented a clear picture of the phenomenon that the majority of citizens of Bangladesh are outside the tax net, indicating that potential taxpayers evade their income tax. The findings also revealed the possible unwillingness of the public to pay taxes.

**Issue/Question (ii):** This statement proposed that taxpayers in higher-income brackets, who pay tax at higher rates in progressive tax systems, are more likely to underreport their income and evade tax. From the responses in Table 6.2 the statement was strongly supported by 46.7% and supported by 36.7%. In addition, 16.7% moderately agreed. None disagreed. In a progressive tax system, the tax burden increases with a rise in income. The more people earn, the more tax they pay on their income. The benefits of tax evasion tend to increase for individuals in a higher bracket of income. As a consequence, rich people might seek ways to underreport their income in order to make their tax burden lower. The literature also shows that taxpayers in higher brackets generally gain more from tax evasion (Aslam 1998; Porcano 1988). McGee (2012, p. 451) states that ‘...rich people are taxed more than poor people and

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<sup>25</sup> Taxpayer Identification Number.

they may resent paying so much in taxes, causing them to view tax evasion more favorably'. A similar situation is evident in Bangladesh, as is revealed from the survey data. Findings of the in-depth interviews were also consistent with the survey data. Senior Official B of the OTO contended that rich taxpayers are more prone to tax evasion: there is also a '...tendency of tax officials to harass small taxpayers and negotiate with rich taxpayers!'

The underlying import of this quotation is that negotiation occurs between rich taxpayers and tax officials which facilitates tax evasion. Similarly, a key business person of the Ha-Meem Group stated that most of the common people pay taxes but those in higher income brackets tend to evade taxes. In an interview with the *Daily Star* newspaper, Professor Muinul Islam also asserts, '...very fast emerging cohorts of millionaire businessmen of the country are contributing an unbelievably low proportion of the government's personal income tax collection every year' (*The Daily Star* May 20, 2012d).

The findings of the survey and in-depth interviews were consistent. From the findings and analysis of statements (i) and (ii), it may be inferred that since tax evasion appears to be pervasive in Bangladesh, the proportion of evaded taxes by rich taxpayers could be higher than relatively lower-income taxpayers.

**Issue/Question (iii):** This statement attempts to verify if the tendency to tax evasion of 'middle income people' is lower than that of 'rich people'. The data in Table 6.2 shows lower support for this statement compared to the earlier statement (ii) one. Only 17.2% strongly supported this statement, 10.3% disagreed and 31.0% moderately agreed, but 41.4% agreed. Interestingly, no comments were made on the statement during the interviews. Similarly, no discussant at the roundtable seminar shed light on it. It may be inferred that survey participants, in-depth interviewees and seminar discussants did not wish to emphasise this aspect and may have been reluctant to agree fully with the statement. A possible reason could be that the respondents, given their background, represent higher-income brackets, which makes them skeptical that those on middle incomes are less likely to evade tax.

**Issue/Question (iv):** This statement deals with the issue whether businesspeople, professionals, self-employed people, and house and land owners evade tax in order to quickly maximise their income. Despite 53.3% respondents agreeing, it is surprising that strong support decreased to 10.0%. Furthermore, a significant 36.7% moderately agreed.

A possible explanation could be that the survey respondents downplayed their role since the statement directly blamed businesspeople, professionals, self-employed people, and house and landowners about their self-maximising behaviour. It should be noted that the survey respondents represented the above-mentioned professions. Therefore, they might try to downplay their role in responding to the statement in order to avoid conflict of professional interest.

Two key informants in the in-depth interviews elaborated on the statement. Senior Official B of the OTO mentioned that various professionals, including lawyers, doctors and teachers, indulged in tax evasion. Chairman A of TIB blamed hidden professional income as a source for generating black money in Bangladesh.

Self-maximising behaviour of taxpayers is not a very uncommon phenomenon and is well-documented in the literature. According to Ashby et al. (2009, p. 216), ‘in general, taxpayers have been conceptualized as self-interested utility maximizers, who evade taxes because they are greedy’. In Bangladesh, a recent study by TIB categorically reported the mechanism of tax evasion by professionals, businesspeople, house and land owners, celebrities and private employees (Khan & Nahar 2011).

Table 6.2 shows the differences in perceptions of the three subgroups of respondents in relation to the financial aspects influencing tax evasion.

It can be noted from Table 6.2 that only 16.7% of tax agents, compared to 80.0% of professionals and 42.9% of businesspeople, strongly supported the statement that the majority of those eligible to pay tax remain outside the income tax net of Bangladesh. Moreover, a majority of the tax agent subgroup appeared ambivalent about the statement (moderately agreed, 66.7%). One reason for such a guarded approach of the tax agents might be due to circumstances concerning their professional interest and reputation. Since they are the authorised representative of taxpayers, the blame of tax evasion by the majority of potential citizens somewhat indicates their failings. Tax agents who moderately supported the statement perhaps did not want to reveal the pervasiveness of tax evasion because of their relationship with their clients and tax officials.

Despite the strong support of the majority of professionals (60.0%) and businesspeople (57.1%) for the statement that taxpayers in higher-income brackets are more likely to underreport their income and evade tax, none of the tax agents were strongly supportive. Rather, a significant percentage i.e., 33.3% of tax agents moderately agreed. The tax agent subgroup perhaps tended to downplay their role in revealing the financial condition of clients who are likely to underreport income and they remained defensive about this clientele group. Support for the statement that the tendency of tax evasion of middle income people might be lower than of rich people was less pronounced across the three subgroups.

An interesting finding emerged that related to the professional background of tax evaders. Cross-tabulation results show that the percentage of 'strong' support across the three subgroups significantly decreased for the statement that businesspeople, professionals, self-employed people, and house and land owners evade tax in order to quickly maximise their income. The number of 'moderately agree' responses appeared to be significantly higher for the statement, as 30.0% of professionals, 66.7% of tax agents, and 28.6% of businesspeople moderately supported the statement. It is quite understandable that the respondents who represented these professional groups tended to downplay their own role in supporting a statement which blamed their professions for tax evasion.

### **6.2.3 Fairness in the Tax Regime**

Fairness in the tax regime plays an important role in influencing individuals to comply with their tax obligations (Bordignon 1993). Three questions were used to examine the relationship between tax evasion and perceived tax fairness in Bangladesh's tax regime. The results are shown in Table 6.3.

**Table 6.3 Differences in Perceptions between Respondents of Three Different Professional Backgrounds Regarding the Impact of Tax Fairness on Taxpayers, Bangladesh 2009-2010**

Issues/Questions	Agreement/ Disagreement	Professions			
		Professionals (%)	Tax Agents (%)	Business- people (%)	Total (%)
(i) People evade tax out of feelings of inequality, injustice, and unfairness regarding the tax regime	Strongly Agree	30.0	0.0	14.3	16.7
	Agree	40.0	66.7	57.1	53.3
	Moderately Agree	30.0	33.3	28.6	30.0
	Do Not Agree	0.0	0.0	0.0	0.0
	Total (N)	100 (10)	100 (6)	100 (14)	100 (30)
(ii) Taxpayers' views on the 'use of taxes', the 'burden of taxes', and perceived benefits received in exchange for paid tax could influence people to evade tax	Strongly Agree	40.0	0.0	35.7	31.0
	Agree	50.0	0.0	42.9	37.9
	Moderately Agree	10.0	80.0	21.4	27.6
	Do Not Agree	0.0	20.0	0.0	3.4
	Total (N)	100 (10)	100 (5)	100 (14)	100 (29)
(iii) The disappointment of taxpayers with the government's spending policies, such as defense spending or spending on bureaucracy, influence taxpayers to evade tax	Strongly Agree	12.5	20.0	8.3	12.0
	Agree	50.0	60.0	50.0	52.0
	Moderately Agree	37.5	20.0	25.0	28.0
	Do Not Agree	0.0	0.0	16.7	8.0
	Total (N)	100 (8)	100 (5)	100 (12)	100 (25)

Table 6.3 demonstrates that an insignificant percentage of all respondents did not agree with questions (ii) and (iii) (3.4% and 8.0%, respectively). One respondent did not answer one question (ii) and five did not respond to question (iii).

**Issue/Question (i):** The assumption that people evade tax out of feelings of inequality, injustice and unfairness was strongly agreed upon by 16.7% of respondents and 53.3% agreed to it. Although the statement did not receive enough strong support from the respondents in comparison to its significance, if 'strongly agree' and 'agree' are combined to measure overall support, it can be seen that 70% of respondents agreed with it. Moreover, those at the seminar explained the issue more clearly, highlighting specific areas of inequality, injustice and unfairness of the tax regime. For example, pointing to discriminatory tax imposition, a legislator, Discussant 15, suggested the following:

Target the elite of the society, so that ordinary people will also be afraid about tax evasion. All MPs should pay tax. Not only MPs, the Ministers, the President, even the Prime Minister, have to pay tax. Everybody has to pay... government officials... all citizens, according to their ability.



Another discussant at the seminar, an income tax lawyer, also indicated discrimination in income tax when buying cars in Bangladesh (Discussant 8): tax is imposed on the basis of the size of the car, not on the basis of the market price; therefore, the tax department imposes the same amount of tax on the taxpayer irrespective of whether she or he buys an expensive or a cheap car. An Inspector of Taxes also mentioned, in the open-ended survey question that:

The major reason for tax evasion is the lack of confidence of taxpayers in the government in terms of providing them with social and state security and certainty of fairness and justice.

It has become apparent from the discussion above that there is discrimination in imposition of tax rates and compliance. Some sections of the population enjoy full tax exemption, disappointing others who need to shoulder full tax responsibility. It is important to mention that the remuneration of the Prime Minister, Ministers, the Speaker, the Deputy Speaker, Parliament Members, and Judges of the High Court were completely tax-exempted until the 2011-2012 fiscal year in accordance with the Speaker and Deputy Speaker (Remuneration and Allowances) Act 1974 and Members of Parliament (Remuneration and Allowances) Order 1973, which created negative responses amongst the public (*The Daily Star* May 30, 2012e; Adhikari 2009)). The salaries of public officials were also tax-exempt. Because of popular pressure against discriminatory tax treatment between the general public and lawmakers and public officials, the incumbent government has amended the laws, making mandatory tax payment by lawmakers, High Court judges and public officials. The new law was enacted in financial year 2011-2012. However, only the basic salary or remuneration has been taxed, leaving bonuses and all other allowances tax-free (Finance and Accounts July 9, 2011). Moreover, the discretionary provisions allowing all legislators to import duty-free cars which were enacted on May 24, 1987, have remained unchanged (*The Daily Star* May 30, 2012e). Since 1992, the Members of the Parliament have been empowered to spend BDT 3 crore each fiscal year without legal guidelines for such expenditures (*The Daily Star* April 25, 2009a). The Members of Parliament (Remuneration and Allowances) Order 1973 only states that spending from discretionary grants will be subject to the conditions prescribed by a committee led by the leader of the Parliament. Interestingly, no committee has been formed and no objection has been reported against such spending since 1992 (*The Daily Star* April 25, 2009a). Notably, the new tax law has not imposed tax on the discretionary funds of lawmakers. It can be argued that the series of amendments of the tax laws have not yet established equality and fairness for all citizens, irrespective of status.

A large body of tax literature has stressed the relationship between perceived unfairness in taxation and the decision to evade tax. For example, Fortin, Lacroix and Villeval (2009) and Porcano (1988) report a direct relationship between the perceptions of taxpayers about unfairness in the tax system and tax evasion. Tax evasion increases when citizens perceive the tax system as unfair. Furthermore, if individuals perceive that tax evasion is prevalent in a society, they may become less compliant (Porcano 1988; Spicer & Hero 1985). A feeling of injustice is also indicated as an important cause of tax evasion (Spicer & Becker 1980).

**Issue/Question (ii):** This question was asked to learn whether taxpayers' perceptions in relation to the 'use of taxes', the 'burden of taxes', and perceived benefits received in exchange for paid tax could influence evasion.

Although a tax payment does not offer direct benefit to taxpayers, they may expect indirect benefits from the government in return for their taxes in the form of social security, aged-care facilities, job creation, improved infrastructure, education and so on. Moreover, taxpayers may expect proper and transparent utilisation of tax revenues by the government. Therefore it is important for any government to ensure social welfare, increase employment opportunity, develop infrastructure, and health and education facilities through the proper use of citizens' taxes. Otherwise, taxpayers may be less inclined to pay tax, which will further encourage them to evade it. Table 6.3 shows that 31.0% of respondents strongly agreed and 37.9% agreed with the statement. An insignificant 3.4% disagreed, whilst 27.6% moderately agreed.

The survey results were consistent with the findings of the in-depth interviews and roundtable seminar. The interviewees and the discussants produced a number of examples and issues about the inefficient use of tax money. In an interview, an Executive of TIB commented:

...I am paying tax for my benefit; this is something that is not understood in a society. Now, people don't realise that it is in the interest of the public themselves that they pay tax.

It could be inferred that taxpayers in Bangladesh see no justification for meeting their tax obligations. When interviewed, Senior Official A of the OTO said:

They are giving their money and they want some services from the government in exchange for it. You have to convince them... I am giving the money and what service am I getting from you? That is my fundamental right to know and that is absent in developing countries, not only in Bangladesh, all the subcontinent and Southeast Asian countries.

From the findings of the survey, interviews and roundtable seminar, it appeared that there remains grave dissatisfaction amongst taxpayers in Bangladesh about perceived benefits received in exchange for paid tax and this tends to be important for tax evasion. According to respondents, taxpayers seem to have no trust in the tax department or the government. Accordingly, they perceive tax payment as mere punishment. The literature has also shed light on this. Cummins et al. (2009) argue that tax compliance will only be increased when citizens view their desired services provided by the government as adequate, transparent and fair. Similarly, Cowell and Gordon (1988) also point out the influence of public goods on the tax evasion decision of taxpayers. In summary, the survey results and the findings of the in-depth interviews and roundtable seminar and the literature consistently support the statement.

**Issue/Question (iii):** Government spending policy might also influence the compliance decisions of taxpayers. If they perceive that the government spends their taxes efficiently and effectively in useful sectors, they will be motivated to comply. On the other hand, taxpayers become disappointed with government spending on defense and bureaucracy and this can influence them to evade tax. Table 6.3 shows that the statement was strongly supported by only 12.0% of respondents. However, 52.0% agreed and 28.0% moderately agreed, leaving only 8.0% not agreeing.

A more detailed perception was shared during discussion at the seminar, in which the President of Metropolitan Chamber of Commerce and Industry (MCCI) (Discussant 4) shared his perception:

There is a mismatch between the right to collect tax and the proper utilisation of taxpayers' money. So, the tax governance structure needs to be improved. Those who evade tax or pay less or intend to stay out of the tax net, do not feel guilty because they do not see the use of tax, the contribution of tax money to the society. Therefore, in order to strengthen the moral argument, the government has to efficiently manage public service and proper utilisation of resources, while priority should be given to sectors deemed important by taxpayers.

Although, the discussant did not directly complain about the allocation of public funds in the bureaucracy and defence sectors, he has clearly indicated a relationship between perceived misuse of tax money and tax evasion in Bangladesh. The findings of the survey, in-depth interviews and the seminar also appeared to be consistent with the following findings of the MAP of the NBR:

The public are generally reluctant to comply with tax law as they do not see the benefit for doing so. The payment of tax and receipt of benefits are perceived as inequitable, public funds

are being wasted, corruption and government lacked accountability for how public money is spent (Akhteruzzaman 2008a, p. 28).

The literature also supports the statement. Fuest and Riedel (2009) point out that inappropriate and non-transparent tax expenditure policies are responsible for unsatisfactory revenue collection in developing countries. They further state that tax expenditure policies in developing countries are influenced by the lobbying of special interest groups and corrupt practices.

Based on the findings of the survey, in-depth interviews, the seminar, MAP report, and the literature, there appears to be comprehensive support for the statements presented in Table 6.3. Table 6.3 shows the differences in perceptions of the three groups of respondents in relation to the impact of tax fairness on tax evasion.

The cross-tabulation findings revealed relatively less ‘strong’ support (ranging from 0.0% to 40.0%) for the three statements across the three subgroups. In addition, a significant percentage of respondents from the three subgroups moderately agreed with the statements (ranging from 10.0% to 80.0%). Specifically, 80.0% of tax agents moderately supported and 20.0% disagreed with the statement that tax evasion could be influenced by perceived benefits from paying taxes. It can, however, be interpreted from the trend of the responses that the participants sought to create an impression that taxpayers did not have any expectation in return for their tax.

#### **6.2.4 Absence of Taxpayer Services**

Recent tax literature has placed importance on a ‘service’ paradigm for enhancing tax compliance. Taxpayer services, including low-cost information services about tax matters, reducing uncertainty about true tax liability, and creating the image of tax administration as facilitator and provider of services, like a ‘kinder-friendlier’ tax agency, essentially reduce tax evasion and increase tax compliance (Alm et al. 2010, pp. 578, 579, 585). The current study sought to examine whether there exists any relationship between the services taxpayers receive from the tax department and decisions about tax compliance. Three questions were asked. Table 6.4 shows the responses.

**Table 6.4 Differences in Perceptions between Respondents of Three Different Professional Backgrounds Regarding the Impact of the Absence of Taxpayer Services on Taxpayers, Bangladesh 2009-2010**

Issues/Questions	Agreement/ Disagreement	Professions			
		Professionals (%)	Tax Agents (%)	Business- people (%)	Total (%)
(i) Inadequate and inefficient customer service of the tax administration works as a factor in causing tax evasion	Strongly Agree	90.0	20.0	21.4	44.8
	Agree	10.0	60.0	57.1	41.4
	Moderately Agree	0.0	20.0	21.4	13.8
	Do Not Agree	0.0	0.0	0.0	0.0
	Total (N)	100 (10)	100 (5)	100 (14)	100 (29)
(ii) The absence of e-services for taxpayers work as a factor in causing tax evasion	Strongly Agree	100.0	0.0	64.3	63.3
	Agree	0.0	50.0	7.1	13.3
	Moderately Agree	0.0	33.3	28.6	20.0
	Do Not Agree	0.0	16.7	0.0	3.3
	Total (N)	100 (10)	100 (6)	100 (14)	100 (30)
(iii) The absence of a taxpayer friendly environment influences tax evasion	Strongly Agree	100.0	0.0	38.5	51.7
	Agree	0.0	33.3	53.8	31.0
	Moderately Agree	0.0	50.0	7.7	13.8
	Do Not Agree	0.0	16.7	0.0	3.4
	Total (N)	100 (10)	100 (6)	100 (13)	100 (29)

Table 6.4 shows that percentages for ‘strong agreement’ appear to be very high for the three questions and percentages for ‘do not agree’ insignificant. Overall, the findings show fairly strong support for these statements.

**Issue/Question (i):** This question was asked to learn whether inadequate and inefficient customer service from the tax administration was a reason for tax evasion. Table 6.4 shows that 44.8% of respondents were in strong agreement while 41.4% ‘agreed’. If the scores of ‘strongly agree’ and ‘agree’ are combined to assess overall agreement, 86.2% were in support. Nobody disagreed and only 13.8% were in moderate agreement. Overall, the finding demonstrates dissatisfaction of taxpayers with respect to customer service of the Bangladesh tax administration. It can be argued that adequate and efficient customer service in tax department might stimulate taxpayers in complying with tax payment. The opposite (as the case in Bangladesh), may make the taxpayers reluctant resulting tax non-compliance.

The tax department has been blamed for its bureaucratic character by participants. A service-oriented attitude by tax officials is significantly absent in the tax administration, as was pointed out by discussants at the seminar and participants in in-depth interviews. ‘In to my opinion, there is certainly a relationship between service and the willingness to pay taxes’, commented a taxpayer (Discussant 5). Instead of providing adequate and efficient service to taxpayers, tax officials indulge in harassing them, the taxpayer said. A Representative of the FBCC at the seminar commented that people did not want to fall within the tax net and found ways of tax evasion because of fear about the tax department (Discussant 6): there existed a common belief among the citizens that meeting with a tax official was as bad as becoming ‘prey to a tiger’.

The President of the Dhaka Chamber of Commerce and Industry (DCCI) (Discussant 9) posed a question at the seminar: why should they pay tax, since they are not getting any service from the government? According to him, there was no differentiation between who was paying and who was evading taxes.

Interestingly enough, when interviewed, the two most senior tax officials also blamed the NBR for not ensuring customer services. For its regulatory side, Senior Official B of the OTO criticised the NBR and suggested that it should be service- and public-oriented.

The findings of the survey, interviews and the seminar appear to be consistent with the finding of the MAP of the NBR that ‘Some field officers were seen as being threatening, uncommunicative, and lacking empathy’ (Akhteruzzaman 2008b, p. 10). Further, in his final report on ‘Identification of Weaknesses in the Revenue Systems and Procedures’ of MAP, Akhteruzzaman (2008a) recommended establishing customer-friendly client service in each Taxes Circle or Taxes Zone. It is noteworthy that the current Modernization Plan (2011-2016) of the NBR also emphasises the importance of providing taxpayer service and aims to make taxpayer services available at multiple remote/customer-oriented touch points (National Board of Revenue 2012a). The survey data and the findings of the interviews, seminar, and secondary evidence have made it clear that tax administration in Bangladesh is far from ensuring efficient and adequate client service and this is a reason for pervasive tax evasion. The literature also suggests the importance of increasing government services for reducing tax evasion (Alm, McClelland & Schulze 1992).

**Issue/Question (ii):** Table 6.4 shows that 63.3% of respondents strongly believed that the absence of e-services for taxpayers worked as a factor in causing tax evasion, revealing the dire need for introducing e-tax services; 13.3% agreed; 20.0% moderately agreed. An insignificant percentage 3.3% disagreed. Since e-service is a relatively new concept in Bangladesh, some respondents might feel ambivalent. The Bangladesh tax regime has lagged far behind in using modern technology and introducing e-services. The absence of e-services has made the tax system inconvenient for taxpayers and this might also be an issue in causing tax evasion.

The discussants at the seminar and the participants in the in-depth interviews placed enormous emphasis on immediate introduction of e-services as an instrument to increase tax compliance. They also recommended different techniques of implementing e-services in the tax department. Pointing out the importance of e-services, Discussant 5 commented that online return filing and submission should be introduced urgently. In the case of introducing online return submission, another discussant (11) recommended following the best example of modern technology around the world, including India.

When interviewed, Chairman D of the NBR indicated the importance of e-service simply: ‘If you can just make online tax processing, it is good’.

E-service will not only ensure convenience for taxpayers, but also introduce transparency into the overall tax system. If citizens pay tax online, all records will be electronically recorded, which will prevent manipulation by dishonest tax officials. Moreover, taxpayers need no longer meet tax officials for submitting their returns, which ultimately will reduce corruption and compliance costs (Bahl & Bird 2008). Overall, the findings of interviews and the seminar were consistent with the survey result, revealing the urgent need of e-services to make tax system convenient and to reduce tax evasion.

**Issue/Question (iii):** The present study examines the environment of the tax department and its influence on tax compliance. Respondents were asked this question to indicate whether they thought that the absence of a taxpayer-friendly environment influenced tax evasion in Bangladesh. Table 6.4 shows that a large 51.7% strongly agreed and 31.0% agreed. If the scores of ‘strongly agree’ and ‘agree’ are combined, 82.7% were in support, revealing citizens’ grave dissatisfaction with the environment of the tax department. There was little disagreement (3.4%) among respondents and 13.8% moderately agreed.

The survey findings were consistent with the findings of the seminar and in-depth interviews, where it emerged that the environment of the Bangladesh tax administration has been symbolised as a place of ‘taxpayer-harassment’. Interestingly, a number of the most senior tax officials, in interviews, pointed to the unfriendly behaviour of tax officials. Discussants and interviewees confirmed the consistency of the statement. Strong emphasis was placed by participants in the study on the absence of a taxpayer-friendly environment as a reason for tax evasion. They shared their personal experiences and ill-treatment, made comparisons with the tax environment of other countries, and provided various suggestions as to how the environment of the tax department could be improved in order to increase tax compliance. At the seminar, the unfriendly environment of the tax department and the misuse of the discretionary power of tax officials were cited by the President of the MCCI (Discussant 4):

...The suffering of the taxpayers is that the tax officials impose tax according to their will by using their discretionary power. That’s why people do not want to come under the tax net. Lots of people prevent themselves coming within the tax net because of the fear of being harassed. The perception is, if once you are caught in the tax net, then you are in trouble for ever.

The President of the MCCI (Discussant 4) highlighted two important issues: firstly, the misuse of their discretionary power by tax officials, and, secondly, the harassment of taxpayers. Another taxpayer, Discussant 5, said:

...When the tax authorities run after persons instead of organisations, harassment arises. The consequence of harassment does not create a good environment for revenue collection.

The discussant recommended establishing transparency, accountability and an information technology-based tax environment.

It is important to note that the ‘harassment’ issue indicated by taxpayers was also acknowledged by the Finance Minister of Bangladesh (Discussant 13, the most senior taxation official), when chairing the seminar.

An insight was provided into the overall tax environment in Bangladesh by an MP who is also a Member of Parliamentary Standing Committee (Discussant 17):

After our independence, the horizon of tax collection has widened. The rise of business and commerce in different sectors, in the villages, has opened up scope. We need to convey the message to the people who do not know about tax obligations and payment! ... We have to reach the people, and overcome the fear. Fear about tax has to be eliminated through friendly behaviour, through increasing manpower and through creating a better tax environment.



These opinions have confirmed the utility of the question. Similar points were also made by interviewees. For example, Chairman B of the NBR suggested various strategies to combat tax evasion which included a taxpayer-friendly environment. Senior Official A of the OTO spoke of checking tax evasion:

I think in developing countries like Bangladesh, we should be very careful that taxpayers should not be scared.... being friendly is very important for bringing the taxpayers into the tax net, otherwise taxpayers will be scared and they will not be able to come to the tax department.

Another aspect of taxpayer exploitation was pointed out by an interviewee, a lawyer and a former Secretary of the Supreme Court Bar Association:

...if a taxpayer pays BDT 50,000 in one year, the next year the system compels him to pay BDT 80,000 or more, irrespective of loss or profit of his business. This is extortive in nature and discourages taxpayers from revealing their actual taxable incomes.

On the basis of the comprehensive data from interviews and the seminar, there appears to be significant support for the statement that the absence of taxpayer- friendly environment influences tax evasion in Bangladesh. These findings are also consistent with the survey findings. Aspects of taxpayer harassment in a corrupt tax administration have also been highlighted in the literature (e.g., Marjit, Mukherjee & Mukherjee 2003; Marjit, Mukherjee & Mukherjee 2000). The findings of the present study are consistent with the observation of Marjit, Mukherjee and Mukherjee (2000) who point out that taxpayers can be forced to pay bribes to avoid problems in a society where corrupt tax officials can exercise powers of coercion and harassment. In this kind of tax environment, taxpayers submitting their returns could face paying ‘harassment cost’ (Marjit, Mukherjee & Mukherjee 2000). In Bangladesh, Rahman, Rahman and Yasmin (2010, p. 35) identified ‘official harassment’ as a major reason for revenue leakage.

Table 6.4 shows the differences in perceptions of the three groups of respondents in relation to the impact of the absence of taxpayer services on tax evasion. It is interesting to note that, when the statements in Table 6.4 blamed the tax department for inadequate and inefficient services which might prevent citizens from paying taxes, most professionals appeared to be strongly supportive ((90% to 100%). None disagreed or moderately agreed. Conversely, tax agents showed much weaker support. While 100% of professionals and 64.3% of businesspeople strongly supported the statement that the absence of e-services for taxpayers influences tax evasion, none of the tax agents strongly supported it. Strong support was not

received from any tax agents for another statement that the absence of a taxpayer-friendly environment influenced tax evasion. Furthermore, a significant percentage of tax agents moderately agreed. The trend of responses of the tax agents possibly indicated their self-interest in keeping the taxpayer service at the current level, which allowed them to act as paid intermediaries in providing services required by taxpayers. It could also be assumed that the professionals remained strongly vocal against tax department since they had faced difficulties in paying tax in the absence of adequate customer services. Businesspeople appeared somewhere in between the professionals and tax agents; their trend of supporting the statements indicates guarded answers.

### **6.2.5 Complexities in the Tax Regime**

Equity, certainty, convenience and economy are suggested by Adam Smith as the canons of taxation for a good tax structure (cited in Braithwaite 2009): the more the taxation system is easy, convenient, involving low complying cost, and equal for all citizens, the greater the tax compliance. The study here sought to examine whether complexities of tax laws and regulations, the return filing system, procedures and bureaucracy had any relationship with taxpayers' decisions to evade taxes. Questions reported in Table 6.5 sought the perceptions of 30 respondents.

**Table 6.5 Differences in Perceptions between Respondents of Three Different Professional Backgrounds Regarding the Complex Procedures in the Tax Regime, Bangladesh 2009-2010**

Issues/Questions	Agreement/ Disagreement	Profession			
		Professionals (%)	Tax Agents (%)	Business- people (%)	Total (%)
(i) The complex procedures and red tape of bureaucracy compel people to evade tax	Strongly Agree	60.0	0.0	35.7	36.7
	Agree	40.0	33.3	42.9	40.0
	Moderately Agree	0.0	33.3	21.4	16.7
	Do Not Agree	0.0	33.3	0.0	6.7
	Total (N)	100 (10)	100 (6)	100 (14)	100 (30)
(ii) The return filing system is too complex in Bangladesh and this encourages people to evade tax	Strongly Agree	50.0	33.3	28.6	36.7
	Agree	50.0	33.3	42.9	43.3
	Moderately Agree	0.0	33.3	28.6	20.0
	Do Not Agree	0.0	0.0	0.0	0.0
	Total (N)	100 (10)	100 (6)	100 (14)	100 (30)
(iii) The complexity of tax laws and regulations of Bangladesh work as a factor in evading tax	Strongly Agree	100.0	20.0	50.0	62.1
	Agree	0.0	40.0	28.6	20.7
	Moderately Agree	0.0	40.0	21.4	17.2
	Do Not Agree	0.0	0.0	0.0	0.0
	Total (N)	100 (10)	100 (5)	100 (14)	100 (29)

The data in Table 6.5 indicate a high percentage of ‘strong agreement’ for the questions. One question (i) was rejected by an insignificant 6.7%.

**Issue/Question (i):** Table 6.5 shows that 36.7% of respondents strongly agreed and 40.0% agreed with the statement that complex procedures and bureaucratic red tape compelled people to evade tax. An insignificant 6.7% disagreed, while 16.7% moderately agreed.

The survey findings appear to be consistent with the findings of the in-depth interviews, the seminar and the open-ended question. Interviewees pointed to the complex procedure of the tax administration and, at the same time, blamed these complexities for discouraging people from paying taxes. For instance, Chairman A of the NBR pointed out that the tax regime was very rigid and this encouraged people to evade tax in collaboration with tax officials.

In response to the open-ended question, a former Advisor to the CG acknowledged that complex procedures and red tape were two major impediments to paying tax and spoke in favour of introducing a simplified tax payment system to improve the situation.

In an interview, a lawyer and a former Secretary of the Supreme Court Bar Association commented that, 'Due to administrative complicity, people who want to pay tax do not come forward'. Discussant 3 at the seminar and the Chairman of Square Group, one of the largest business conglomerates in Bangladesh, identified a number of drawbacks in the tax administration, including complexity of taxation, the absence of tax refunds for excess payment, and procrastination of the tax department as reasons for discouraging taxpayers from paying taxes.

On the basis of the findings of the survey, in-depth interviews, and the seminar, there appears to be significant support for the statement. The findings have been consistent with the tax literature on developing countries. The overly bureaucratic atmosphere of the BCS is observed by Aminuzzaman (2004). Based on a large dataset of 69 countries, Friedman, Johnson, Kaufmann and Zoido-Lobaton (2000) have argued that excessive bureaucracy, endemic corruption, and a weaker legal system cause a larger shadow economy.

**Issue/Question (ii):** It is reported in Table 6.5 that 36.7% of respondents strongly agreed and 43.3% agreed with the statement that the return filing system is very complex in Bangladesh, which leads people to evade tax; 20.0% moderately agreed and none disagreed.

The survey data are consistent with the findings of the interviews and the seminar. Together with pointing to the complex filing system of income tax return, some of the interviews also indicated that the return form is also complicated in Bangladesh, which creates difficulties in filling out the form. 'The income tax return form has become so complicated in every aspect that even as a former tax official I need the assistance of a lawyer to complete the form', commented a former Chairman of the NBR at the seminar (Discussant 7). If a top taxation person cannot fill out the income tax return form due to its complexities, how will an ordinary taxpayer do it on his/her own?

A similar opinion was expressed by Chairman B of TIB. He stated that the tax return system should be simple so that taxpayers could understand it and need not go to lawyers, income tax practitioners or others to seek assistance to complete the income form. He pointed out that the 'Family Expenditure Form' was very complex and cumbersome and was even not easily understood by many tax officials.

Based on the findings of the survey and the discussion at the interviews and seminar, it can be argued that the complex return filing system in Bangladesh adversely affects taxpayers in complying with their tax obligations.

**Issue/Question (iii):** Table 6.5 shows that 62.1% of respondents strongly supported and 20.7% supported the statement that the complexity of tax laws and regulations work as a rationale for evading tax; 17.2% moderately agreed, and nobody rejected the statement, revealing then, that all respondents, to some extent, believe that the laws and regulations are complex and influence people to evade tax.

In line with the survey respondents, the interviewees also acknowledged that tax laws and regulations were complex in Bangladesh and cause lower tax compliance. The respondents strongly suggested making the income tax laws and rules easy and simple in order to check tax evasion. Interestingly, both players in the Bangladesh tax regime, taxpayers and tax officials, felt that tax laws and regulations were complex. A political actor (Vice-President, N. Thana of Dhaka, Bangladesh Awami League) commented in response to the open-ended question that ‘income tax law is very complex law. It should be easier’. An engineer also responded in the same way, suggesting that the ‘tax policy should be clear and easily understandable to all’.

During an interview, Chairman B of the NBR highlighted the complex nature of the key tax manual in Bangladesh, the Income Tax Ordinance 1984, which he considered difficult to read, voluminous and old-fashioned. Chairman C of the NBR suggested that tax policies and laws should be easy, simple, pro-people, and transparent, with a lower compliance cost. When interviewed, Senior Official B of the OTO also recommended that tax laws should be made easy, modern and compliance-friendly. Chairman B of TIB contended that complex tax policies compelled people to conceal the truth.

Based on these findings, it may be assumed that the existing tax laws and regulations are extremely complicated and outdated and this has made it difficult for taxpayers to understand and comply with them.

Table 6.5 shows the differences in perceptions of the three groups of respondents in relation to the complexity of the tax regime. The professional subgroup was more critical about the three statements indicating complex procedures and red tape, a complex return filling system and complex tax laws and regulations as the reasons for tax evasion. In contrast, the tax agent subgroup was less decisive and more moderately agreed with the statements. While 60.0% of professionals and 35.7% of businesspeople strongly supported the statement that complex procedures and red tape of bureaucracy compel people to evade tax, no tax agent did. It is important to note that a significant 33.3% of tax agents disagreed. A similar trend in responses of the three subgroups was found for the other two statements in Table 6.5.

In explaining such responses, it can be argued that as a complex tax regime would be more favourable to tax agents for attracting more tax clients, the more complicated the tax laws and the system, the larger the numbers of taxpayers seeking assistance from tax agents to deal with their taxes. It is also clear from the tax practitioner literature that tax agents seek to assist their tax clients in exploiting tax law for aggressive tax reporting when the law is ambiguous (Tan 1999). Businesspeople appeared to be in between the other two subgroups. Businesspeople perhaps rely more on tax agents in getting around complexities while professionals find it much harder to deal with both tax agents and tax officials in abiding by such complexities.

The findings of the study are also consistent with the literature. McKerchar (2001), Tanzi and Shome (1993) and Smith and Kinsey (1987) observe that even unintentional tax evasion can be increased due to confusion about complex and ambiguous legal requirements among taxpayers. Porcano (1988) has also made a similar point that tax evasion is positively correlated with perceived complexities of tax law. Vehorn (2011) asserts that complex tax laws appear to be difficult for tax officials to implement while they create scope for manipulation by rent-seeking tax officials.

## 6.2.6 Tax Rate, Penalty and Enforcement

Four questions were asked to learn respondents' perceptions of the influence of the tax rate, the probability of detection, and the audit and investigation system on tax evasion behaviour. Survey results are shown in Table 6.6.

**Table 6.6 Differences in Perceptions between Respondents of Three Different Professional Backgrounds Regarding the Tax Rate, Penalty and Enforcement, Bangladesh 2009-2010**

Issues/Questions	Agreement/ Disagreement	Professions			
		Professionals (%)	Tax Agents (%)	Business- people (%)	Total (%)
(i) High rates of income tax are one reason for tax evasion in Bangladesh	Strongly Agree	70.0	16.7	7.7	31.0
	Agree	30.0	66.7	84.6	62.1
	Moderately Agree	0.0	0.0	7.7	3.4
	Do Not Agree	0.0	16.7	0.0	3.4
	Total (N)	100 (10)	100 (6)	100 (13)	100 (29)
(ii) Low rates of penalties are responsible for causing tax evasion	Strongly Agree	30.0	0.0	7.1	13.3
	Agree	60.0	33.3	42.9	46.7
	Moderately Agree	10.0	50.0	35.7	30.0
	Do Not Agree	0.0	16.7	14.3	10.0
	Total (N)	100 (10)	100 (6)	100 (14)	100 (30)
(iii) An increase in the probability of detection may prevent tax evasion	Strongly Agree	100.0	16.7	46.2	58.6
	Agree	0.0	50.0	23.1	20.7
	Moderately Agree	0.0	16.7	30.8	17.2
	Do Not Agree	0.0	16.7	0.0	3.4
	Total (N)	100 (10)	100 (6)	100 (13)	100 (29)
(iv) The weakness of the audit and investigation system is responsible for allowing tax evasion	Strongly Agree	70.0	33.3	50.0	53.3
	Agree	30.0	66.7	28.6	36.7
	Moderately Agree	0.0	0.0	21.4	10.0
	Do Not Agree	0.0	0.0	0.0	0.0
	Total (N)	100 (10)	100 (6)	100 (14)	100 (30)

Based on the findings in Table 6.6, it can be inferred that higher rates of tax, lower rates of penalty, low probability of detection and slackness of audit and investigation play a significant role in taxpayers' decisions on evading tax.

**Issue/Question (i):** It is stated in the tax evasion literature (see Chapters I and II) that people generally dislike paying taxes and higher tax rates may make them even more reluctant to

comply with their tax obligations. In Bangladesh, the income tax rates appear to be higher than in countries like Pakistan and Sri Lanka, and this might be a reason for tax evasion (*Daily Times* May 27, 2012; KPMG Global 2012; Ministry of Finance 2012b).

Table 6.6 shows that 31.0% of respondents strongly perceived that high income tax rates were responsible for tax evasion. If the score of ‘strongly agree’ and ‘agree’ are collapsed, it is shown that 93.1% supported this statement. An insignificant 3.4% disagreed while 3.4 % moderately agreed. Since the survey was conducted amongst the tax policy compliance group, it was likely to see them blaming higher tax rate for causing tax evasion.

The survey findings tend to be consistent with the findings of the interviews. The interviewees expressed their opinions about the positive correlation between higher tax rates and higher tax evasion. Senior Official B of the OTO stated that the tax rate in Bangladesh should be reduced as the first step to combating tax evasion. He believed that a reduced tax rate would also widen the tax base. Similar views were expressed by two other Chairmen of the NBR. Chairman B suggested that the tax rate should be reduced to increase the tax net as well as to check evasion.

The findings of the survey and interviews were also consistent with discussions at the roundtable seminar. At the seminar, the President of the MCCI blamed the higher rates of tax as one of the causes of tax evasion (Discussant 4). He further pointed out that people in the lower income bracket had been feeling the pressure on them to pay tax in addition to maintaining a level of subsistence living. The discussant again argued that people in lower income brackets evaded tax because they were unable to pay it. He suggested that policy makers reduce tax rates and extend the tax-free threshold to make the tax regime more pragmatic and taxpayer-friendly. At the seminar, the President of the DCCI also pointed out that, in accordance with the law of economics, an increase in tax rate will decrease tax collection (Discussant 9).

A large body of theoretical and empirical literature on tax evasion has demonstrated a positive relationship between higher rates of tax and tax evasion. Wallschutzky (1984), in his study investigating causes of tax evasion in Australia, has found that 89.0% of evaders perceived tax rates as too high. In the case of China, Fisman and Wei (2004) show that a 1% increase in the tax rate caused a 3% increase in tax evasion. Sandmo (2002) also notes that a high tax level may encourage cheating and dishonesty. Bayer (2006) suggests that higher tax



rates are responsible for more tax evasion and wastage of resources, due to the contest between the taxman and taxpayers. Allingham and Sandmo (1972, p. 330) show that ‘...an increase in the tax rate makes it more profitable to evade taxes on the margin’.

In light of these empirical findings and literature, it can be argued that higher tax rates and tax evasion have a positive relationship. It is apparent from the survey results and the opinions of interviewees and of discussants at the roundtable seminar that high tax rates in Bangladesh might be a major reason of tax evasion.

**Issue/Question (ii):** Table 6.6 shows that the statement ‘low rates of penalties are responsible for causing tax evasion’ was strongly supported by only 13.3% of respondents while 46.7% supported it. A significant 30.0% moderately agreed and 10.0% disagreed. Given the argument of the A-S model that ‘a rise in the penalty rate will lead to an increase in declared income’ (Allingham & Sandmo 1972, p. 332), this is somewhat consistent with the findings. Although providing broad support to the model, respondents tended to downplay the model’s validity in explaining tax evasion. A possible interpretation may be that the respondents, who were supposed to be the taxpayers, downplayed their role, perceiving that if they strongly supported the statement, the government might increase the penalty rate to deter tax evasion. The survey finding has revealed the importance of imposing higher penalties to minimise tax evasion.

The Income Tax Ordinance 1984 has incorporated a separate chapter, ‘Chapter XV: Imposition of Penalty’, highlighting the causes and rates of imposing penalties (*Income Tax Manual Part- I*, 2009, pp. 239-244). Interestingly, in accordance with the Ordinance, the lowest amount of penalty is ‘a sum not exceeding one hundred *taka*’ (just over US \$1) (Section 123.b, *Income Tax Manual Part- I*, 2009, p. 239). According to the Ordinance, penalty for failure to pay tax on the basis of return is a sum not exceeding 25% of the total payable tax or such portion of the tax which has been avoided; penalty for concealment of income is not exceeding two and a half times the amount of tax which was avoided (if the avoidance is detected for more than one year then an additional 10% for each preceding assessment year is payable) (Sections 127 & 128.1, *Income Tax Manual Part- I*, 2009, pp. 241-242). It can, however, be argued that the rates of penalties in the Ordinance are not significant for making tax evaders aware of the payment they would need to make for non-compliance. These legal clauses also suggest that in some cases the penalty rate is lower than the actual rates!

Imposition of a significant penalty as a deterrent to tax evasion was indicated by a Representative of the FBCCI (Discussant 6), who emphasised the strict enforcement of punishments and penalties against tax evaders. A risk-averse taxpayer will consider the rates of penalty before committing tax evasion. Therefore, penalties can be used by tax administrators as an instrument for combating tax evasion (Obid 2004). Low penalty rates will not deter taxpayers from evading tax.

**Issue/Question (iii):** Risk aversion is a natural tendency of human beings. People generally try to avoid risk. In the case of tax evasion, the risk-averse taxpayer will also calculate all possible risks in evading taxes. Hence, the probability of detection may be of one of the most crucial risks for a tax evader. If the evader knows that there is strong possibility of being detected, he or she might be wary of underreporting income. Conversely, if there is sufficient reason for an individual to believe that he or she will not be detected evading tax, self-utility maximisation psychology will lead to evasion. A question was therefore asked to learn whether respondents perceived that an increase in the probability of detection would decrease the level of evasion. Table 6.6 shows that 58.6% strongly agreed with the implied proposition, 20.7% agreed, an insignificant 3.4% disagreed, and 17.2% moderately agreed.

The finding of the survey is further supported by Senior Official D of the OTO in the open-ended question, emphasising the monitoring system:

...if the entire government machinery is actively monitoring the possible incomes and income sources of taxpayers to detect tax evasion, then it is possible to prevent the tax evasion.

An Advisor to the CG, answering the open-ended question, also emphasised punishing tax evaders. Speaking about the influence of detection and punishment of evaders, Chairman B of the NBR, when interviewed, commented: ‘as per rule, the punishment should be implemented irrespective of social position’. Relevant to mention that evasion of taxes is a punishable offence according to the Income Tax Ordinance 1984. Sections 164 to 171 of Chapter XXI of the Ordinance have prescribed the nature, terms and conditions of tax evasion and concealment of income, and the rules for punishment for offences against the Ordinance (*Income Tax Manual Part-1*, 2009, pp. 281-283). However, evidence of execution of those sections is fairly rare in Bangladesh.

The empirical findings of the study are consistent with the basic tenet of the A-S model: the higher the probability of detection, the larger the income taxpayers will declare (Allingham & Sandmo 1972). Risk-averse taxpayers will be conscious of the consequences of evasion if the tax administration is efficient enough to detect and monitor underreporting of income.

**Issue/Question (iv):** Friedman et al. (2000) point out that weaknesses in the legal system encourage the underground economy to flourish. The audit and investigation system of the tax administration in developing countries is not free from weaknesses which might be contributors to the underground economy.

The weaknesses of the audit and investigation system were strongly indicated by 53.3% of respondents as a reason for allowing tax evasion in Bangladesh to occur. Furthermore, 36.7% agreed with the statement and 10% moderately agreed. None disagreed.

Responding to the open-ended question, a Deputy Commissioner of Taxes also indicated that ‘...the enforcement wing is to be strengthen[ed] to cut-down the large scale tax evasion in Bangladesh’. The survey data were supported by the interviews. Senior Official A of the OTO considered the importance of a strong and fair tax auditing and investigation system a deterrent to widespread evasion. There is a big gap between the audit system of the tax regime and an efficient audit system indicated by the Official.

Table 6.6 shows the differences in perceptions of the three groups of respondents in relation to the impact of tax rate, probability of detection, penalty, audit and investigation on tax evasion. It can be seen that professional subgroup appeared to be more strongly supportive, and tax agents and businesspeople subgroups appeared to be less supportive towards the statements related to the tax rate, penalty, detection, and weakness in the investigation and audit system. While 70.0% of professionals strongly supported the statement that high rates of income tax were one reason for tax evasion, only 16.7% of tax agents and 7.7% of businesspeople did so. Similarly, no tax agents and only 7.1% of businesspeople strongly supported the statement that low rates of penalties were responsible for causing evasion, whereas 30.0% of professionals were strongly supportive for the statement. Moreover, 50.0% of tax agents and 35.7% of businesspeople moderately agreed; 16.7% and 14.3% of them respectively disagreed. Similar trends in perceptions of the three professional subgroups were found for the rest of the statements in Table 6.6.

The responses of the tax agents and businesspeople are not surprising, since it can easily be inferred that they downplayed their own alleged roles. They perhaps thought that if they strongly supported the role of a low rate of penalty, less probability of detection and weakness of audit and investigation in tax evasion that might signify blame for themselves as intermediaries. However, it is not clear from the responses why tax agents and businesspeople tended to less strongly supportive of the statement that high rates of income tax were one reason of tax evasion. As advocates for lowering tax rates, all could have strongly supported the statement. It is also surprising that, while the professional subgroup appeared to be strongly supportive for most of these issues, only 30% strongly supported low rates of penalties as responsible for causing evasion. Perhaps, professionals who less strongly supported the statement did not see any direct implication for penalties, since imposing a penalty on tax evaders is not a very common practice in Bangladesh.

Overall, based on the findings of the survey, interviews and the literature, it can be assumed that high tax rates, low rates of penalties and a weak audit and investigation system encourage tax evasion in Bangladesh.

### **6.2.7 Tax Amnesty and the Black Economy**

Over the last three decades, tax amnesties have received significant research attention (e.g., Torgler, Schaltegger & Schaffner 2003; Malik & Schwab 1991; Stella 1991; Andreoni 1991; Parle & Hirlinger 1986). Offering tax amnesties is under consideration in many countries globally as a means of quick maximisation of revenue collected from delinquent taxpayers (Torgler, Schaltegger & Schaffner 2003; Parle & Hirlinger 1986). However, tax amnesty programs have also triggered political debates and policy arguments. Many scholars view a tax amnesty policy as a politically motivated tax instrument (Stella 1991; Parle & Hirlinger 1986). Excessive and unplanned use of tax amnesties might cause and encourage tax evasion.

In Bangladesh, tax amnesty policies have raised a number of questions regarding their efficacy. As discussed in Chapters II and IV, most governments of Bangladesh since independence have formulated tax policies with provisions for amnesties. This study sought to examine the impact of such policies and the perceptions of respondents about four specific issues. Findings are presented in Table 6.7.

**Table 6.7 Differences in Perceptions between Respondents of Three Different Professional Backgrounds Regarding Tax Amnesty and the Black Economy, Bangladesh 2009-2010**

Issues/Questions	Agreement/ Disagreement	Professions			
		Professionals (%)	Tax Agents (%)	Business- people (%)	Total (%)
(i) The policy of tax amnesty sets bad precedents and encourages tax evaders in the hope that they will be forgiven for their past offences sometime in future	Strongly Agree	70.0	0.0	38.5	42.9
	Agree	30.0	80.0	53.8	50.0
	Moderately Agree	0.0	0.0	7.7	3.6
	Do Not Agree	0.0	20.0	0.0	3.6
	Total	100	100	100	100
	(N)	(10)	(5)	(13)	(28)
(ii) The provision of making black money legal may inspire the regular taxpayers to evade tax with the philosophy that instead of paying income tax on time, it is better to invest the money in further business and wait some time for the declaration of tax amnesties	Strongly Agree	60.0	0.0	35.7	37.9
	Agree	40.0	80.0	57.1	55.2
	Moderately Agree	0.0	20.0	7.1	6.9
	Do Not Agree	0.0	0.0	0.0	0.0
	Total	100	100	100	100
	(N)	(10)	(5)	(14)	(29)
(iii) There is evidence that many prominent lawmakers and cabinet members evade their income taxes and later on make their black money legal by using the tax amnesties and this may inspire the general public to evade tax	Strongly Agree	80.0	0.0	64.3	56.7
	Agree	20.0	33.3	28.6	26.7
	Moderately Agree	0.0	33.3	7.1	10.0
	Do Not Agree	0.0	33.3	0.0	6.7
	Total	100	100	100	100
	(N)	(10)	(6)	(14)	(30)
(iv) Different financial institutions including banks encourage tax evasion as well as the black economy by exploiting bank secrecy, which enables transfer of capital from Bangladesh to other countries	Strongly Agree	20.0	33.3	8.3	17.9
	Agree	50.0	16.7	50.0	42.9
	Moderately Agree	30.0	50.0	41.7	39.3
	Do Not Agree	0.0	0.0	0.0	0.0
	Total	100	100	100	100
	(N)	(10)	(6)	(12)	(28)

Table 6.7 shows that two questions of the four were rejected by an insignificant percentage of respondents (3.6% and 6.7%), indicating consistency of the questions. Two respondents did not answer two questions and one respondent did not answer one question.

**Issue/Question (i):** Table 6.7 shows that a large 42.9% strongly agreed and 50% agreed with the statement that the policy of tax amnesty established bad precedents and encouraged tax evaders in the hope that they would be forgiven for their past offences sometime in the future. An insignificant 3.6% disagreed and 3.6% provided moderate support for the question.

The survey data were consistent with the findings of face-to-face interviews and the seminar. When interviewed, an Executive of TIB replied to the question with a reference to economic theory:

...you can analyse tax evasion using a rational choice theory.... people are rational human beings, they would always calculate in terms of what I am getting as a result of what I am doing. Tax amnesty, in this regard, encourages evading tax in the short-run...

This comment pointed to the self-utility maximisation nature of human beings. Tax evaders certainly evade tax for maximising their utility. It can be assumed that if tax evaders are not punished for their crime, they will calculate their benefit received from evading taxes, and will take further risks to maximise that benefit. The President of the DCCI, at the seminar, strongly recommended tax amnesty policies providing lower rates for illegal and undisclosed earnings should be stopped; he stressed that, if honest taxpayers needed to pay 25% of income as tax in the highest bracket, then illegal and undisclosed money holders should pay 50% of their illegal income as tax, not 10% or even 25% (Discussant 9). It is relevant to mention here that it is evident in Bangladesh that legislators provided lower tax rate for the tax evaders and illegal income earners in the tax amnesty scheme (discussed in Chapter II and IV) which might have aggrieved the discussant. Therefore, he suggested a 50% of tax rate for the tax evaders if it is necessary to further formulate tax amnesty policy. Interestingly, a Deputy Commissioner of Taxes, when interviewed, supported the government policy of allowing tax evaders to whiten their black money, on the grounds that, for encouraging industrialisation and job creation, the government needed tax amnesty policies to allow people to invest whitened money in the economy. However, it might also be assumed that the tax official might have supported the tax amnesty to protect dishonest taxpayers and tax officials or simply to justify the status quo.

The findings of the study tend to be consistent with the observation of Malik and Schwab (1991) who argue that evaders will report less income if the probability of an amnesty increases. Stella (1991) also made a similar point that a tax amnesty implies a potential danger of decreasing future tax compliance. The more often the amnesty is repeated, the more tax evaders are assured that their offences will be forgiven. The Bangladesh taxation regime reflects this scenario which has been validated by this study.

During an interview, Chairman B of the NBR mentioned that, if the government continues to offer tax amnesties to tax evaders, then it will be seen as the NBR does not have capability of detecting tax evaders; the continuation of the policy of allowing citizens to make their black money legal will prove that the government tries to raise revenue adopting an easy process instead of strengthening enforcement against tax evasion. The Chairman strongly suggested not formulating tax amnesty policy any more by further commenting that:

If you don't punish people then people will be encouraged to be corrupt, not to give taxes, they will be hoping that one political government or another will come and will give tax amnesty, so we will wait and accumulate money.

Ironically, the continuation of tax amnesty policies in Bangladesh recalls the quotation of Confucius: 'Do not be ashamed of mistakes – and so make them crimes' (Confucius c. 500 BCE, cited in Malik & Schwab 1991, p. 30). The successive tax amnesty policies in Bangladesh have set examples of encouraging tax criminals to commit more crimes. Frequent amnesties create an adverse impact on tax compliance. Malik and Schwab (1991) argue that it is not rational to formulate a tax amnesty only for the purpose of offering amnesty to evaders; the amnesty policy should incorporate effective measures to increase future compliance. Advance information that tax evaders are going to be allowed to operate freely under a tax amnesty may encourage them towards future tax evasion as well as impede any government moves to gain revenue (Stella 1991). It has become apparent from the findings of the survey and in-depth interviews that in Bangladesh successive and predictable tax amnesties have already created economic incentives for dishonest individuals to evade tax.

**Issue/Question (ii):** It is quite understandable that if individuals perceive that many others in society evade taxes, their motivation to tax compliance may decrease (Torgler 2005). This influence may be worse if citizens notice that government gives protection to tax evaders through legislating a tax amnesty (Torgler & Schaltegger 2005).

Table 6.7 shows that 37.9% of respondents strongly agreed that the provision of making black money legal may encourage regular taxpayers to evade tax on the understanding that, instead of paying income tax on time, it is better to invest the money in further business and wait some time for the declaration of tax amnesties! More than half the respondents (55.2%) agreed with the statement, with 6.9% moderately. Notably, none disagreed.

A full scenario and deeper understanding have been obtained from in-depth interviews and the open-ended question. Criticising the policy, Senior Official A of the OTO asked:

...Because of the absence of adequate monitoring, those who didn't submit a return or who didn't report taxable income, we didn't take any action against them. Then why will people pay the taxes? ...If somebody can evade the tax without paying any amount of penalty, or any punishment, then why won't even I myself be tempted to submit the return?

The Official appeared to be very straightforward in that comment. The tax amnesty policy seems unfair to those taxpayers who pay taxes in timely fashion and regularly. The feelings of deprivation and frustration of honest taxpayers were reflected in the words of Chairman A of the NBR: 'Corruption is rampant. Honest taxpayers are deprived. Tax officials harass honest taxpayers'. Similar frustration was shared by another interviewee, a senior manager of the Ha-Meem Group. It could be assumed that these measures negatively affect the tolerance and motivation of regular taxpayers, encouraging them to evade tax. The literature also suggests that any such amnesty policy will prevent honest taxpayers from paying taxes in the future, since they will expect further amnesties (Leonard & Zeckhauser 1987; Lerman 1986). Torlger, Schaltegger and Schaffner (2003) also similarly observe that a tax amnesty may undermine the tax morale of honest taxpayers.

Without improving tax enforcement strategies, a temporary tax amnesty will not work as a panacea to increase revenue, but rather will decrease the credibility of the tax administration and future tax compliance (Stella 1991). Hence, when designing tax policy, specific attention should be paid by policy makers to the effective planning, implementation, and random and infrequent timing of amnesty schemes (Parle & Hirlinger 1986).

**Issue/Question (iii):** Of the four questions in Table 6.7, the highest percentage of the strong support, 56.7%, was registered for this statement that the evidence of evading tax by lawmakers and cabinet members and their example of making black money legal through tax amnesty schemes creates a negative impact on the general public and encourages them to evade tax; 26.7% agreed, 10.0% moderately agreed, while 6.7% disagreed. The responses confirm that tax evasion may occur as a result of influence from the behaviour of significant others (Braithwaite & Braithwaite 2006). During an interview, Chairman B of the NBR commented that the extent of black income and untaxed income in Bangladesh could be partially realised when three-time Prime Minister Begum Khaleda Zia and Finance Minister



Saifur Rahman declared undisclosed income under pressure from a neutral care-taker government.

**Issue/Question (iv):** This question sought to learn whether financial institutions, including banks, encouraged tax evasion as well as the black economy by exploiting bank secrecy, which enabled illegal transfer of capital from Bangladesh to other countries. Of the four statements in Table 6.7, the lowest number of respondents showed ‘strong’ support (17.9%) for this statement; however, 42.9% agreed to it.

Surprisingly, no responses were obtained during the interviews regarding this statement. Moreover, discussants at the seminar did not comment on the issue. Therefore, it can be assumed that the issue is relatively less appreciated. Although detailed qualitative data regarding bank secrecy and tax evasion in Bangladesh could not be collected in this study, the justification of the statement could be found from secondary sources. The Tax Reform Commission 2003 has reported that black moneys are laundered from Bangladesh to the foreign banks of secure tax-haven countries (cited in Khan & Nahar 2011). The validity of the report may be examined from the money laundering cases against BNP<sup>26</sup> Senior Vice-Chairman, Tarique Rahman,<sup>27</sup> and his business partner, Giasuddin Al Mamun, filed by the ACC in 2009 (*The Daily Star* July 7, 2010b). The ACC has accused them of laundering BDT 20.41 crore between 2003 and 2007 in Citibank, Singapore (*The Daily Star* July 7, 2010b). The US Department of Justice and the Federal Bureau of Investigation (FBI) also investigated money laundering to foreign bank accounts by Arafat Rahman<sup>28</sup>, in collaboration with a businessman in Singapore (AsiaOne January 6, 2011). The businessman was later prosecuted in Singapore under The Corruption, Drug Trafficking and Other Serious Crimes (Confiscation of Benefits) Act and Arafat Rahman also faced corruption charges in Bangladesh filed by the ACC for laundering more than US\$2.7 million through bank accounts in Singapore (AsiaOne January 6, 2011).

Similar accusations of money laundering through foreign banks are also made in neighbouring countries. For instance, Pranab Mukherjee, Finance Minister of India, expressed his deep concern about Indian citizens’ illegal bank accounts in foreign banks (Pakistan & Gulf Economists December 25, 2011). As a drive against tax evasion and money

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<sup>26</sup> Major opposition political party in the current Parliament of Bangladesh and the former ruling party (1991-1996 & 2001-2006) (Monir, As-Saber & Woodward 2009).

<sup>27</sup> Eldest son of Khaleda Zia, former Prime Minister of Bangladesh.

<sup>28</sup> Youngest son of Khaleda Zia, former Prime Minister of Bangladesh.

laundering, India had signed agreements with 60 countries to share information and was in the process of signing agreements with 15 more (Pakistan & Gulf Economists December 25, 2011).

On the basis of the survey data and secondary information, it can be argued that tax evaders and black money holders in Bangladesh may indeed hold bank accounts in overseas banks and remit their black money there, utilising the banks' secrecy/privacy laws and policies.

Table 6.7 shows the differences in perceptions of the three groups of respondents in relation to the impact of a tax amnesty and the black economy on tax evasion. It can be seen from Table 6.7 that, while 70% of professionals strongly supported the statement that the policy of tax amnesty sets a bad precedent and encourages evaders, no tax agents and only 38.5% of businesspeople provided 'strong' support. Similar findings were also revealed for the three other statements related to these issues. It could be assumed that the tax agents and businesspeople downplayed their roles and businesspeople are known to be the biggest beneficiaries of tax amnesty policies. Therefore, the respondents who represented businesses tended to be less supportive about statements which blamed tax amnesty policies and policy makers. The relatively weaker support from tax agents is also understandable, as any stronger support could eventually act against the interests of their clients. Notably, strong support of professionals and businesspeople decreased for the statement that blamed financial institutions for facilitating tax evasion. Surprisingly, 33.3% of tax agents strongly supported the statement. The reason could be that either the issue appeared to be relatively new to the respondents or they failed to understand the gravity of the implication.

### **6.3 NEXUS BETWEEN ACTORS IN THE TAX POLICY COMPLIANCE PROCESS AND TAX EVASION IN BANGLADESH**

As this study assumes that a nexus between taxpayers, tax authorities and other actors may occur and this facilitates tax evasion, it has been included for a better understanding of the perceived problem. The following proposition was framed to examine the nexus in the context of Bangladesh:

**Sub-Proposition P2.3** *The nexus of three actors (politicians, public officials, and other interest groups, including businesspeople) contributes to the tax policy compliance process, which is often aimed at facilitating tax evasion.*

This section will consider that proposition. As it is argued, when defining corruption for the purpose of the thesis, different stakeholders, including the public and the private sector, might involve themselves in corrupt activities by misusing the position and power with which they are entrusted. A relationship between corruption and tax evasion has also been revealed in the literature reviewed in Chapter II, highlighting the collusion and connivance of various actors in the context of a developing country. In Bangladesh, in order to identify those actors who might play a role in facilitating tax evasion, and to examine their nexus in the tax policy compliance process, five questions were asked. The survey responses are reported in Tables 6.8 and 6.9.

### 6.3.1 Nexus between Politicians, Tax Officials and Taxpayers

In order to examine the nexus between politicians, tax authorities, and taxpayers in the tax compliance process in Bangladesh, three questions were asked.

**Table 6.8 Differences in Perceptions between Respondents of Three Different Professional Backgrounds Regarding the Influence of Different Actors, Bangladesh 2009-2010**

Issues/Questions	Agreement/ Disagreement	Professions			
		Professionals (%)	Tax Agents (%)	Business- people (%)	Total (%)
(i) A significant number of Parliament Members are leading businesspeople in Bangladesh, which may create a conflict of interest in complying with tax policies	Strongly Agree	70.0	16.7	21.4	36.7
	Agree	0.0	33.3	50.0	30.0
	Moderately Agree	30.0	50.0	14.3	26.7
	Do Not Agree	0.0	0.0	14.3	6.7
	Total (N)	100 (10)	100 (6)	100 (14)	100 (30)
(ii) Tax officials may demand inappropriate benefits in return for allowing underreported income or undue tax benefits	Strongly Agree	60.0	16.7	46.2	44.8
	Agree	40.0	16.7	30.8	31.0
	Moderately Agree	0.0	66.7	15.4	20.7
	Do Not Agree	0.0	0.0	7.7	3.4
	Total (N)	100 (10)	100 (6)	100 (13)	100 (29)
(iii) Tax audit and inspection authorities might demand inappropriate benefits in return for turning a blind eye during tax audit and inspection	Strongly Agree	60.0	33.3	50.0	50.0
	Agree	40.0	0.0	28.6	26.7
	Moderately Agree	0.0	66.7	14.3	20.0
	Do Not Agree	0.0	0.0	7.1	3.3
	Total (N)	100 (10)	100 (6)	100 (14)	100 (30)

It is apparent from the findings in Table 6.8 that an insignificant 3.3% to 6.7% of respondents disagreed with the three questions. However, a significant percentage moderately agreed (20.0% to 26.7%), indicating that to some extent they downplayed their role in responding to the questions.

**Issue/Question (i):** Table 6.8 shows that 36.7% of respondents ‘strongly agreed’ and 30.0% ‘agreed’ with the statement ‘A significant number of Parliament Members are leading businesspeople in Bangladesh, which may create a conflict of interest in complying with tax policies’. The percentage for strong agreement was relatively lower. The reason might be that respondents, who were supposed to be taxpayers, became cautious when strongly expressing an opinion against lawmakers. Nevertheless, if the scores of the two choices are combined, 66.7% agreed with the statement.

Some details were obtained at the roundtable seminar on this issue. An income tax lawyer and an ex-senior tax official (Discussant 8) shared his real-life experience of conflict of interest in tax compliance and manipulation of tax policies while dealing with a former Finance Minister of Bangladesh. During his service as a taxation officer, on one occasion he imposed a tax on the wealth of the then Finance Minister; the next morning, the Finance Minister called him to withdraw the wealth tax, and, as a consequence of imposing tax on the wealth of this senior tax policy maker, the Minister repealed the ‘wealth-tax law’ the same day. The experience of the discussant clearly pointed to lawmaker misuse of power when conflicts of interest arise. This story does not only exemplify the reluctance of tax compliance on the part of the most senior tax policy maker, it also shows a level of manipulation and abuse of official power at the highest level.

There is another important aspect of conflict of interest of the lawmaker and tax compliance. In the fiscal years 2009-2010 and 2010-2011, the incumbent government granted a tax amnesty to black money holders to invest their money in certain areas, including the stock market (*The Daily Star* November 22, 2011d; February 1, 2011a). A leading newspaper of Bangladesh, *The Daily Star*, reported that the NBR issued a circular on November 21, 2011, asking people to invest black money (un-taxed, illegally earned) in the secondary stock market without any fear of repercussions (*The Daily Star* November 30, 2011e; November 22, 2011d). The crucial feature of the policy was that it allowed dishonest and corrupt people to launder their illegal and un-taxed money without any legal requirement to disclose the sources of that income (*The Daily Star* November 30, 2011e). More surprisingly, the tax

levied on such dishonest individuals was only 10% (the lowest rate of tax in the current income tax regime), instead of the highest tax rate of 25% or higher (*The Daily Star* November 22, 2011d). Analysing the tax amnesty policy, however, it can be argued that MPs might take the opportunity to invest their own black money under the amnesty. As was reported in Chapter I, one former Prime Minister and then opposition leader of the Parliament of Bangladesh utilised the amnesty in 2007 to whiten her black income. During an interview, Chairman B of the NBR also confirmed this information. It was demonstrated in Chapter II that a significant number of MPs are major businesspeople. Another recent policy decision of the incumbent government has triggered a question about a linkage between a tax amnesty and the interests of lawmakers. Despite the initial disagreement of the central bank of Bangladesh, the government has taken the decision to allow new private banks (*The Daily Star* July 30, 2011cc). It may be assumed that policy makers have formulated their policies with a political intention to allow vested groups to invest their black money in the private banking sector under the amnesty law. This assumption is further supported by available information that six new banks received approval from the government and all are closely linked with either MPs of the ruling Awami League and *Jatiya* Party or are powerful persons (*The Daily Star* April 9, 2012b). The leader of the opposition and BNP Chairperson<sup>29</sup> expressed her concern that cronies of the ruling party would invest their ill-earned money in the banking sector under the umbrella of the tax amnesty (*New Age* June 7, 2012).

Tax evaders and corrupt individuals are thus receiving amnesty from the government for their crimes; they are further investing black money in the banking sector through utilising their political connections and power. On the basis of survey data, roundtable seminar observation and available secondary data, the statement is reasonably supported.

**Issue/Question (ii):** The statement suggesting that ‘the tax officials may demand inappropriate benefits in return for allowing underreported income or undue tax benefits’ was strongly supported by 44.8% of respondents; 31.0% supported and 20.7% moderately supported it. The finding revealed an interesting scenario: respondents belonging to the taxpayer group were found to be open and strong in agreeing to the statement which blamed tax authorities.

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<sup>29</sup> Former Prime Minister of Bangladesh who made her untaxed money legal utilising the tax amnesty.

A more detailed picture emerged during the in-depth interviews. An Executive of TIB, directly indicated the connivance of tax officials and taxpayers, including businesspeople, commenting that the tax base in Bangladesh was very low as a result of a nexus between taxpayers and tax collectors. During the interview, Chairman B of the NBR commented:

...if the implementing authorities are collaborating with the tax evaders, if they are always trying to get some benefit out of the illegal collection...then it will be very difficult to stop tax evasion.

Here the Chairman has drawn a broader picture of tax evasion and corruption: collusion between corrupt tax officials and evaders in exchange for bribes. Interestingly, such collusive practices were dubbed ‘mutual corruption’ by Chairman B of the NBR. It is understandable that the respondent had made these points from his real-life observation as the most senior taxation person and policy maker. Pointing to corrupt dealing in the tax regime, another interviewee, Chairman A of the NBR commented:

...if the political regime wants to pursue someone, then the tax department goes after him and others manage to get away. And, of course, there is so much corruption in the system itself, it is very difficult for honest taxpayers to pay taxes fairly and expecting that it will be accepted on merit. I know many cases where people have truthfully submitted returns. But the tax officials arbitrarily determined a tax liability for presumed income and people were forced to enter into arrangements to pay bribes in exchange for simply approving the returns.

This comment validates claims of the pervasiveness of corruption in the tax department in Bangladesh. The definition of corruption provided in Chapter I conform to this observation. The apparent inappropriateness in tax administration pointed out by the participant indicates several aspects of tax evasion. These include: firstly, political influence over tax officials, secondly, political patronage of evaders, thirdly, corrupt practice of tax officials, and fourthly, exploitation of honest taxpayers by corrupt tax officials. The findings of the study are also consistent with the literature. According to Bahl and Bard (2008), corruption in a tax department in the form of bribery increases tax evasion. Obid (2004) also points out that in a corrupt tax administration, an official might directly benefit himself or herself by coming to an illegal arrangement with a taxpayer. On the basis of the findings of the survey, in-depth interviews and the literature, it can be confidently argued that corruption is pervasive in the tax administration of Bangladesh.

**Issue/Question (iii):** Table 6.8 shows that 50.0% of respondents provided ‘strong’ support while 26.7% ‘agreed’ to the statement that tax audit and inspection authorities might demand inappropriate benefits in return for turning a blind eye during tax audit and inspection. .

The findings of the survey tend to be consistent with the findings of the in-depth interview. Senior Official A of the OTO highlighted obscurity and complexity in the auditing system and reported widespread harassment of taxpayers by audit and investigation team members.

The findings of the study appear to be consistent with the existing tax literature on developing countries. Gordon and Li (2009) argue that the problem is how to inspect the bureaucrats and inspectors; if the monitors themselves are not monitored, then it will be difficult for the government to collect revenue. Connivance between tax inspectors and taxpayers in exchange for bribes and allowing tax evasion is widely evident (Hindriks, Keen & Muthoo 1999).

Table 6.8 shows the differences of perceptions of professionals, tax agents and businesspeople subgroups about the nexus of actors in the tax policy compliance process that contributes to tax evasion in Bangladesh. The cross-tabulation findings revealed relatively more ‘strong’ support from the professional subgroup (ranging from 60.0% to 70.0%), compared to tax agents (‘strong’ agreement ranging from 16.7% to 33.3%) and businesspeople (‘strong’ agreement ranging from 21.4% to 50.0%) for the three statements, indicating a conflict of interest by MPs and corrupt tax officials. A large percentage (50.0% and 66.7%) of tax agents moderately agreed. The statements pointed out a possible dishonest nexus in which tax agents might be a possible actor and this may be a reason for them not registering strong support for these statements.

### **6.3.2 Nexus between Tax Officials, Tax Agents, and Taxpayers**

Tax compliance decisions of a taxpayer are significantly influenced by tax practitioners, since a majority of taxpayers rely on their expertise (Tan 1999). Tax agents (including all kinds of tax practitioners) play intermediary roles between taxpayers and tax authorities. Because of the nature of the Bangladesh tax regime, requiring taxpayers to meet with tax authorities for any tax hearing, submitting returns and statements, and receiving tax payment receipts and all kinds of certificates, the use of experienced tax agents has become almost unavoidable for taxpayers. Taxpayers who do not feel comfortable and confident and do not have enough time to appear at hearings with tax authorities usually seek legal assistance from tax agents.

This study therefore examines the possible involvement of tax agents in facilitating their clients' tax evading. Three questions were asked. Survey responses are shown in Table 6.9.

**Table 6.9 Differences in Perceptions between Respondents of Three Different Professional Backgrounds Regarding the Nexus of Tax Officials, Tax Agents and Taxpayers, Bangladesh 2009-2010**

Issues/Questions	Agreement/ Disagreement	Professions			
		Professionals (%)	Tax Agents (%)	Business- people (%)	Total (%)
(i) Within the tax compliance process, a strategic interaction exists across self-interested income tax clients, tax agents and tax officials, which causes tax evasion	Strongly Agree	30.0	0.0	28.6	23.3
	Agree	60.0	33.3	57.1	53.3
	Moderately Agree	10.0	50.0	14.3	20.0
	Do Not Agree	0.0	16.7	0.0	3.3
	Total (N)	100 (10)	100 (6)	100 (14)	100 (30)
(ii) Professionals, self-employed people, and house and land owners evade tax in collaboration with tax officials and facilitated by tax agents	Strongly Agree	20.0	16.7	53.8	34.5
	Agree	80.0	33.3	38.5	51.7
	Moderately Agree	0.0	33.3	7.7	10.3
	Do Not Agree	0.0	16.7	0.0	3.4
	Total (N)	100 (10)	100 (6)	100 (13)	100 (29)
(iii) The tax agents facilitate the payment of inappropriate benefits in evading tax	Strongly Agree	0.0	16.7	7.7	6.9
	Agree	90.0	16.7	84.6	72.4
	Moderately Agree	10.0	66.7	7.7	20.7
	Do Not Agree	0.0	0.0	0.0	0.0
	Total (N)	100 (10)	100 (6)	100 (13)	100 (29)

Table 6.9 shows that an insignificant 3.3% and 3.4% did not agree with two statements, indicating consistency of the questions.

**Issue/Question (i):** Table 6.9 shows that only 23.3% of respondents strongly agreed with the statement that, within the tax compliance level, a strategic interaction exists across self-interested income tax clients, tax agents and tax officials, which might cause tax evasion in Bangladesh; 53.3% of respondents agreed, and 20.0% moderately agreed.

Support was evident in interview responses. Chairman B of the NBR confirmed the existence of such relationships. Moreover, the use of bribes in evading tax was clearly indicated by the respondent. It became apparent from discussion with senior tax officials that in Bangladesh tax evasion seems to be a money making game. In this game all players (corrupt bureaucrats, taxpayers and tax agents) win their stakes at the expense of government revenue.



On the nexus between tax agents and taxpayers in the compliance process, an Additional Commissioner of Taxes revealed important information:

According to the Income Tax Law, a company report must be audited by a chartered accountant. But most of the audit reports are not disclosing the proper income of the companies. Chartered accountants, who are responsible for preparing audit report, are also involved in Income Tax practice. Therefore, they favour the client companies in preparing fake reports of income. Tax officials have to depend on the fake audit report of the chartered accountants in assessing the income and claiming the tax of the companies. At present, there is no law and rule against dishonest chartered accountants to make them accountable.

This suggests that the dual role played by a chartered accountant as an auditor and an income tax agent facilitate taxpayer underreporting of income through submitting fictitious tax returns. Dishonest chartered accountants prepare fake audit reports to help their clients evade tax. The Additional Commissioner further said:

There was a provision [Article 128 (2A) and (3)] in the Income Tax Ordinance which empowered the tax authorities to impose penalties on chartered accountants, if the authorities could discover that the chartered accountants wilfully or knowingly withheld any information relating to the particulars of income of an assessee<sup>30</sup> and issued certificates on the basis of fake total income. However, the two provisions were omitted by the Finance Act 1999 and 1993. Saifur Rahman, then Finance Minister, deleted Section 128. Absence of laws and rules of punishment for the default of chartered accountants makes them unaccountable.

The interviewee, as a senior tax official, has highlighted a critical aspect of the Bangladesh tax regime, indicating that, instead of formulating strong laws against tax evasion, the lawmaker repealed an effective law without justification. The underlying reason may be discerned from the background of that former Finance Minister who repealed such an important anti-tax evasion law. The Finance Minister himself was a famous chartered accountant in Bangladesh. Given this background, it can be assumed that he supported his own professional community and saved them from the possibility of legal prosecution for assisting tax-paying firms in evasion. Finally, the official has stated the difficulties of tax officials, indicating that they have to accept the audit reports of chartered accountants even though they know that the companies have been making bogus claims of losses year after year. It is even so a paradox that the highest tax person of the country repealed the tax law and jeopardised the national interest. The MAP of the NBR has questioned the competence, reliability and quality of the auditors and tax practitioners, as well as recommending

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<sup>30</sup> ‘Assessee’ means a person by whom any tax or other sum of money is payable (*Income Tax Manual Part-I*, 2009, p. 6).

amending rules for excluding incompetent and unreliable tax practitioners from practice (Akhteruzzaman 2008a).

These findings of the survey and interview confirmed the consistency of the statement. The literature also has identified the influential role of the ‘unholy’ nexus between taxpayers, tax officials and tax agents in tax compliance or non-compliance decisions, where tax agents play a pivotal role (Tan 1999; Newberry, Reckers & Wyndelts 1993). Being tax experts, tax agents may easily persuade taxpayers who are unfamiliar with the complex tax laws (Tan 1991). Doyle, Hughes and Summers (2012) argue that private sector tax practitioners may employ a lower level of ethical reasoning. Therefore, arguably, they may help their clients take immoral decisions to evade taxes.

**Issue/Question (ii):** Table 6.9 shows that 34.5% of respondents ‘strongly agreed’ and 51.7% ‘agreed’ that professionals, self-employed people, and house and land owners evade tax in collaboration with tax officials and facilitated by tax agents; 10.3% moderately agreed, while only 3.4% did not agree. If the scores of ‘strongly agree’ and ‘agree’ are combined, it is demonstrated that 86.2% agreed.

The roundtable discussions at the seminar complemented the survey finding. A scenario about how collusion usually took place was explained by an income tax lawyer and discussant, who pointed out that real estate businesspeople and land developers evaded taxes by utilising tax exemption facilities provided by the government (Discussant 8); moreover, they submitted fictitious documents to the registry office, reporting much lower sale prices of assets than the actual price claimed in the real agreement with the buyer; none of the parties involved in land and apartment selling and buying, including real estate businesspeople and land developers, authorities at the land registration office and buyers, disclose information about the actual price of the assets due to their mutual benefit. It can be argued in accordance with the comments made by another discussant that all of the aforementioned parties are involved in tax evasion and corruption with the help of each other. Interestingly, at the seminar, the income tax lawyer (categorised here as tax agent) was referring to an example of one of his tax clients who owned a number of houses and cars but did not pay due taxes. While asked to disclose the identity of the client, the lawyer responded that it was his professional duty to keep the secrecy of any such information and protect his client’s interests. Notably, the discussant blamed the real-estate business, developer and land-registration office

for indulging in tax evasion and corruption, but did not shed any light on whether tax agents and tax officials were also involved in collusive acts.

In an interview with the *Daily Star*, a senior official of the NBR reported rampant tax evasion by a significant number of businesspeople, doctors, engineers, teachers and lawyers (*The Daily Star* November 22, 2011d). A Commissioner of Taxes has stated in a report that, despite receiving both flats and money from developer companies in lieu of selling land, landowners do not disclose information about receiving such assets and money to tax authorities (Commissioner of Taxes, Taxes Zone 6, Dhaka 2000). Interestingly, both tax officials blamed businesspeople and professionals for tax evasion, but did not explain the mechanism and did not acknowledge their own fault in allowing evasion. The literature on corruption and tax evasion in Bangladesh has identified the involvement of revenue collectors in evasion where tax consultants play a major role as intermediaries between tax officials and taxpayers in negotiating corrupt deals (Chowdhury 2006).

**Issue/Question (iii):** It can be seen from Table 6.9 that only 6.9% of respondents strongly endorsed the statement that tax agents facilitated the payment of inappropriate benefits in evading tax. This is not surprising since there were tax agents, professionals and businesspeople in the survey sample. Agreement with the statement was 72.4%, indicating the significance of the question; 20.7% moderately agreed. Interestingly, nobody disagreed, including the subgroup of tax agents.

Survey data were also validated by the findings of the in-depth interviews. Regarding tax agent involvement in facilitating the payment of inappropriate benefits in evading taxes, a key person of the Hameem-Group contended that tax agents negotiate deals involving the payment of bribes in exchange for lower taxes. The findings are consistent with secondary evidence. During the inauguration of *Aikor Mela-2011*<sup>31</sup>, a former senior bureaucrat, who is currently an Advisor to the Prime Minister, shared his personal experience of how tax agents demand money from their income tax clients on behalf of the tax office:

My tax consultant told me that there was an office expense. I don't know, what does office expense means? But they are used to taking it. There is a group of intermediaries, who say, we will manage in an easy way. I will submit this tax return in that way which will be an advantage (YouTube September 21, 2011).

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<sup>31</sup> Income Tax Fair 2011.

Office expenses usually mean the exchange of inappropriate benefits shared by tax agents and tax officials in exchange for undue tax benefits to their clients. The tax agent works as an intermediary between taxpayers and tax officials. Now a question can be posed whether the individual taxpayers pay the office expenses willingly or unwillingly. Two different answers can be assumed. On the one hand, a dishonest taxpayer may willingly pay inappropriate benefits to the tax agents as speed money to negotiate with tax officials for underreporting income. If the amount of inappropriate benefits appears to be significantly less than the taxes due, dishonest taxpayers will obviously prefer paying bribes to save further expense. Tax agents play the role of go-between in negotiating between taxpayers and tax officials over the amount of bribe and reduction of the amount of legal tax. On the other hand, an honest taxpayer may unwillingly pay the inappropriate benefit, together with proper taxes, in order to avoid harassment by tax officials. A study on ‘The role of intermediaries in corruption’ by Bayer (2005) has provided important insight into this dilemma. Bayer’s study shows that clients prefer employing intermediaries in corrupt transactions, since they do not know which officials are corrupt and how much bribe should be paid to them. Tax agents, as mediators, reduce the risk involved in such corrupt transactions.

Overall, the findings of the survey, in-depth interviews, the roundtable discussion on income tax affairs and secondary evidence were consistent with the statement that a corrupt nexus exists between tax officials, tax agents and tax clients in Bangladesh.

Table 6.9 demonstrates the differences of perceptions of professionals, tax agents and businesspeople subgroups on the nexus of various actors in the tax policy compliance process which might facilitate tax evasion in Bangladesh.

The percentage of ‘strong’ support was relatively low in the professional subgroup for the two statements which blamed self-seeking tax clients, tax agents and tax officials for causing tax evasion, and the collaboration of professionals, self-employed people, house and land owners, tax officials, and tax agents for facilitating tax evasion. Professionals appear to be less strongly supportive of these two statements, since these directly indicated the involvement of professional people. Although the professional subgroup was vocal against the tax department, as previously discussed, they appeared to downplay their own role when the statements specifically accused professional people of tax evasion. Surprisingly, none of the professionals strongly supported the statement that tax agents facilitated the payment of

inappropriate benefits, whilst 16.7% of tax agents and 7.7% of businesspeople appeared to be strongly supportive. However, 66.7% of tax agents moderately agreed. Since the statement directly blamed tax agents for corruption, it is quite understandable that the respondents, who represented the tax agent profession, tended to downplay their role. However, it may also be argued that the professional subgroup also downplayed their role, perhaps because they intended to avoid any possible conflict with tax agents. Most interestingly, nobody disagreed with statement (iii), that tax agents facilitate the payment of inappropriate benefits in evading tax. Even the subgroup of tax agents did not register any 'Do Not Agree' response. It implies the validity of the statement beyond any reasonable doubt.

## **6.4 CHAPTER SUMMARY**

Based on the perceptions of taxpayers and tax agents, the key objective of this chapter was to examine tax compliance-related issues contributing to tax evasion. The chapter also aimed to investigate the nexus of various actors in the tax compliance process which might be responsible for facilitating tax evasion. Overall findings are summarised below in regard to support for sub-propositions P<sub>1.3</sub> and P<sub>2.3</sub>.

With reference to proposition P<sub>1.3</sub>, aspects of taxpayers as well as features of the Bangladesh tax regime have been analysed in order to identify causes of tax evasion. Survey findings with respect to sub-proposition P<sub>1.3</sub> are provided in Tables 6.1 to 6.7.

One significant finding of the study in relation to sub-proposition P<sub>1.3</sub> appeared to be on the statement 'the absence of e-services for taxpayers works as a factor in causing tax evasion', which was strongly supported by 63.3% (highest score of strong agreement amongst all the statement related to P<sub>1.3</sub>) of all survey respondents. It was strongly emphasised by not only taxpayers but also by public officials, including top tax officials, as an instrument for reducing corruption and bringing transparency to the tax department. Another important finding appeared to be on the statement 'the complexity of tax laws and regulations of Bangladesh works as a factor in evading tax', which was strongly supported by 62.1% (second highest score of strong agreement amongst all the statement related to P<sub>1.3</sub>) of all survey participants. This statement was also strongly supported by senior tax officials during face-to-face interviews.

In particular, harassment of taxpayers by tax officials has been identified by most participants, including taxpayers, senior public officials, civil society members, the Finance Minister, and MPs. Another interesting finding appears to be the relatively less 'strong' perceptions of survey respondents about one core argument of the A-S model: the presence of a negative correlation between the increase in penalty rate and decrease in tax evasion. Overall, the discussants at the roundtable seminar were strongly vocal against the absence of some taxpayer services. Some taxpayers at the seminar blamed tax officials for tax evasion. It is quite understandable that as taxpayers they tended to identify the weaknesses of the tax department as a justification for tax non-compliance.

With reference to sub-proposition P2.3, questions were asked to identify the nexus of actors at the tax policy compliance process which might facilitate tax evasion. Hence, one significant finding appeared to be on the statement 'tax audit and inspection authorities might demand inappropriate benefits in return for turning a blind eye during tax audit and inspection', which was strongly supported by half of all survey respondents and senior tax officials.

Interestingly, the percentages of strong agreement appeared to be significantly lower when statements blamed taxpayers and tax agents. In contrast, when the statements blamed tax authorities and the tax regime, percentages for strong agreement were found to be significantly higher. A possible explanation may be that the survey sample was selected from the tax compliance group, including professionals, the self-employed and tax agents, who themselves were taxpayers. Therefore, they downplayed their role in answering statements which pointed out their faults. Conversely, they seemed to be stronger in supporting statements against authorities and the tax department.

The cross-tabulation results further clarified the pattern of perceptions about the issues associated with tax evasion across the three subgroups of professionals, tax agents and businesspeople. The professional subgroup appeared to be strongly supportive of statements indicating weakness of the tax department and dishonesty of tax officials. However, when the statement blamed professionals for tax evasion, they downplayed their own role. The tax agent subgroup appeared to downplay their role in answering most of the statements indicating causes and effects of tax evasion that blamed the tax department as well as tax agents for tax evasion. They tried to avoid and conceal the inappropriateness and weaknesses of tax laws, the system and the tax department. In general, businesspeople appeared as neither very strongly vocal nor very weak in supporting the statements, with some exceptions. Most

interestingly, in relation to the question blaming tax agents for facilitating the payment of inappropriate benefits in evading tax, tax agents themselves did not register any ‘Do Not Agree’ response. It implies the validity of the statement beyond any reasonable doubt.

On the basis of the comparative findings, it can be argued that the professional affiliations of taxpayers have played a significant role in perceiving the issues associated with tax evasion. It may be noted that the payment of tax (also evasion of tax) depends, at least partially, on the profession of individual taxpayers. Therefore, a possible explanation for the above finding could be based on the assumption that the respondents of the study were likely to be influenced by their respective professions when perceiving the phenomenon of tax evasion.

In summary, most of the questions involving sub-proposition P<sub>1.3</sub> were supported by the majority of survey respondents (ranging from 60.0% to 93.1%, after combining the scores of ‘strongly agree’ and ‘agree’). Only one question received less than 60.0% support (Question iii of Table 6.2). Disagreement for the questions appeared to be insignificant (0.0% to 10.3%). Moderate agreement for the questions reported in Tables 6.1 to 6.7 ranged from 3.4% to 39.3%. Moreover, most of the survey findings were confirmed and elaborated on by the findings of the in-depth interviews and roundtable seminar. Empirical findings also appeared to be consistent with secondary evidence. Therefore, on the basis of the findings of the survey, in-depth interviews and roundtable seminar, the weight of evidence tends to be supportive of sub-proposition P<sub>1.3</sub>, viz., *the manner in which the tax policy is complied with leaves room for tax evasion*.

Similarly, most of the questions reported in Tables 6.8 to 6.9 involving sub-proposition P<sub>2.3</sub> were supported by a majority of respondents (ranging from 66.7% to 86.2%, after combining the scores of ‘strongly agree’ and ‘agree’). Disagreement for the questions appeared to be insignificant (0.0% to 6.7%). Moderate agreement ranged from 10.3% to 26.7%.

The survey findings also appeared to be consistent with the findings of the in-depth interviews and roundtable seminar. The empirical findings were also supported by the existing literature and secondary data. It could, therefore, be deemed that the weight of evidence, in general appeared to be supportive of the sub-proposition P<sub>2.3</sub>, viz., *the nexus of three actors (politicians, public officials, and other interest groups, including businesspeople) contributes to the tax policy compliance process, which is often aimed at facilitating tax evasion*.

## **CHAPTER VII SYNTHESIS OF FINDINGS: TAX EVASION AND CORRUPTION IN BANGLADESH**

Tax evasion is by nature an exceedingly difficult phenomenon to observe and research (Friedland, Maital & Rutenberg 1978, p. 107).

### **7.1 INTRODUCTION**

A summary of the major research findings is presented in this chapter. The chapter provides an overview of the key findings and analysis presented in Chapters IV, V, and VI, focusing on sub-propositions P<sub>1.1</sub>, P<sub>2.1</sub>, P<sub>1.2</sub>, P<sub>2.2</sub>, P<sub>1.3</sub>, and P<sub>2.3</sub>. Another objective is to examine general propositions P<sub>1</sub> and P<sub>2</sub> and global proposition P. Hence, the perceptions of the 90 respondents across the three groups have been compared, employing five questions. Moreover, the chapter justifies the theoretical underpinnings, the conceptual framework, and the research questions of the study in relation to the empirical findings.

### **7.2 SUMMARY OF MAJOR FINDINGS**

#### **7.2.1 Tax Policy Formulation, Tax Evasion and Corruption (Sub-Propositions P<sub>1.1</sub> and P<sub>2.1</sub>)**

##### ***Sub-Proposition P<sub>1.1</sub>***

It was hypothesised, as presented in Chapter II, that the manner in which the tax policy is formulated might leave room for tax evasion (sub-proposition P<sub>1.1</sub>). This research sought to investigate weaknesses of tax policy formulation which might contribute to that evasion. Hence, issues related to tax policy formulation, including the absence of comprehensive research on taxation, lack of specialisation of policy makers, the importance of reform of the Income Tax Ordinance 1984, the absence of all political parties' participation and popular opinion in the tax policy formulation process, the short-term vision of policy formulation, and weaknesses in income tax laws and policies were considered. To examine these broad issues, twelve questions/statements were asked of 30 participants in the survey and in in-depth interviews. The findings of these were reported and analysed in Chapter IV.

The survey responses supported sub-proposition P<sub>1.1</sub>, with at least 60% agreement for each question (ranging between 60.0% to 96.6% after combining the score of 'strongly agree' and



‘agree’), with one exception. The statement that ‘frequent changes in tax-related documents are responsible for causing tax evasion in Bangladesh’ was supported by 50% of respondents (combining the score of ‘strongly agree’ and ‘agree’). Nevertheless, support for the statement was found in the in-depth interview.

Furthermore, the respondents in in-depth interviews and the discussants at the roundtable seminar supplemented and elaborated the survey findings in more detail. The survey findings were also consistent with the findings and recommendations of the MAP and the outline of the Modernization Plan 2011-2016 of the NBR. The literature and other secondary data also supported the findings. Therefore, the available evidence is consistent with sub-proposition P1.1. The summary of the survey responses for the questions in relation to sub-proposition P1.1 is shown in Appendix IX.

In addition to frequency distribution, an attempt was made in Chapter IV to cross-tabulate the perceptions of survey respondents by dividing them into three subgroups: public officials, political actors, and members of TIB and others. The cross-tabulation findings revealed an interesting scenario. It was shown that political actors downplayed their role in supporting the statements which blamed politicians for making tax policies that possibly contribute to tax evasion. Conversely, public officials were vocal in supporting these statements. However, public officials also responded guardedly to some statements. Throughout the survey, the members of the TIB and others were strong and decisive in supporting the statements.

For example, while all the public officials and members of TIB and others either ‘strongly agreed’ or ‘agreed’ that tax amnesty policy formulation encourage tax evasion culture, only 68.8% of the political actors supported it. It can, however, be assumed that political decisions might strongly influence the legislation of tax amnesty policies. Therefore, the respondents with a political background tended to downplay their role in supporting the statement whereas respondents from the other two subgroups appeared to be very strong. The support of the political actors also decreased significantly (50% either strongly agreed or agreed) for another statement which blamed policy makers for their limited specialised knowledge. In contrast, when a statement cited the absence of comprehensive research in formulating tax policies, only 60% of public officials either ‘strongly agreed’ or ‘agreed’ compared to all of political actors and all members of TIB and others. The public official subgroup perhaps downplayed their role in supporting the statement. This can be explained, however, that senior public officials were more responsible for planning and implementing research

projects than political actors. Therefore, the respondents of the public official subgroup were less supportive of the statement compared to the other two subgroups.

### ***Sub-Proposition P2.1***

Another proposition framed in Chapter II stated that the nexus of the three actors (politicians, public officials, and other interest groups, including businesspeople) contribute to the policy formulation process which might facilitate tax evasion (sub-proposition P2.1). To test the sub-proposition, six questions/statements indicating the influence of these players in different aspects of the tax policy formulation process were put to the survey sample selected from the tax policy formulation group. In addition, the statements were discussed during the in-depth interviews. The findings of the survey and in-depth interviews were discussed in Chapter IV.

Of the six statements, five were supported by at least 60.0% (ranging from 60.0% to 70.0%, after combining the score ‘agree’ and ‘strongly agree’) of survey respondents. One statement, i.e., that ‘public officials are likely to influence the tax policy formulation process in order to attract direct and indirect advantages’, was supported by 43.3% of the respondents (combined calculation of the score ‘agree’ and ‘strongly agree’) and moderately supported by 46.7% of the respondents. Notably, 10.0% of respondents disagreed with the statement.

Nevertheless, most of the survey findings were explained and elaborated by participants in the in-depth interviews. Some of the empirical findings again appeared to be consistent with the reports of the MAP of the NBR and the literature. The weight of the evidence, in general, tends to be supportive of sub-proposition P2.1. The summary of the survey responses for the statements in relation to sub-proposition P2.1 is shown in Appendix X.

Important findings were also revealed when an attempt was made to explore the differences in the perceptions of respondents between three subgroups: the public officials, political actors, and members of TIB and others. It became apparent from the findings of the cross-tabulation that the political actor subgroup tended to downplay its role in supporting the statements. This is, however, not surprising, since most of the statements attributed blame to the nexus of politicians and other interest groups in formulating tax policies that facilitate their self-interest and tax evasion. For example, while 80.0% of public officials and 75.0% of members of TIB and others either strongly agreed or agreed with the statement that political actors are likely to influence policy formulation process in order to attract personal direct or indirect advantages, only 43.8% of political actors were supportive. Surprisingly, more than

half the political actors moderately agreed. Similarly, another statement, that businesspeople and other taxpayers are likely to influence the tax policy formulation process in order to attract personal direct or indirect advantages, was supported by only 46.7% (combined score of ‘strongly agree’ and ‘agree’) of political actors, compared to 80.0% of public officials and all members of TIB and others. Based on these findings, it can be stated that respondents with a political background tend to be less supportive and ambivalent when a statement specifically blames politicians for their self-seeking tendency when formulating tax policies. It can particularly be noted that the political actor subgroup also downplayed its own role when the statement blamed businesspeople for influencing tax policy formulation for their self-interest. The finding reminds us that a significant percentage of members of parliament are businesspeople in Bangladesh. Hence respondents from the political actor subgroup appeared to be defensive in acknowledging the influence of the businesspeople in the nexus.

Conversely, when a statement attributed blame to public officials for influencing tax policy formulation for their self-interest, the support of public officials decreased to only 30.0%. None of them strongly supported it. In addition, half the public officials moderately agreed and 20% disagreed. It is clear that, being senior public officials, the respondents refrained from being strongly critical of themselves.

### **7.2.2 Tax Policy Implementation, Tax Evasion and Corruption (Sub-Propositions P1.2 and P2.2)**

#### ***Sub-Proposition P1.2***

It was hypothesised, as presented in Chapter II, that the manner in which tax policy is implemented in Bangladesh might leave room for tax evasion (sub-proposition P1.2). In light of this sub-proposition, the research sought to investigate the shortcomings of tax policy implementation process that might contribute to tax evasion. Issues related to tax policy implementation, including weaknesses in tax administration, insufficient professional support for tax officials, behavioural aspects of tax officials and corruption in tax administration, were examined. Accordingly, 18 statements were selected in relation with these issues to examine the perceptions of the survey sample of 30 tax officials. These issues were further discussed with the respondents in face-to-face interviews. The findings of the survey and face-to-face interviews were summarised and analysed in Chapter V.

Of the 18 statements, nine were supported by around 60% of respondents (ranging between 60.0% to 100%, after combining the score of ‘strongly agree’ and ‘agree’). Two statements were supported by around 50% of the respondents (combined score of ‘strongly agree’ and ‘agree’). However, seven statements were not supported by at least 50% (combined score of ‘strongly agree’ and ‘agree’), indicating that a large percentage of respondents either moderately agreed or disagreed with the statements. On the basis of the survey responses, the weight of the evidence tends to be partially supportive of sub-proposition P1.2. The summary of the survey responses for the statements related to sub-proposition P1.2 is shown in Appendix XI.

If the nature of the questions is analysed, the reasons behind the low support of tax officials can be understood. As seen in Chapter V, those questions or statements were supported by 60% or even more of respondents when they emphasised the weaknesses of the tax department and insufficient professional support for tax officials as the causes of tax evasion. However, conversely, when questions or statements blamed tax officials in relation to behavioural and corruption issues as contributing to tax evasion, support of respondents significantly decreased. The responses were not surprising, since the respondents were tax officials. It can be assumed that they downplayed their roles and sought to protect their own reputations. Significantly, only one statement was supported by all respondents, i.e., that the ‘salary structure of the civil servants is not adequate to maintain subsistence living’. The lowest support (23.3%) (combined score of ‘strongly agree’ and ‘agree’) was evidenced for the statement ‘too much discretionary power of the tax authorities might lead them to be corrupt’.

Although the survey responses were partially supportive for sub-proposition P1.2, the responses from the in-depth interviews elaborated the issues in a more detailed and neutral way. The respondents for the in-depth interviews, selected from across three groups (see Chapter III) representing key positions of government and non-government organisations, business and the professional community, expressed their opinions critically and comprehensively highlighted weaknesses of the tax department and corrupt practices of tax officials. Clearer views about the shortcomings of the tax department and corruption of tax officials were reflected in roundtable seminar discussions, the open-ended question of the survey, and the findings and recommendations of the MAP. In addition, secondary evidence, including the literature on tax evasion and corruption, corroborated sub-proposition P1.2.

### ***Sub-Proposition P2.2***

It was proposed in Chapter II that the nexus of the three actors (politicians, public officials, and other interest groups including businesspeople) contributing to the policy implementation process might facilitate tax evasion (sub-proposition P2.2). Four questions/statements were asked of survey respondents selected from the tax policy implementation group. The statements pointed to the nexus between tax officials, political actors, businesspeople and other taxpayers in the implementation process. The survey findings in Chapter V revealed that only one statement was supported by more than 60.0% (combined score of ‘strongly agree’ and ‘agree’) of respondents. Two statements were supported by less than 50.0% and one was supported by 51.7% (combined score of ‘strongly agree’ and ‘agree’). As was seen in Chapter V, the statements which pointed out the nexus between tax officials and taxpayers were less supported by respondents. This is understandable, since the respondents were tax officials, and they downplayed their role in supporting statements which attributed blame to tax officials and taxpayers. On the other hand, they were more supportive of the statement which blamed politicians.

Nevertheless, a possible nexus between dishonest taxpayers and tax officials was pointed out during the in-depth interview. Collusion between tax officials and taxpayers has also been indicated in secondary evidence. Hence, it can be inferred that the weight of the evidence appeared to be partially supportive of sub-proposition P2.2. The summary of the survey responses for the statements related to sub-proposition P2.2 is shown in Appendix XII.

### **7.2.3 Tax Policy Compliance, Tax Evasion and Corruption (Sub-Propositions P1.3 and P2.3)**

#### ***Sub-proposition P1.3***

It was hypothesised, as stated in Chapter II, that the manner in which tax policy is complied with leaves room for tax evasion (sub-proposition P1.3). In order to examine the sub-proposition, issues related to tax compliance were considered. Some are related to aspects of taxpayer behaviour. For example, ethical and behavioural aspects and financial conditions might have impact on tax evasion decisions. Some issues are related to the tax system, including fairness in the tax regime, taxpayer services and complexities in the tax regime. Moreover, an attempt was made to examine the relationship between tax evasion and the tax rate, penalties and probability of detection and tax amnesty schemes. Hence, 26

questions/statements were asked of the 30 participants in the survey sample, selected from the compliance group, to ascertain their perceptions about tax evasion and corruption (see Chapter VI). In addition, face-to-face interviews were conducted to obtain detailed opinions about the research phenomena. The participants in the roundtable seminar further elaborated and explained the issues.

The survey results presented in Chapter VI indicated that 25 statements were supported by at least 60.0% of respondents (ranging from 60% to 93.1%, after combining the score of ‘strongly agree’ and ‘agree’). Only one statement, i.e., that ‘the tendency of tax evasion of middle income people might be lower than that of rich people’, was supported by less than 60.0% of respondents (58.6%, after combining the score of ‘strongly agree’ and ‘agree’). It was shown that 90.0% (after combining the score of ‘strongly agree’ and ‘agree’) believed that paying tax is a moral, social and cultural obligation. At the same time, around 90.0% (after combining the score of ‘strongly agree’ and ‘agree’) of respondents supported statements that high rates of income tax and the weakness of the audit and investigation system are responsible for causing tax evasion in Bangladesh. Most importantly, despite being selected from business and professional communities, respondents were not strongly supportive of tax amnesty schemes provided by governments in Bangladesh. More than 90.0% of respondents (after combining the score of ‘strongly agree’ and ‘agree’) believed that tax amnesty policies demoralised honest taxpayers, encouraged tax evasion, and inspired tax evaders to further invest in the black economy. These findings, on the one hand, revealed people’s grave dissatisfaction with tax amnesty schemes, and, on the other, pointed to the weakness and bias of the amnesty policies.

Furthermore, during the in-depth interviews and roundtable seminar, more detailed opinions emerged. Based on their practical work experience in the tax department, in corruption watchdog organisations, and adjudicator bodies, the participants in the in-depth interviews cited weaknesses of tax system and inappropriate behaviour of tax officials and blamed these for causing rampant tax evasion in Bangladesh. Likewise, discussants at the roundtable seminar, representing various professional and business associations, also shared their personal experiences and opinions regarding the shortcomings of the tax system. Notably, they appeared to be extremely vocal in blaming the lack of tax payer services as well as the absence of a taxpayer-friendly environment in the tax department. They pointed to the misuse

of discretionary power and taxpayers' harassment by tax officials as ultimately constraining citizens from complying with their tax obligations.

Based on the evidence collected from the survey, in-depth interviews, the roundtable seminar, and secondary data and literature, sub-proposition P<sub>1.3</sub> is supported. The summary of the survey responses for the statements related to sub-proposition P<sub>1.3</sub> is shown in Appendix XIII.

Another interesting and important scenario emerged when a comparative analysis of the perceptions of the 30 survey respondents was undertaken about issues associated with tax evasion (see Chapter VI). The cross-tabulation contributed to clearly knowing the perceptions and views of respondents. It was clear that perceptions of issues associated with tax evasion were influenced by respondents' professional backgrounds. For example, the professional subgroup (doctors and engineers) held a strong moral view about paying taxes (90.0% strongly supported the statement), whereas the tax agent (legal practitioners, chartered accountants, and income tax practitioners) subgroup weak in their moral approach (0.0% strong agreement) to tax payment. The business subgroup (business and self-employed people) tended to be neither too strong nor too weak (42.9% strong agreement) in supporting the statement that indicated paying tax was a moral, social and legal obligation. However, before evaluating the finding, the professional affiliation of the respondents needs to be analysed. The respondents of the professional subgroup can be considered highly educated, rich and of high social status, given that they were doctors and engineers. They thus naturally supported the statement strongly, since it indicated moral, social and legal aspects. However, it is again difficult to make any assumption based on the moral views of these participants that they intended to pay their due taxes properly. As the empirical and secondary data show, the majority of the population of Bangladesh are out of the tax net, irrespective of their professional background (see Chapter VI). There have been no statistical data and secondary evidence available that any specific professional group or people with higher educational backgrounds and social position are less likely to indulge in tax evasion. Rather, a converse picture is suggested, showing that possible tax evaders as having high social status, legal authority, and a popular mandate, given the examples of a number of parliament members, and prominent business and professional people who have been charged with tax evasion.

The educational backgrounds of the businesspeople subgroup was difficult to assess, since the study did not ask this personal question of any of the respondents. However, it may be inferred that they represented strong financial backgrounds, given the context of Bangladesh.

It may be argued that businesspeople needed to adopt a 'safer' position in responding to any such statement, especially when it comes to a sensitive question like tax evasion. In this respect, it could be argued that the businesspeople subgroup provided guarded answers to the question about moral, legal and social obligations for complying with tax.

In reference to the tax agent subgroup, a possible link can be postulated between their profession and their low perception of moral, social and legal obligations for tax payment. It can be assumed that those who by their profession assist others to prepare income tax returns, minimise their tax burdens and mediate between the tax department and taxpayers naturally hold a very different view about the moral, legal, and social aspects of tax payment.

A few members of the professional subgroup (10.0%) strongly supported the statements which indicated the relationship between tax evasion and cultural, behavioural, psychological aspects, and norms, values, attitudes, educational background of taxpayers. It is difficult to understand why, being highly educated and specialised, the professional subgroup did not perceive strongly the influence of such issues on tax evasion decisions. There may be two explanations. One is that the professional subgroup tended to perceive tax evasion only from a legal point of view. Since, in the context of Bangladesh, evading taxes is an illegal act, the professional subgroup perhaps placed greater emphasis on criminal behaviour of tax evaders. The pattern of responses from doctors and engineers can also be viewed more broadly. Bangladesh still lags in creating a taxpaying culture among its citizens. This has been pointed out by the President, the Prime Minister, the Finance Minister, and the Chairman of the NBR, who have emphasised the importance of establishing a tax culture (Bangladesh Civil Service Taxation Association 2009). However, the respondents of the professional subgroup appeared not to be fully aware of the cultural, behavioural and educational aspects associated with tax non-compliance. The consistency of this pattern was also noticeable in the less enthusiastic support found among the other two subgroups. Importantly, the three subgroups also appeared to be less strong in supporting the statement which cited possible absence of a tradition of voluntary tax compliance in Bangladesh. It could be argued that the respondents, who are supposed to be the taxpayers, perhaps wanted to provide face-saving answers.

While the study sought to ascertain which income group (rich or middle income bracket) was more likely to evade taxes, interesting findings emerged showing significant differences in the perceptions of respondents. Interestingly, whilst 60.0% of the professional subgroup and 57.1% of the businesspeople subgroup strongly supported the statement that taxpayers in



higher-income brackets are more likely to evade tax, none from the tax agent subgroup did so. The tax agents probably downplayed this, since accusing rich people for being more likely to evade tax might hamper the tax agent profession. It may be inferred that, to shield rich clients from accusations of tax evasion, tax agents provided guarded answers.

Surprisingly, the strong support of professionals (20.0% strongly agree) and businesspeople (7.1% strongly agree) decreased significantly for a statement which accused businesspeople, professionals, self-employed people, and house and land owners of evading taxes due to their self-interest. In addition, none of the tax agents supported the statement strongly. It could, however, be assumed that, since the respondents belonged to the professions which were blamed for maximising their income through evading taxes, respondents representing the same professional background tended to downplay their own role. The statement pointed to a conflict of interest and therefore respondents across the three professional groups appeared to give equivocal answers. As has been revealed, 30% of the professional subgroup, 66.7% of the tax agent subgroup and 28.6% of the businesspeople subgroup moderately agreed with the statement.

Different patterns of perceptions across the three subgroups, depending on the core meaning of the questions, were also discovered. Three questions were asked of respondents to understand whether they perceived inequality, injustice, unfairness, lack of benefit in return for tax payment or disappointment about government spending policies as reasons for tax evasion. A pattern of weak support for the three statements across the three subgroups was found. Furthermore, a significant percentage of the respondents of the three subgroups moderately supported. For instance, 80% of the tax agent subgroup moderately agreed with the statement that perceived benefits in exchange for paid tax could influence people to evade tax. The explanation for this trend in responses could be that the respondents, irrespective of their professional backgrounds, gave normative answers. Most probably, they intended to create an impression that people do not expect a benefit from government in return for paying taxes.

However, a different scenario is seen when the questions aimed to capture the views of respondents about the inefficient and inadequate service of the tax department. Notably, the three subgroups further differed in their opinions. Whilst all professionals and 64.3% of businesspeople strongly believed that the absence of e-services for taxpayers influenced tax evasion; none of the tax agents strongly supported the statement. Rather, a significant

percentage (33.3%) of tax agents moderately agreed. Similar findings appeared for the statement that absence of a taxpayer-friendly environment influenced tax evasion. Responding to another statement which directly blamed the tax administration for inadequate and inefficient customer service, professionals appeared to be strongly critical (90.0% strong agreement), whereas strong support of businesspeople decreased to only 21.4%. It can be argued here that direct blame of the tax administration made the businesspeople less strongly supportive of the statement. Being businesspeople, it seemed difficult for respondents to express their views very strongly against tax administration. In contrast, respondents with an established professional career tended to strongly highlight the weaknesses of the tax department. The possible real image of the tax department was mirrored in the perception of the professionals: their strong critical position against the department appeared consistent with the views and opinions of respondents in in-depth interviews and discussants at the roundtable seminar. Another important dimension may be noted in the perceptions of tax agents. The very characteristic of the profession of tax agent in liaising with tax officials to facilitate their clients' minimising their tax burden was reflected in their opinions. They tended not to be vocal against the department.

To determine the viewpoints of respondents about the complexities of tax laws and tax system, three questions were asked. A similar pattern in responses appeared, indicating the professionals as very vocal against the tax laws and system, tax agents as sceptical, and businesspeople as neither too strong nor too weak in expressing their opinions. Perceptions of the professional subgroup suggest that they expressed what they really felt about the complex procedures and red tape of bureaucracy, the complex income tax return filing system, and the complexity of tax laws and regulations. This perception of professionals was also consistent with the comments of interviewees and the roundtable seminar, as well as with secondary data. However, the views of tax agents do not seem to be realistic. As to possible explanations of the responses of tax agents, it may be argued that the tax agents intended to create an impression that there was no complexities in tax laws and system which might influence people to evade taxes. Because of the interests of the profession, agents might tend to oppose reform of tax laws and system. Complex and ambiguous tax laws and system arguably facilitate them in attracting more clients. With respect to the answers of businesspeople, it may be inferred that they also expressed opinions influenced by their professional backgrounds. It may also be argued that, because of business interests, the

businesspeople subgroup tried to hold a balanced position in commenting against tax laws, regulations and system.

For the rest of the statements relating to tax rate, penalty, probability of detection, enforcement and tax amnesties, a similar pattern of responses across the three subgroups was observed, i.e., professionals with strong agreement, tax agents with less strong agreement and businesspeople in between the two. However, an exception was also found regarding the statement that low rates of penalties were responsible for causing tax evasion. This statement is related to a proposition of the A-S model, i.e., ‘an increase in the penalty rate will always increase the fraction of actual income declared’ (Allingham & Sandmo 1972, p. 330). For this specific statement, the strong agreement of all subgroups significantly decreased, indicating that the findings were somewhat inconsistent with the A-S model. As can be seen, none of the tax agents, only 30.0% of professionals, and only 7.1% of businesspeople strongly supported the statement. A possible interpretation might be that imposing penalties on tax evaders is not a common practice in Bangladesh and this has made respondents less aware about the influence of low penalties on tax evasion.

### ***Sub-Proposition P<sub>2.3</sub>***

This sub-proposition framed in Chapter II stated that the nexus of the three actors (politicians, public officials, and other interest groups including businesspeople) contribute to the policy compliance process which might facilitate tax evasion (sub-proposition P<sub>2.3</sub>). Six questions/statements were thus asked of the survey participants selected from tax compliance group. The survey findings presented in Chapter VI revealed that all the statements were supported by at least 60.0% of respondents (ranging from 66.7% to 86.2%, after combining the score of ‘strongly agree’ and ‘agree’). It is important to note that, despite being taxpayers, respondents did not hesitate to support the statements which laid blame on the nexus of the politicians, tax officials, businesspeople and other taxpayers.

Accordingly, respondents in the in-depth interviews and discussants at the roundtable seminar explained, elaborated and supplemented the findings of the survey. The findings of the survey, in-depth interviews and roundtable seminar were also consistent with secondary evidence. The weight of the evidence thus tends to be sufficient to confirm sub-proposition P<sub>2.3</sub>. The summary of the survey responses for the statements related to sub-proposition P<sub>2.3</sub> is shown in Appendix XIV.

Another crucial aspect was revealed regarding the nexus of actors in the tax policy compliance process. Cross-tabulation findings suggest that the respondents of the three subgroups acknowledged the involvement of the actors. The professional subgroup again were strongly vocal when the statements pointed out the corrupt practice of tax authorities. However, interestingly, their strong support significantly decreased for the statements which included self-interested tax clients, professionals, self-employed people, and house and land owners in the nexus for causing tax evasion. A possible explanation of this finding is that the respondents, being professionals and self-employed, intended to avoid conflict of interest with their own professions.

Overall, the tax agent subgroup followed their pattern of being sceptical. It is not surprising that no tax agent strongly supported the statement which pointed to a strategic interaction between tax agents, tax officials, and self-interested income tax clients as causes of tax evasion. The tax agents perhaps tried to avoid blame falling on their shoulders. The businesspeople subgroup also maintained a balanced position in supporting statements which blamed other actors for creating a nexus which caused tax evasion. The only surprising finding was that none from the professional subgroup strongly supported the statement that tax agents facilitate payment of inappropriate benefits in evading taxes, whilst 16.7% of tax agents strongly supported the statement. It may be inferred that the professional subgroup avoided being strongly supportive of a proposition which clearly indicated immoral practices among tax agents. The small percentage of the tax agents who strongly supported the statement either tended to be extremely vocal or normative.

#### **7.2.4 General Propositions P<sub>1</sub> and P<sub>2</sub>**

It has been hypothesised that the inappropriateness of all three processes of the taxation regime, including tax policy formulation, its implementation, and its compliance, might contribute to rampant tax evasion in Bangladesh (general proposition P<sub>1</sub>). Moreover, tax evasion in Bangladesh might also be considered to be the outcome of a nexus of three actors: politicians, public officials, and other interest groups, including businesspeople (general proposition P<sub>2</sub>).

With reference to general propositions P<sub>1</sub> and P<sub>2</sub>, two questions were framed to examine the overall impression of respondents of the three processes, viz. the formulation and implementation of and compliance with tax policies. Accordingly, all the respondents of the

survey involving tax policy formulation (30), tax policy implementation (30), and tax policy compliance (30) were asked the same questions. The survey responses are shown in the following table.

**Table 7.1 Differences in Perceptions between Respondents of Three Groups, Bangladesh 2009-2010**

Issues (Questions)	Agreement/ Disagreement	Group			
		Tax Policy Formulation (%)	Tax Policy Implementation (%)	Tax Policy Compliance (%)	Total (%)
(i) Inappropriateness of all three processes of taxation regime, including tax policy formulation, its implementation, and compliance, contribute to tax evasion in Bangladesh	Strongly Agree	40.0	30.0	41.4	37.1
	Agree	40.0	53.3	41.4	44.9
	Moderately Agree	20.0	16.7	17.2	18.0
	Do Not Agree	0.0	0.0	0.0	0.0
	Total (N)	100 (30)	100 (30)	100 (29)	100 (89)
(ii) Tax evasion in Bangladesh is considered to be the outcome of a nexus of several interest groups, including political actors, public officials, businesspeople and other taxpayers, and their involvement in tax policy formulation, its implementation and compliance	Strongly Agree	43.3	55.2	43.3	47.2
	Agree	26.7	17.2	30.0	24.7
	Moderately Agree	23.3	27.6	26.7	25.8
	Do Not Agree	6.7	0.0	0.0	2.2
	Total (N)	100 (30)	100 (29)	100 (30)	100 (89)

### ***General Proposition P<sub>1</sub>***

It can be seen from Table 7.1 that there is no significant variance amongst the perceptions of the respondents of the three groups regarding the statement (Issue/Question i), that inappropriateness of all three processes of the taxation regime, including tax policy formulation, its implementation and compliance, contribute to tax evasion in Bangladesh. None of the respondents of the three groups disagreed with it. Of respondents from the policy formulation group 40.0% strongly agreed, as did 30.0% from the policy implementation

group and 41.4.0% from the policy compliance group. In addition, 40.0% of respondents from the policy formulation group, 53.3% from the policy implementation group and 41.4% from the policy compliance group supported the statement. Based on the survey data, shown in the Table 7.1, it can be argued that the respondents of the three groups were similar in their support of the statement. If the percentages of ‘strongly agree’ and ‘agree’ are combined for the overall agreement of the three groups, it can be observed that around 80% of respondents from each of the three groups supported the statement.

The frequency distributions of the responses are also shown in Table 7.1. If the frequency distributions of ‘strongly agree’ and ‘agree’ are combined to assess the overall support of the 90 respondents, it is observed that 82% supported it.

However, it is important to note that, during the face-to-face interview with Chairman B of the NBR, a degree of comparison between the inappropriateness of the tax policy formulation process and its implementation and compliance emerged. According to the Chairman, inappropriateness in implementation and compliance was more responsible for causing tax evasion than inappropriateness of the tax policy formulation process. Chairman B of the NBR contended:

But for the importance of inappropriate formulation, implementation, and compliance - will not be the same. Implementation and compliance of tax policies are of greater importance than inappropriate formulation of tax policies. Policies [are] more or less there, but the problem is implementation and compliance. It is quite logical... yes, yes. Policy is there... There is a whole gamut of issues relevant to formulation of policies. Maybe... some [are] not easy and simple..., whatsoever it is, in whatever form the formulation is there, it is not being implemented properly and compliance is very poor.

The comment of the former Chairman is extremely important for better understanding the role of the three processes of the Bangladesh tax regime in regard to tax evasion. As the most senior official of the NBR and a policy maker, he observed that tax policies were not being implemented appropriately. Although he acknowledged the inappropriateness of the tax policy formulation process, he laid greater emphasis on the role of the implementation and compliance processes in causing tax evasion. He further clarified his opinion:

But in our system to combat tax evasion, the main role is with the NBR- at the implementation level. Political decision here becomes only secondary.

It is understandable that of the three processes of tax regime, implementation and compliance are more directly related to the issue of tax evasion. The tax policy formulation process ends with legislating the policies and delegating the responsibility for the implementation process, i.e., for the NBR to execute tax policies for the collection of revenue. Hence, the inappropriateness of the implementation process might cause a detrimental effect on tax compliance. Taxpayers might misuse the inappropriateness of the implementation process to evade taxes. However, political interference may also create impediments to implementing tax policies. It was reflected in the abolition of the wealth tax law by a former Finance Minister when the minister was imposed with taxes on his own wealth (see Chapter VI).

Another explanation of the response of the Chairman may be that, being a former policy maker, he seemed highly critical of tax officials and taxpayers. Despite the variation in the degree of inappropriateness of the three processes according to Chairman B, each of their contributions to rampant tax evasion in Bangladesh cannot be overlooked, as is revealed from the survey data in Table 7.1.

However, to assess support for general proposition P<sub>1</sub>, the weight of support for sub-propositions P<sub>1.1</sub>, P<sub>1.2</sub> and P<sub>1.3</sub> need to be considered.

With reference to sub-propositions P<sub>1.1</sub>, P<sub>1.2</sub> and P<sub>1.3</sub>, the perceptions of respondents of the survey and in-depth interviews and discussants at the roundtable seminar regarding the inappropriateness of the three processes of Bangladesh's tax regime have been analysed in Chapters IV, V and VI. Sub-propositions P<sub>1.1</sub> and P<sub>1.3</sub> tended to be supported and P<sub>1.2</sub> partially supported.

On the basis of the survey data in Table 7.1, and the findings of the in-depth interview and support for sub-propositions P<sub>1.1</sub>, P<sub>1.2</sub> and P<sub>1.3</sub>, the weight of the evidence tends to be supportive of general proposition P<sub>1</sub>.

### ***General Proposition P<sub>2</sub>***

It is also clear from the survey results in Table 7.1 that there appears no significant difference between the respondents of the three groups regarding the statement (Issue/Question ii) that tax evasion in Bangladesh is considered to be the outcome of a nexus of specific interest groups and their involvement in tax policy formulation, implementation and compliance. About 43.3% of respondents from the tax policy formulation group, 55.2% of those from the

tax policy implementation group, and 43.3 % of from the tax policy compliance group strongly supported the statement. In addition, 26.7%, 17.2% and 30.0%, respectively, of respondents from tax policy formulation, implementation and compliance groups agreed with the statement. Only an insignificant proportion (6.7%) from the policy formulation group disagreed with the statement. It may be inferred that respondents who disagreed with the statement perhaps downplayed their role.

If the percentages of ‘strongly agree’ and ‘agree’ are combined, it can be seen that around 70% from each of the three groups supported the statement. Moreover, according to the frequency distribution in Table 7.1, of the 90 respondents, 71.9% supported the statement (combined score of ‘strongly agree’ and ‘agree’).

Furthermore, respondents at the in-depth interviews shared their views openly regarding the nexus. During the face-to-face interview, Chairman B of the NBR commented: ‘I agree. The involvement is very high’.

The straightforward statement of the Chairman acknowledged the presence of the nexus of actors that facilitated tax evasion. At interview, a leading businessman of Bangladesh, and a key person of the Ha-Meem Group, commented about the problems in implementation and compliance:

... Without any interference, if the tax department works, then they can detect tax evasion. Tax department and tax evaders negotiate for their mutual benefits. ... If a politician or political leader wants there to be corruption, bureaucrats get privileges, and use leakages. Bureaucrats get involved in corruption under the umbrella of politicians.

The statement of the businessman has clearly explained the mechanism of the nexus and indicated how it operates. From that comment, we see that the mechanism works in different directions between two of the three sets of actors. As he said, policy makers create the scope for bureaucrats to be corrupt. It can also be argued, in accordance with these views, that corrupt tax officials and dishonest taxpayers collude for their mutual interest, contributing to tax evasion and corruption in tax administration. From the comment, it is also clear that the policy implementation process stands in the middle of creating this nexus.

The nexus between policy makers and tax authority is also evident in the literature on tax compliance and evasion. In a similar vein, Kim (2008) has provided an econometric model of tax evasion indicating the interactions between the tax authority and the government. The



model shows that government influences tax evasion with the intention of controlling the economy and other determinants of tax evasion, and therefore it uses the tax administration. Likewise, the presence of the nexus between tax officials and businesspeople has been pointed out in a large body of tax evasion literature. In their paper, Gauthier and Gersovitz (1997, p. 420) indicate the nexus: ‘the prevalence of evasion leads naturally to the subject of tax administration, and especially to contacts between the administration and business’. No doubt this contact creates the nexus between the two players of the tax regime.

According to other respondents in the study, of the three actors of the nexus, the connivance of tax officials and taxpayers appeared to be more influential in contributing to tax evasion. At interview, Chairman A of the NBR pointed out that ‘Taxpayers are subject to the discretionary power of the tax officials. So, they make dishonest arrangements’.

The nexus between tax officials and taxpayers have clearly been indicated in this statement by the Chairman. Discussing tax evasion and corruption, an Executive of TIB reaffirmed the presence and influence of the nexus:

...[There is] vested interest and there is a connivance of those vested interests at various levels, at the level of politics, at the level of administration or public service and also at the level of private sectors. It’s a nexus of public - it’s a nexus of political authority with the administration and the business. So, it’s a triangular relationship... a triangular nexus... so, if you could wreck that nexus, that would be one of the ways to really change the situation, which is not easy.

In respect of the view of the Executive of TIB, it can, however, be argued that the connivance of vested interest groups, including politicians, tax officials and businesspeople, works behind tax evasion and corruption. In the policy formulation process, policy makers and businesspeople create the nexus which helps politicians to maximise votes for the next election and the businesspeople to get special tax treatment, as is evident in the case of formulating tax amnesty policies in Bangladesh (see Chapter IV). In the implementation and compliance processes, this nexus directly occurs between the tax officials and taxpayers (businesspeople, professionals, self-employed and all others). This nexus contributes to taxpayer evasion of tax and tax officials receiving bribes.

The empirical finding and analysis is consistent with existing literature. Bilotkach (2006) has shown a strategy between a businessman who underreports his/her profit and a tax official who is imperfectly monitored and paid a low wage. In this situation, he argues, the former has a choice to report entire or partial profit while the latter can turn a blind eye to this tax

evasion in return for a bribe. This game, generally, in developing and transition economies, becomes ‘a Nash equilibrium’, creating extensive shadow economic activities (Bilotkach 2006, p. 43). Marjit, Mukherjee and Mukherjee (2000) also make a similar point that, in the case of tax auditing, a corrupt tax auditor can offer the taxpayer undervaluing of income in exchange for a bribe, or, alternatively, he might harass the taxpayer by overreporting income. In this situation, the taxpayer will naturally pay the bribe to the tax auditor by paying less revenue on the undervalued income.

The presence and influence of this nexus in the three processes of the Bangladesh tax regime was examined separately in Chapters IV, V and VI with reference to sub-propositions P<sub>2.1</sub>, P<sub>2.2</sub> and P<sub>2.3</sub>. According to the findings and discussions of these Chapters, sub-propositions P<sub>2.1</sub> and P<sub>2.3</sub> appeared supported and P<sub>2.2</sub> partially supported. On the basis of the survey data in Table 7.1, findings of the in-depth interviews, and support of the sub-propositions P<sub>2.1</sub>, P<sub>2.2</sub>, and P<sub>2.3</sub>, the weight of the evidence tends to support general proposition P<sub>2</sub>.

#### **7.2.5 Global Proposition P**

It was hypothesised in this study that the extent of tax evasion in Bangladesh is pervasive in nature because of the inappropriate formulation, implementation and compliance of the tax policy and the involvement of politicians, public officials, and other interest groups, including businesspeople, in evading tax (global proposition P).

It is important to mention here that the previous two questions (shown in Table 7.1) have addressed most of the assumptions of global proposition P. However, for examining the extent of tax evasion in Bangladesh with reference to global proposition P, three questions were asked of the 90 ninety participants of the survey, selected equally from the three groups. The responses are presented in the following table.

It can be seen from Table 7.2 that respondents of the tax policy formulation group were strongly supportive for the three statements compared to respondents of the other two groups.

**Table 7.2 Differences in Perceptions between Respondents of Three Groups Regarding the Extent of Tax Evasion, Bangladesh 2009-2010**

Issues/Questions	Agreement/ Disagreement	Group			
		Tax Policy Formulation (%)	Tax Policy Implementation (%)	Tax Policy Compliance (%)	Total (%)
(i) In your opinion, how prevalent is tax evasion in Bangladesh?	Very High	50.0	30.0	30.0	36.7
	High	20.0	33.3	43.3	32.2
	Moderately High	30.0	26.7	20.0	25.6
	Medium	0.0	10.0	6.7	5.6
	Low	0.0	0.0	0.0	0.0
	Total (N)	100 (30)	100 (30)	100 (30)	100 (90)
(ii) Do you think that, since the independence of Bangladesh, the extent of tax evasion has been on the rise in number?	Strongly Agree	50.0	30.0	44.8	41.6
	Agree	23.3	26.7	31.0	27.0
	Moderately Agree	26.7	23.3	24.1	24.7
	Do Not Agree	0.0	20.0	0.0	6.7
	Total (N)	100 (30)	100 (30)	100 (29)	100 (89)
(iii) Do you think that, since the independence of Bangladesh, the extent of tax evasion has been on the rise in volume?	Strongly Agree	50.0	36.7	44.8	43.8
	Agree	23.3	20.0	27.6	23.6
	Moderately Agree	26.7	26.7	27.6	27.0
	Do Not Agree	0.0	16.7	0.0	5.6
	Total (N)	100 (30)	100 (30)	100 (29)	100 (89)

Whilst half the respondents of the tax policy formulation group strongly expressed their opinion that the prevalence of tax evasion in Bangladesh was very high, 30.0% from the tax policy implementation and compliance groups acknowledged the very high prevalence of tax evasion. It is interesting to note that 10.0% from the tax policy implementation group and 6.7% from the compliance group believed that the prevalence of tax evasion was medium. It can be inferred that some respondents of the implementation and compliance groups tended to be less vocal in acknowledging the very high prevalence of tax evasion. An explanation may be that these respondents represented tax officials and taxpayers. Therefore, they tried to avoid the issue, which in fact pointed to their own failings. However, no respondent in any group perceived tax evasion as low in Bangladesh.

The pattern in the perceptions of the three groups appeared to be similar regarding the two statements citing an increase in the number and volume of tax evasion since independence. Respondents of the tax policy formulation and compliance groups strongly acknowledged the

two statements compared to respondents of the implementation group. Whilst no respondent of the tax policy formulation and compliance groups disagreed with the two statements, a significant proportion (20.0% and 16.7%) of the tax policy implementation group denied them. This may be interpreted as meaning that, being tax officials, these respondents wished to conceal that tax evasion was increasing in Bangladesh. An increase in tax evasion certainly indicates the failure of tax authorities. Therefore, a significant percentage of tax officials denied the statements' validity.

The findings of the face-to-face interviews explained and elaborated the above statements. During interviews, a good number of respondents revealed that the prevalence of tax evasion was very high in Bangladesh and increasing. The responses are illustrated below to present an overall picture of the extent of tax evasion. During a face-to-face interview, Senior Official A of the OTO said:

...in our country, the recorded economy is very negligible... different organisations and different government bodies estimated that the present evasion, the present black money in the country is about 37% of the GDP; about ten to fifteen years ago, it was about 23% of the total GDP.

It is clear that tax evasion is on the rise in Bangladesh. According to Chairman B of TIB, 'Tax evasion in Bangladesh is quite high, it's quite high'. A similar opinion was expressed by Chairman A of the NBR: 'Evasion is comprehensive'. Tax evasion was pointed out as a major challenge by an Executive of TIB: 'I think tax evasion in Bangladesh is a major issue, although this has not been – has not received sufficient policy attention, policy attention and policy focus'.

It is apparent from these comments that the extent of tax evasion in Bangladesh is pervasive in nature. On the basis of the survey data, in-depth interview findings, and the support of general propositions P<sub>1</sub> and P<sub>2</sub>, the weight of the evidence appears to be supportive of global proposition P.

The overall findings related to all the research propositions are shown in Table 7.3.

**Table 7.3 Summary of Findings Related to Research Propositions**

Research Propositions Under Investigations		Extent of Support Found		
		Support	Some Support	No/Little Support
<b>P</b>	The extent of tax evasion in Bangladesh is pervasive in nature because of the inappropriate formulation, implementation and compliance of the tax policy and the involvement of politicians, public officials, and other interest groups, including businesspeople, in evading tax.	✓		
<b>P1</b>	Inappropriateness of all three processes of the taxation regime, including tax policy formulation, its implementation, and its compliance, contribute to rampant tax evasion in Bangladesh.	✓		
<b>P1.1</b>	The manner in which the tax policy is formulated leaves room for tax evasion.	✓		
<b>P1.2</b>	The manner in which the tax policy is implemented leaves room for tax evasion.		✓	
<b>P1.3</b>	The manner in which the tax policy is complied with leaves room for tax evasion.	✓		
<b>P2</b>	Tax evasion in Bangladesh is considered to be the outcome of a nexus of three different actors: politicians, public officials, and other interest groups, including businesspeople.	✓		
<b>P2.1</b>	The nexus of three actors (politicians, public officials, and other interest groups, including businesspeople) contributes to the tax policy formulation process, which is often aimed at facilitating tax evasion.	✓		
<b>P2.2</b>	The nexus of three actors (politicians, public officials, and other interest groups, including businesspeople) contributes to the tax policy implementation process, which is often aimed at facilitating tax evasion.		✓	
<b>P2.3</b>	The nexus of three actors (politicians, public officials, and other interest groups, including businesspeople) contributes to the tax policy compliance process, which is often aimed at facilitating tax evasion.	✓		

### 7.3 RELEVANCE TO THE THEORETICAL UNDERPINNINGS

A theoretical framework was illustrated in Chapter II focusing on public choice, rent-seeking, and the A-S model. Existing literature relevant to the theories was reviewed with the aim of highlighting the basic foundations of the framework.

### 7.3.1 Public Choice and Tax Policy Formulation

Public choice theorists argue that human beings are basically rational utility maximisers (see Chapter II). Based on the core ideas of public choice theory, it can be argued that politicians, bureaucrats, and businesspeople are self-interested individuals who strive for their own private goals and ambitions. In this context, an attempt was made to test the applicability of public choice theory to the tax policy formulation of Bangladesh, focusing on the self-seeking nature of human being. The findings of Chapter IV were consistent with the arguments of public choice theory. Trends in the tax policy formulation process and in some tax policies pointed to the self-interested behaviour of policy makers.

The politicians of the ruling party seek to retain their positions and thus try to be re-elected (see Chapter II). As a strategy to achieve that goal, according to Buchanan, the politicians seek to please their constituents by lowering taxes or providing tax benefit schemes (The Region 1995). In the case of Bangladesh, the repeated formulation of tax amnesty policies by most governments (democratic and autocratic) point to the self-interested nature of politicians. These policies indicate favouritism by politicians as well as the influence of various interest groups in tax policy formulation. Likewise, the trend of ‘big business’ people becoming members of parliament and *vice versa* creates conflict of interest in formulating tax policies, as examined in Chapter IV.

Formulating short-term oriented tax policies is another example of limited vision and utility maximisation of policy makers. As public choice theorists contend, politicians prefer short-term policies which concentrate their benefits (Buchanan & Lee 1984). The policy decisions of abolishing the Tax Ombudsman Office at a cabinet meeting (discussed in Chapter IV), the repeal of the wealth tax law through a personal decision of the Finance Minister (discussed in Chapter VI), and the repeal of Articles 128 (2A) and 128 (3) of the Income Tax Ordinance 1984 (which empowered the tax department to impose penalties on chartered accountants for false certification favouring tax avoidance by taxpayers) (discussed in Chapter VI) reflected the political and private purposes of politicians. Moreover, the decision making process followed for removing these tax policies significantly weakened transparency and accountability of the policy makers. Another example of short-term oriented tax policy formulation was evidenced in the budget of 2011-2012. It is an irony that the Finance Minister has taken the policy decision to continue the current tax exemption process until 2013, despite the severe negative impact of excessive tax exemption in the Bangladesh

economy (Ministry of Finance 2011a). An explanation for this policy decision may be that the Finance Minister intended to keep happy vested interest groups until the next parliamentary election (to be held in 2014) by providing tax exemption for another year. In this context, it can be argued that political parties formulate policies to win elections (Downs 1957). Overall, the findings and analysis suggest the validity of public choice theory for the tax policy formulation process, indicating the self-seeking tendency of politicians, in particular, the goal of winning the next election.

Interestingly, it can be seen from the findings of Chapters IV and VI that policy makers in Bangladesh, from independence until 2012, have formulated tax policies which have encouraged tax evasion and protected tax evaders as well as dishonest businesspeople. Ironically, those tax policies and laws that worked as safeguards against tax evasion were repealed. The underlying reasons for these policy decisions reflect the postulates of public choice.

The arguments of public choice theory also fit the nexus between politicians, bureaucrats, and other interest groups, including the businesspeople, in the tax policy formulation process. The actors in this nexus seek to influence the tax policy formulation process in order to have their favoured tax policy formulated, as is examined in Chapter IV. For example, the FBCCI and the BGMEA, influential interest groups in Bangladesh, pressured the government to formulating tax amnesty policies. The incumbent government also granted ‘differential tax privileges’ to these major interest groups, since they secured large vote-banks (see Buchanan & Tullock 1962).

### **7.3.2 Rent-Seeking and Tax Policy Implementation**

The prevalence of pervasive tax evasion and corruption in tax administration is evident in Bangladesh (Ahmed 2011; Khan & Nahar 2011; Bangladesh Civil Service Taxation Association 2009; Transparency International Bangladesh 2008a). Hence, the rent-seeking activities of taxpayers and tax authorities can be considered as major determinants of rampant tax evasion and corruption in Bangladesh. As Mauro (1998, p. 198) contends, ‘corruption can occur where rent exists’. A similar point is also made by Krueger (1974); she has argued that rent-seeking can occur in the form of bribery and corruption. In the tax policy implementation process, there exist considerable scope for generating rents, which has been examined in the context of Bangladesh tax administration. It is shown in Chapter V that the

desire to accumulate inappropriate wealth among some sections of tax officials in Bangladesh is responsible for tax evasion. Hence, the mechanism for earning inappropriate wealth, i.e., 'rent' (Khan & Sundaram 2000), reflects rent-seeking. Moreover, the mixing of administrative roles and personal interests of some sections of tax officials also creates scope for tax evasion. The desire for personal financial gain by tax officials enhances opportunities for rent-seeking (Lambsdorff 2002). Corrupt tax officials, while implementing tax policies and laws, maneuver and manipulate them in order to generate rents. Dishonest taxpayers, including businesspeople, professionals, and self-employed people, negotiate with corrupt tax officials to reduce or to avoid the legal obligation of tax payment. In this mechanism, an exchange of bribery and tax evasion occurs. It was examined in Chapter V how taxpayers offer bribes to tax officials in order to underreport income, claim undue tax benefits, or escape audit. Thus, the connivance of taxpayers and tax officials in tax policy implementation facilitates each to earn 'the above normal profits described as rents' (Khan 1996, p. 687). As a consequence of the rent-seeking of tax authorities and taxpayers, the Bangladesh government fails to collect proper income taxes from potential taxpayers. Finally, it can be argued that the opportunity cost of this rent-seeking leads to the continuous budget deficit of Bangladesh.

### **7.3.3 The A-S Model and Tax Policy Compliance**

The basic argument of the A-S model is that tax evasion will decrease with increases in penalty and the probability of detection (Allingham & Sandmo 1972). In order to test the A-S model, four questions were asked of the tax compliance group (see Chapter VI). If the responses of 'strongly agree' and 'agree' are combined to assess overall support for the statements, all questions were supported by at least 60.0% of respondents (ranging between 60.0% to 93.1%). Therefore, the survey findings were consistent with the A-S model. However, if the response to 'strongly agree' is considered, it can be seen that only 13.3% of respondents strongly supported the statement that the low rates of penalties were responsible for tax evasion. In light of the A-S model, it can be argued that, if an increase in the penalty decreases tax evasion, then, conversely, a low rate of penalty will increase tax evasion. An explanation for the less strong support for the statement may be that, in the context of Bangladesh, the imposition of a penalty for tax evasion has not yet been widely practised. Therefore, respondents perhaps tended to not perceive significant influence in low rates of penalty on tax evasion. Another interpretation may be that the respondents tended to not



strongly recognise the relationship between low rates of penalties and tax evasion to avoid the possibility of increasing penalty rates by policy makers as a deterrent to tax evasion. Respondents in the in-depth interviews and participants at the roundtable seminar explained, elaborated and supplemented the survey findings and tended to provide corroborative evidence for the A-S model.

#### **7.4 RELEVANCE TO THE CONCEPTUAL FRAMEWORK**

The conceptual framework presented in Chapter II (see Figure 2.1) appears to be generally consistent with the study findings. Although some issues identified in the policy implementation process, appeared to be less consistent in causing tax evasion and corruption, according to survey findings, it was worth exploring them. Participants in the in-depth interviews and discussants at the roundtable seminar further elaborated the issues. All other issues of the implementation process were consistent with tax evasion and corruption phenomena. Most issues of the tax policy formulation and compliance processes investigated in the study appeared to be of relevance to tax evasion in Bangladesh.

The conceptual framework depicted a possible nexus between the three key players. It has been assumed that this nexus might facilitate tax evasion and corruption. Although the conceptual framework has shown the same degree of influence and involvement of the three actors in the nexus across the three processes, the empirical findings have pointed to differences. The nexus appears to be complicated, revealing multiple connections between the actors.

Empirical findings suggest that, in the formulation process, the nexus between politicians and interest groups, including businesspeople, appears to be more active and influential. It was revealed that there appears to be a nexus between politicians and businesspeople in the formulating process of selected tax policies such as tax amnesties for black money holders and tax evaders. For example, the influence of interest groups, such as the FBCCI and BGMEA, in formulating tax amnesty policies was evident. Secondary evidence shows that, being influenced by the REHAB, the representative body of the real-estate business, the incumbent government has changed the area selection for imposing taxes on selling apartments.

In the implementation and compliance processes, it is also observed that a nexus seems to have developed between public officials in the tax department and businesspeople, professionals, self-employed people, tax agents, and other self-interested taxpayers. It is to be noted that such observations have also been supplemented by secondary data and literature. Businesspeople play a central role in the nexus across the three processes of the tax regime. On the basis of the conceptual framework, it can be argued that businesspeople are the common actor who influences all three processes to have their favoured tax policies legislated by politicians and to lessen their tax burden through tax officials, which as a whole creates the scope for pervasive tax evasion.

Furthermore, a set of theories, public choice, rent-seeking, and the A-S Model, were shown in the framework for analysing tax evasion and corruption. The empirical findings of tax policy formulation, its implementation and compliance processes were consistent with the core arguments of these theories as applied respectively to each process.

## **7.5 FINDINGS IN RELATION TO THE RESEARCH QUESTIONS**

### **7.5.1 The Nature of the Problem of Tax Evasion in Bangladesh (RQ1)**

In response to RQ 1<sup>32</sup>, the detailed analysis of the study vividly illustrates that the extent of tax evasion in Bangladesh is pervasive in nature. To learn the answer to this question, global proposition P was framed in Chapter II. The empirical findings and analysis appear to be consistent with global proposition P, indicating that the extent of tax evasion in Bangladesh is pervasive in nature because of the inappropriate formulation, implementation and compliance of the tax policy and the involvement of politicians, public officials, and other interest groups, including businesspeople, in evading tax.

The reasons for the pervasiveness of the problem are addressed in RQ 1.1 and RQ 1.2.

### **7.5.2 Major Issues Contributing to Rampant Tax Evasion in Bangladesh (RQ 1.1)**

In response to RQ 1.1<sup>33</sup>, a number of issues in relation to tax policy formulation, implementation and compliance have been examined. Some seem to cause tax evasion whilst others appear as remedies.

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<sup>32</sup> RQ 1: What is the nature of the problem of tax evasion in Bangladesh?

<sup>33</sup> RQ 1.1 What are the major issues contributing to rampant tax evasion in Bangladesh?

In the tax policy formulation process, the empirical data revealed the lack of comprehensive research on the flaws of the tax system and how to overcome them, the lack of specialised knowledge on the part of some policy makers, the importance of comparing Bangladeshi tax policies with the tax policies of developing and developed countries, and the importance of a reform of the Income Tax Ordinance 1984. Although these issues are not directly causing tax evasion, they need proper policy attention if the tax evasion problem is to be dealt with. Likewise, the weaknesses, the absence of effective participation of the people and all political parties in tax policy formulation, the absence of people's opinion, short-term vision, and the influence of colonial legacies were examined. It is evident in the empirical findings that shortcomings of income tax laws and policies, such as the absence of a clear definition of tax evasion, loopholes and anomalies in the tax laws, frequent changes in tax-related documents, and repeated promulgation of tax amnesties are responsible for facilitating tax evasion.

The findings of the study demonstrated numerous issues in the tax policy implementation process that are associated with tax evasion. It is important to note that the policy implementation process plays the crucial role in implementing tax policies as well as collecting revenues. If there remain weaknesses and flaws in the implementation process, the taxpayers will tend to exploit such leakages. The empirical findings revealed weaknesses in co-ordination, infrastructure, automation, and enforcement which create the scope for tax evasion. Accordingly, insufficient support for tax officials, such as inefficient risk management, inefficient training systems, and inadequate salary structures cause detrimental effects on the performance of tax officials. As a consequence, tax officials tend to compromise with taxpayers. The empirical data also suggested that the improper behavioural aspects of some sections of tax officials and widespread corruption in the tax administration are the crucial two issues culpable for contributing to rampant tax evasion in Bangladesh.

The issues in the tax compliance process cannot be overlooked. In answering RQ 1.1, this study has examined several issues, viz., ethical and behavioural aspects of taxpayers, the financial condition of citizens, tax fairness, taxpayer services, complexities in the tax regime, tax rates, penalties and enforcement, and tax amnesties and the black economy. Empirical findings suggest that all these issues are associated with tax evasion in Bangladesh.

### 7.5.3 The Nexus of the Three Actors (RQ 1.2)

To respond to RQ 1.2<sup>34</sup>, the involvement and nexus of the three actors in tax policy formulation, implementation and compliance processes were examined. The empirical findings indicate the presence of this nexus which facilitates tax evasion. Hence, the self-interested behaviour of politicians and the rent-seeking tendency of public officials and tax officials and interest groups (businesspeople, professionals, and self-employed people) create such a nexus. The nexus between policy makers and interest groups operates in the tax policy formulation process and the nexus between tax officials and interest groups operates in the tax policy implementation and compliance processes.

## 7.6 CHAPTER SUMMARY

This chapter presents the overall empirical findings of the study. Emphasis is laid on testing the general propositions, P<sub>1</sub> and P<sub>2</sub>, and global proposition P. A brief summary of the Chapters IV, V and VI has been presented with reference to sub-propositions P<sub>1.1</sub> and P<sub>2.1</sub>, P<sub>1.2</sub> and P<sub>2.2</sub>, and P<sub>1.3</sub> and P<sub>2.3</sub> in order to facilitate examining the general propositions and the global proposition. It is shown that the research propositions investigated in this study were generally supportive, except in the case of two sub-propositions, which tended to be relatively less supportive. Furthermore, the three theories utilised in this research have briefly been discussed, highlighting their relevance to the empirical findings of the study. Likewise, the conceptual framework has been confirmed with respect to its consistency with the research findings. Finally, the research questions were addressed in this chapter with possible answers to them provided.

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<sup>34</sup> RQ 1.2 *Is there any nexus between politicians, public officials, and other interest groups, including businesspeople, that facilitates tax evasion? If so, how does it work?*

## **CHAPTER VIII CONCLUSION**

A research project always takes researchers to a different stage in their research programme than they were at the beginning, and never leaves researchers at the same level of knowledge as they were at the beginning. Even if the hypotheses are not supported, knowing what something is not is important (Morse, Niehaus, Wolfe & Wilkins 2006, p.280).

### **8.1 OVERVIEW OF THE RESEARCH**

This study investigated the political economy of corruption in the case of tax evasion in Bangladesh through utilising a mixed methods research design. Chapter I justified the selection of Bangladesh for this empirical case study. The available statistical data and information presented in Chapter I suggest that Bangladesh significantly suffers from a tax gap and a budget deficit. It has been argued that rampant tax evasion and pervasive corruption contribute towards Bangladesh's economic weakness. This thesis began with a set of objectives to better understand the issues associated with tax evasion and the relationship between tax evasion and corruption.

On the basis of the extant literature, the context for the study was established in Chapter II. Emphasis was laid on the political economy of corruption and the extent of tax evasion. Starting from a broader perspective in reviewing the literature on corruption and tax evasion, the chapter then focused on the Bangladesh context. Finally, the gap in the literature on corruption and tax evasion in Bangladesh was indicated. Theoretical underpinnings, a conceptual framework and research questions and propositions were also presented in Chapter II. Overall, the proposition sets helped to focus on useful data for analysis and to stay within feasible study limits (Yin 2009).

Chapter III elaborated the research design and methodology. The project was designed to collect primary data from respondents with direct or indirect affiliation with tax policy formulation, implementation and compliance processes of the Bangladesh taxation regime. The researcher also attended a roundtable seminar as an observer. Relevant secondary data and information were collected. Multiple sources of evidence were used to address the complexities of mixed methods. From an epistemological point of view, this study followed a combination of deductive and inductive reasoning. Throughout the research, this combination helped the researcher to capture the 'complexity and dynamism of the processes investigated'

(As-Saber 1999, p. 378). The study then utilised prior theories to make the templates for analysing the empirical case study data and explaining the results.

The results of the study were presented in Chapters IV, V, VI and VII. The empirical evidence obtained through the survey, in-depth face-to-face interviews, participant observation at a roundtable seminar, and secondary information were utilised to analyse the issues associated with tax evasion and to examine its relationship with corruption, as posed in the research questions and the proposition sets. Discussion and interpretation was also presented in these chapters.

The findings of the research were synthesised in Chapter VII. The consistency of the research propositions, theoretical underpinnings, and the conceptual framework were also highlighted in this chapter. In addition, the relevance of the research questions in light of the empirical findings of the study was pointed out in this chapter.

The present chapter highlights the core findings, contributions and limitations of the study.

## **8.2 CORE FINDINGS OF THE STUDY**

If all the respondents in the survey across the three groups (tax policy formulation, its implementation and compliance), in-depth interviews, and the discussants at the roundtable seminar are taken into account, it can be observed that the study analysed the perceptions, views, and opinions of political actors, senior public officials, tax officials, doctors, engineers, tax agents, business and self-employed people, civil society members and the non-party caretaker government member. The high magnitude of tax evasion in Bangladesh is significantly acknowledged by respondents in the study. No respondent across the three groups perceived the extent of tax evasion as low in Bangladesh, which confirmed the global proposition of the study. Overall, around 67% of respondents (combining ‘strongly agree’ and ‘agree’) also acknowledged that, since independence, tax evasion has been on the rise, both in number and volume. However, amongst the three groups of respondents, tax officials (the implementation group) appeared less strongly supportive about the extent of tax evasion and its rise in number and volume. A considerable percentage of tax officials (20.0%, number, and 16.7%, volume) disagreed with the statements that tax evasion has increased in number and volume since Bangladesh’s Independence.

Tax officials also appeared less supportive (less than 50% support after combining ‘strongly agree’ and ‘agree’) for a number of statements/issues of the study which indicated corrupt practices of tax officials and the nexus between tax officials and taxpayers in causing tax evasion in return for bribes. For example, only 23.3% of tax officials agreed with the statement that excessive discretionary power of tax officials might lead them to be corrupt, whilst none strongly supported and 50.0% denied it. Importantly, all tax officials supported the statement that the salary structure of civil servants was not adequate in Bangladesh to ensure better living. On the one hand, respondents representing the ‘Tax Cadre’ tried to avoid implicating themselves for corruption; on the other, they tended to highlight the weaknesses and problems of the tax department, including low remuneration.

Issues associated with the tax policy formulation process investigated in this study revealed that the tax policies and laws themselves create the opportunity for tax evasion. In particular, the formulation of tax amnesty policies was significantly criticised by respondents from the tax policy formulation and compliance groups for encouraging a tax evasion culture and creating dissatisfaction among honest, regular taxpayers. 82.7% (combining ‘strongly agree’ and ‘agree’) of respondents from the tax policy formulation group supported the statement that the manner in which tax amnesty policies are formulated encourages a tax evasion culture. 92.9% (combining ‘strongly agree’ and ‘agree’) of respondents from the tax compliance group supported a similar statement that the policy of tax amnesties sets a bad precedent and encourages tax evaders. The empirical findings suggest that both the players – those who formulate the tax amnesty policy and those for whom the policy is formulated – perceived the tax amnesty as a harmful policy instrument.

The empirical findings revealed that taxpayers’ dissatisfaction with tax officials was an important driving factor in tax evasion decisions. The perceptions and opinions shared by taxpayers during the survey, interviews and seminar indicated that the manner in which tax officials treated taxpayers caused resentment and dissatisfaction, which held them back from complying with tax requirements. Hence, the absence of a taxpayer-friendly environment was examined in the study as being partly responsible for pervasive tax evasion in Bangladesh. 82.7% (combining ‘strongly agree’ and ‘agree’) of respondents from the tax compliance group acknowledged that the absence of a taxpayer-friendly environment influenced tax evasion. The absence of e-services for taxpayers, and inadequate and inefficient customer

service of the tax department were also emphasised by the respondents as responsible for tax non-compliance.

The comparative picture of the perceptions of respondents based on their professional affiliation showed that they were influenced by their professional background when perceiving issues associated with tax evasion and corruption. The tendency to avoid conflict of professional interest was also observed. Of the tax formulation group, the political actor subgroup downplayed its role when a statement indicated drawbacks of politicians. Conversely, the public official subgroup strongly supported statements which pointed to the faults of politicians.

Of the tax compliance group, the professional subgroup strongly supported those statements which blamed the tax department and tax officials. However, when a statement pointed to the nexus between professionals, tax officials and tax agents, they were less strongly supportive. Overall, the tax agent subgroup tended to avoid acknowledging most issues associated with tax evasion, indicating their intermediary role in the negotiation process between tax officials and taxpayers leading to tax evasion and bribery. In addition, the tax morale of the tax agent sub-group was significantly weaker than that of the professional and businesspeople subgroup.

The three theories, public choice, rent-seeking and the A-S model, applied in this study provided insightful findings. The study investigated if and how a nexus between the three actors (politicians, public officials, and other interest groups, including businesspeople) across the tax policy formulation, implementation, and compliance processes, created scope for tax evasion. The public choice and rent-seeking theories, as templates, facilitated examining and explaining the nexus. The tax amnesty policies formulated by most governments since independence in Bangladesh reflect the core argument of public choice theorists that policy makers formulate policies for their self-interest, specifically to ensure their re-election. The bribing of tax officials by taxpayers in return for turning a blind eye to underreported income indicates the rent-seeking behaviour of the two players. Whilst the findings of the study were consistent with most of the arguments of the A-S model, one argument regarding the influence of penalty rates appeared relatively less consistent.

An emerging awareness about the problem of tax evasion was noticed while conducting the present study. The announcement of national income tax day (September 15), organising the



annual income tax fair, the roundtable seminar on ‘Expansion of Tax Base and Prevention of Tax Evasion’, and the ‘NBR Modernization Plan 2011-2016’ for reforming the Income Tax Ordinance 1984, introducing automation and e-service in tax administration, all indicated a positive move towards emphasising internal resource mobilisation. Yet it would also be an exaggeration to claim that the phenomenon of tax evasion has to date received due attention from policy makers, tax officials and taxpayers in Bangladesh.

### **8.3 POLICY IMPLICATIONS AND RECOMMENDATIONS**

This study has policy implications for the Bangladesh tax regime. During face-to-face interviews and at the roundtable seminar, a good number of participants provided insightful ideas about combating tax evasion and fiscal corruption. Based on the empirical findings and secondary evidence, this study provides policy recommendations for deterring tax evasion. This research makes a contribution to policy makers, tax officials, taxpayers and tax practitioners.

#### **8.3.1 Implications and Recommendations for Tax Policy Formulation**

This study has identified weaknesses in the tax policy formulation process and existing tax policies which facilitate tax evasion. Each of the weaknesses revealed in this research may provide the GOB with a policy directive for combating tax evasion.

##### ***Emphasising Research, Specialisation and Reform in Tax Policy Formulation***

Given the importance of undertaking research and comparative study on issues of tax evasion, policy makers might place greater emphasis on launching and organising research projects, exchange programs, training, policy debates and conferences on tax evasion issues within Bangladesh and across developing and developed countries. Hence, the Bangladesh government might encourage young political actors and tax officials to pursue higher studies in foreign countries in order to better understand tax policies and tax evasion. Under the umbrella of the GOB, a permanent and autonomous tax research cell could be established. Experienced and expert tax scholars, academics and retired tax officials from Bangladesh and other countries could be appointed to this research cell to provide ongoing, long-term policy recommendations. Existing tax officials, who are interested in research, could be posted to this cell. This cell would play a central role in publishing taxation-related articles, news and reports to update the GOB and taxpayers about tax matters and revenue performance.

Comprehensive reform of the Income Tax Ordinance 1984 is urgent in order to make it modern, simple and user-friendly and to overcome the influence of colonial legacies. The language of the laws should be simple. The Ordinance should be published in both Bangla and English to make it more user-friendly. The explanation of the laws, together with relevant case studies, could be included at the end of every chapter of the Ordinance. This will save taxpayers from seeking assistance from tax agents in interpreting the laws. An online version of the Ordinance should be available. The GOB should print the Ordinance on a regular basis to ensure its availability. The new circulars (*paripatra*), and all amendments made during every financial year should be included at the end of the Ordinance at regular intervals to keep taxpayers updated about changes in the tax laws and policies. In particular, inclusion of a specific definition of tax evasion in the context of Bangladesh is extremely important. Differentiation between tax evasion and tax avoidance could help enhance tax law enforcement.

It is important to mention here that the present government has taken a timely initiative to reform the Income Tax Ordinance 1984 under the project ‘NBR Modernization Plan 2011-2016’. In this respect, a proposed ‘Direct Taxes Code, 2012’ has been made available on the NBR website for obtaining feedback from citizens. However, this reform initiative alone will not serve the purpose unless and until it is fully implemented. As we have observed, in 2008 the MAP of the NBR also provided important policy recommendations about reforming the Ordinance. However, these recommendations have thus far not been thoroughly implemented. Therefore, policy makers have to place emphasis on ensuring the implementation of the current reform project. Most importantly, measures should be taken to ensure that the reform project of the NBR will be continued after the next parliamentary election in 2014, irrespective of which party is in power. Otherwise, the long-term plan envisaged in the project will be jeopardised.

### ***Ensuring Participation, Opinion and Long-Term Vision***

Policy makers might better recognise the importance of the participation, opinions and views of the public and of opposition political parties in the tax policy formulation process; this is significantly absent in the Bangladesh tax regime, as revealed in this study. Broader participation would undoubtedly ensure transparency and accountability in the policy formulation process as well as the effectiveness of the policy. For ensuring participation of the political parties, parliamentary discussion on possible finance acts and bills could be

encouraged by making clear the incumbent party's objectives and plans. For the economic betterment of the country, opposition political parties' taxation policies could be considered if those appear more effective and implementation-friendly. For ensuring public participation and to listen to their opinions about tax policies, the electronic and print media could be utilised. Regular 'talk shows' featuring taxpayers and policy makers discussing tax issues could be broadcast on radio and television. The print media could be used to ascertain mass opinion about specific tax policy decisions. The GOB could organise roundtable seminars in collaboration with business and professional communities and development partners to discuss tax reform strategies. This discussion would make reform initiatives open to citizens and thereby increase acceptance of reform.

Furthermore, a long-term vision and mission in formulating tax policies are urgently needed and these are lacking in the present tax system of Bangladesh.

### ***Overcoming the Shortcomings of the Income Tax Laws and Policies***

Most importantly, loopholes in the tax laws and policies analysed in this thesis should be taken into careful consideration by policy makers. As emphasised here, the continuous promulgation of tax amnesty policies by most governments has created grave dissatisfaction amongst regular taxpayers. It is worthy of mention that respondents from both the tax policy formulation and compliance groups viewed such policies as having detrimental effects on revenue collection and equity and fairness. Therefore, before further providing this amnesty to black money holders, government should consider the negative impact and effect of the policy. Indeed, this discriminatory tax treatment should be stopped immediately. Law makers need to re-think that providing a tax amnesty will not enhance revenue collection unless there is stress placed on enforcement measures to increase future compliance. A set of enforcement strategies could be developed, for example, imposing higher penalties on black money holders and tax evaders in cases of non-compliance with tax amnesty policies, a clear declaration that this is the last chance for black money holders and tax evaders to legitimise their untaxed money, requiring a declaration by tax evaders as to where the black money will be invested after receiving the privilege of the amnesty and later crosschecking through the NBR whether that money has in fact been invested in line with the declaration.

### ***Breaking the Nexus of Actors in the Tax Policy Formulation Process***

This study has highlighted a nexus between interest groups which facilitates tax evasion and corruption. In order to enhance revenue collection, policy makers should get rid of the influence of this nexus. The empirical findings and secondary evidence examined in this study suggest that powerful interest groups influence policy makers to formulate such tax policies which do not serve the interests of the public. Therefore, policy makers need to adopt a firm tax policy without being influenced by any specific interest group.

### **8.3.2 Implications and Recommendations for Tax Policy Implementation**

There have been a number of issues in the tax policy implementation process examined in this study which policy makers and tax officials should consider. There is no doubt that the tax administration plays the central role in collecting revenues for the government. It is also understandable that, without sufficient revenue, government cannot run its developmental programs. It is extremely important to place greater emphasis on creating an efficient and effective tax administration which could make the government financially independent. Despite playing the crucial role in strengthening the economy, Bangladesh's tax administration suffers from weaknesses and disadvantages.

### ***Overcoming the Institutional Weaknesses of the Tax Administration***

The weaknesses of the tax department, as highlighted in this thesis, viz., inadequate human resources, inadequate logistics and infrastructure, weak co-ordination, insufficient automation, and flaws in enforcement are serious impediments to combating tax evasion. Policy makers should pay attention to this department and take effective policy measures to overcome the weaknesses. Without an adequate workforce, it will be not possible for the NBR to work as an efficient organisation as well as to combat tax evasion. For ensuring better performance in revenue collection and reducing the tax-to-GDP gap, the NBR should be modernised, well-equipped and computerised. At the same time, Zonal and Circle tax offices situated in Dhaka and other districts need to be strengthened and renovated. All tax offices need their own buildings equipped with computers. The entire tax administration has to be brought under a central database so that information about tax returns and taxpayers can be exchanged. Moreover, a flow of online information between the NBR and across different government departments (telephone, electricity, water, and so on), national and private banking sectors, and mobile telephone companies need to be introduced so that the NBR can collect relevant

and correct information of income, savings and consumption of the taxpayers. The workplace environment is also an influential factor in increasing the efficiency and output of the staff in an organisation. A convenient workplace, equipped with sufficient and modern facilities, motivates the staff to devote themselves to their work. Unfortunately, the Bangladesh tax administration, with old facilities and equipment, has not yet ensured a proper work environment for its staff and this might contribute to their reluctance to combat tax evasion.

In this regard, the recommendations provided by an MP and a Member of the Parliamentary Standing Committee during the roundtable seminar, are notable:

Manpower needs to be trained from foreign countries. They need to be provided with a consolidated workplace. Their workplaces are scattered, situated in different places, they are working in rented places. So they are not able to work in an organised way. They need a building. So my appeal to the Honourable Finance Minister is, please pay attention to this department. They will be a strong- a strong hand for the government... I have nothing more to say than this (Discussant 17 at the roundtable seminar).

Another serious weakness of the tax administration is its inadequate jurisdiction. Because of administrative decentralisation during the 1980s, business and commerce have rapidly expanded towards the *Upa-zila* (Sub-district/Thana) level. However, the tax administration does not have its legal and infrastructural set-up in the *Upa-zilas*. Therefore, business people living in the *Upa-zilas* easily keep themselves outside the tax net and thereby evade taxes. In order to increase the number of taxpayers and enhance the income tax collection, the tax administration has to be extended to the *Upa-zila* level.

The current modernisation project of the NBR has provided policy plans for computerising the tax administration as well as overcoming institutional weaknesses. However, success of these plans still depends on future action.

### ***Ensuring Professional Support for Tax Officials***

Tax officials suffer from lack of professional support. Inadequate remuneration of tax officials has been pointed out as one of the significant issues which compel them to indulge in corruption. Tax officials are the revenue-earning workforce of the GOB. If the officials themselves suffer from inadequate income for maintaining their family and a better lifestyle, it is impractical to expect that they will perform their duties properly without being tempted to earn more (rent!). This issue should be urgently addressed by the GOB. Policy makers should conduct research on market prices, such as the cost of living, the cost of

schooling of children, house rent, medical expenses, and so on. A comparative study on the salary structure of the private sector and the public sector could be undertaken by policy makers. On the basis of the findings of that research, the remuneration of public officials could be determined. To reduce the cost of living, government housing and transport facilities could be provided to tax officials. Ensuring effective and efficient training for tax officials is also important to enhance their professional performance. In this respect, the training academy for tax officials, i.e., the Bangladesh Civil Service (Taxation) Academy, needs to be strengthened and modernised by employing skilled trainers and introducing effective training modules.

### ***Monitoring Behavioural Aspects of Tax Officials and Corruption in the Tax Administration***

Once the required professional support for tax officials is ensured, emphasis should be placed on combating corruption in the tax department. This study has examined several issues indicating corrupt practices of tax officials. Tax officials need to be careful in performing their official duties and responsibilities in a proper manner. Exemplary punishment for corrupt tax officials can be an effective policy strategy to check corruption in the tax department. The service rules and regulations for public officials need to be updated and strengthened to ensure the provision of punishment for corruption. A clear definition of corruption, together with examples of corrupt practices, should be included in the Anti-Corruption Act and government service rules and regulations. As an effective anti-corruption strategy, the definition of corruption and the rules and regulations about punishment can be highlighted in the print and electronic media to make public officials more aware. An updated and clear ‘Code of Conduct’ for tax officials is an urgent requirement. The Tax Ombudsman Office should again be established by streamlining its functions and rules and regulations in line with the proposed ‘Tax Code’. A strong and effective Tax Ombudsman will play a crucial role in combating tax evasion and corruption.

### ***Breaking the Nexus of Actors in the Tax Policy Implementation Process***

A nexus between interest groups (especially between tax officials and taxpayers in the tax policy implementation process) has also been examined during the study as contributing to tax evasion and corruption. The policy strategy to break this nexus would be to introduce an online return submission and tax payment system and to reduce the discretion power of tax

officials. Specifically, the power of tax officials for interpretation and imposition of penalties needs to be withdrawn. Selection of income tax returns for auditing must be computerised to make the system random and to check corruption. Some short training programs for tax officials on moral and ethical reasoning could be launched.

Finally, in order to combat tax evasion and corruption, policy makers should formulate proper tax policies and tax officials should implement these policies honestly and efficiently.

### **8.3.3 Implications and Recommendations for Tax Policy Compliance**

Tax compliance or evasion ultimately depends on the decision of individual taxpayers. Therefore, policy makers should be extra cautious in dealing with issues which affect tax compliance. This thesis has examined a number of issues in the context of taxpayers and the tax department, which influence tax evasion decisions. Policy makers should emphasise these issues.

#### ***Creating Awareness about Ethical/Behavioural Aspects of Taxpayers***

Despite possessing a high level of tax morale, the citizens of Bangladesh still need to be motivated to pay their taxes. Hence, moral, social and legal aspects could be taken into account. Increasing social awareness about the legal obligation for tax compliance could be a better strategy to combat tax evasion. Radio, television, newspapers and the internet could be utilised to create tax awareness. Advertisements and short programs could be broadcast emphasising the moral, social and legal aspects of tax payment. It has to be strongly advertised that tax non-compliance is unethical and illegal. Enhancing mass education will also help to increase tax awareness amongst citizens.

#### ***Financial Aspects of Taxpayers***

The majority of potential taxpayers in Bangladesh indulge in tax evasion without significant variance in accordance with their income bracket. Therefore a strong monitoring system for tax evasion is urgently required.

#### ***Reducing Complexities in the Tax Regime***

Simplification of tax laws has been recommended. The tax payment system also needs to be simplified. Together with online transactions, tax payments by mobile telephone can also be

introduced. The transformation from a manual system into an automated system, together with a simple 'Tax Code', will overthrow the overly bureaucratic and complicated tax regime.

### ***Enhancing Taxpayer Service***

Policy makers should consider how to reduce taxpayers' harassment, since a large number of respondents in this study and a discussant at the roundtable seminar blamed tax officials for harassing taxpayers, which in effect prevented them from complying with tax laws and policies. As with the LTU, an online return filing system could be introduced in all Taxes Zones so that all taxpayers could easily submit their tax returns. Simple online return submission will not only make the tax system convenient and economic, but also protect taxpayers from harassment by tax officials. Tax officials also need to maintain a proper code of conduct. Ensuring a taxpayer-friendly environment is very much needed in the Bangladesh tax regime to increase tax revenue. Although the 'Citizen Charter' is already introduced in Bangladesh's tax administration, it lacks clarification and objectivity. Moreover, it should be monitored as to whether the Charter is properly followed.

One-stop service centres could be opened in Taxes Zones offices to issue TIN certificate. This service would save taxpayers' time and effort in visiting Circle offices and meeting with tax officials to collect certificates. Tax education programs for the taxpayers could be organised to train them how to fill return forms and to pay taxes, and to make them familiar with tax laws and rules. This would make taxpayers self-dependent in their tax affairs and would reduce their dependency on tax agents. As a consequence, the tax system would become convenient and economic. In the long run, tax compliance would increase. Refunding taxpayers for additional payment of tax should be ensured in order to engender trust in the tax administration.

### ***Tax Rates, Detection of Tax Evasion and Penalties for Tax Evasion***

The GOB could re-think decreasing tax rates as well as increasing penalties and raising the probability of detection, which have been identified in this study as crucial in deterring risk-averse taxpayers from evading taxes. Like Pakistan and Sri Lanka, the minimum tax rate in Bangladesh could be lowered from its existing 10%. The primary vision of the GOB should be to create a tax culture amongst citizens within a short time. The reduction of the tax rate needs to be massively advertised through the radio, television, newspapers and the internet so that the citizens realise the government's good intentions about strengthening internal



resource mobilisation. Low tax rates will motivate citizens to comply with their tax obligation. Given the large population of Bangladesh, as well as the insignificant number of taxpayers, the objective of the GOB should be to immediately bring a large portion of earning citizens under the tax net. In this regard, despite lowering the tax rate, the government would be able to raise more revenue than under the present 10% rate, since 99% of the population are not paying their taxes at all. The highest tax rate also needs to be reduced from its present level of 25%. Citizens who are not accustomed to paying taxes will not be interested in paying one quarter of their income, and therefore will likely to find a way to conceal their actual income. A reduced tax rate will encourage rich people to increase their reported income.

Accordingly, the tax thresholds need to be increased. The tax thresholds in Bangladesh are lower than in other South Asian countries. Given the recent increases in living costs (housing, child raising, medical treatment, and other daily necessities) in Bangladesh, it may not be appropriate to impose taxes on individuals with a monthly income of BDT 15,000.00<sup>35</sup>.

After making the tax rate and tax thresholds more convenient based on a realistic viewpoint, the next policy step of the GOB would be to strengthen law enforcement. Hence, increasing penalty rates is a must. A significant penalty rate for tax evasion will certainly deter risk-averse taxpayers from evading tax. Penalty rates should be fixed and in no case should the power of determining the amount of penalty be left to the discretion of the Deputy Commissioner of Taxes. Moreover, in order to ensure fairness for ordinary taxpayers, the minimum amount of penalty for tax evaders should not be less than the minimum amount of payable taxes. In terms of penalty, it is noticed that, in the proposed 'Direct Taxes Code, 2012' under the current NBR modernisation project, the discretionary power of the Deputy Commissioner of Taxes has been curtailed and the amount and rate of penalty has been increased when compared to the Income Tax Ordinance 1984 (National Board of Revenue 2012d). However, regardless of the amount of taxes payable, in the new Code, the minimum penalty for failure to furnish a return or statement is proposed as only BDT 1,000.00 which needs to be increased.

In terms of offences and prosecutions, the minimum imprisonment is proposed as one month (for example, proposed Section 180: prosecution for obstructing an income tax authority in discharging function) and the maximum imprisonment is proposed as three years (for

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<sup>35</sup> Approximately US\$ 187.

example, proposed section 176: prosecution for false statement) (National Board of Revenue 2012d). In order to punish tax evaders, the duration of imprisonment could be extended.

However, the success of the reform of income tax laws and policies will be largely dependent on proper execution of them. Increasing the probability of detection and the exemplary punishment of tax evaders, together with highlighting cases of punishment through print and electronic media will be an effective policy strategy to deter tax evasion in Bangladesh.

### ***Ensuring Fairness of the Tax Regime and Abolishing Tax Amnesties***

Equity, fairness and justice should be the principles of Bangladesh's tax regime. The repeated tax amnesty policies have already undermined these principles. Therefore, policy makers should stop providing tax amnesties to tax evaders at least for the next five years. Instead of providing tax evaders and black money holders with a shelter under the umbrella of tax policies, the GOB should lay greater emphasis on detecting and punishing them. In addition, ensuring transparency and accountability in the spending of taxpayers' money is a must.

### ***Breaking the Nexus of Actors in the Tax Policy Compliance Process***

A nexus in the tax compliance process between corrupt tax officials, dishonest businesspeople, professionals and other taxpayers, and dishonest tax agents has been examined in this study. In order to break the nexus, exemplary punishment for corrupt tax officials, tax evaders and tax agents needs to be ensured. The repealed Section 128 (3) of the Income Tax Ordinance 1984 (regarding the imposition of penalty on the chartered accountant for concealing information of his/her tax clients) should be inserted in the proposed 'Tax Code, 2012'. All tax agents, including tax lawyers and income tax practitioners should also be included in the section.

In summary, this research makes contributions not only to the Bangladesh government but also to several other stakeholders, including donor countries, the World Bank and the ADB by informing them about the causes of tax evasion and corruption. Since combating corruption and enhancing internal resources have been two major policy directives of donor agencies in dealing with Bangladesh, the findings and analysis of this thesis will contribute to further policy recommendations. Finally, the findings and analysis of the research contribute to establishing a better tax regime by ensuring efficiency and effectiveness and checking corruption and tax evasion.

## **8.4 IMPLICATIONS FOR THEORY DEVELOPMENT**

The findings of this case study have implications for theory development on the issue of tax evasion and corruption (George & Bennett 2005). There has been an array of literature emphasising tax evasion. Furthermore, a large body of literature has stressed the relationship between tax evasion and corruption. On the basis of the literature, a set of propositions was framed in a deductive process. The validity of these proposition sets was then examined through the use of multiple sources of primary and secondary data. This inductive process generated a number of conclusions which were not covered by the extant tax evasion and corruption literature on Bangladesh. Hence, each of the propositions analysed and explained in the study by using extensive empirical data, contribute towards theory building, since data analysis is central to building theory from a case study (Eisenhardt 1989). The empirical findings reported in Chapters IV, V and VI tend to support most of the sub-propositions. On the basis of the empirical data and secondary evidence reported in Chapter VII, general propositions P<sub>1</sub> and P<sub>2</sub> and global proposition P also appeared to be supported. In summary, as shown in Table 7.3, this study has provided significant support for a number of propositions (P, P<sub>1</sub>, P<sub>1.1</sub>, P<sub>1.3</sub>, P<sub>2</sub>, P<sub>2.1</sub>, and P<sub>2.3</sub>). Some lesser support was gleaned for propositions P<sub>1.2</sub> and P<sub>2.2</sub>.

### **8.4.1 Tax Policy Formulation and Tax Evasion**

It was hypothesised that the manner in which the tax policy is formulated leaves room for tax evasion (sub-proposition P<sub>1.1</sub>). In order to examine the proposition, a number of issues in the tax policy formulation process of Bangladesh have been examined. The assumption appeared to be consistent with the empirical data and secondary evidence (presented in Chapter IV). Thus, sub-proposition P<sub>1</sub> could be utilised for building a theory. It was also proposed in Chapter II that the nexus of the three actors, politicians, public officials, and other interest groups including businesspeople, contribute to the policy formulation process, which might facilitate tax evasion (sub-proposition P<sub>2.1</sub>). Hence, the influence of actors in the tax policy formulation process of Bangladesh has been examined. On the basis of the empirical findings and secondary evidence (presented in Chapter IV), this sub-proposition P<sub>2.1</sub> also appeared to be supported, and therefore could contribute to building theory.

#### **8.4.2 Tax Policy Implementation and Tax Evasion**

In the implementation process of tax policy, it was argued that the manner in which the tax policy is implemented leaves room for tax evasion (sub-proposition P<sub>1.2</sub>) and the nexus of the three actors contributes to the policy implementation process, which might facilitate tax evasion (sub-proposition P<sub>2.2</sub>). In this regard, various issues indicating institutional weaknesses and corruption in Bangladesh tax administration have been examined. It was shown from the findings reported in Chapter V that sub-propositions P<sub>1.2</sub> and P<sub>2.2</sub> appeared to be of somewhat supported. Therefore, these two sub-propositions could provide ideas to future researchers to build theories.

#### **8.4.3 Tax Policy Compliance and Tax Evasion**

In the compliance process of tax policy, it was proposed that the manner in which the tax policy is complied with leaves room for tax evasion (sub-proposition P<sub>1.3</sub>). It was also assumed that the nexus of the three actors contributes to the tax policy compliance process, which is often aimed at facilitating tax evasion (sub-proposition P<sub>2.3</sub>). In this context, a number of issues related to the tax compliance process of Bangladesh have been examined. The empirical findings and secondary evidence confirmed sub-propositions P<sub>1.3</sub> and P<sub>2.3</sub> (presented in Chapter VI). Therefore, these two sub-propositions could build theories.

### **8.5 CONTRIBUTION TO THE LITERATURE**

This thesis filled the gap in literature on tax evasion and corruption phenomena in Bangladesh. It made several contributions to the literature. This is the first major research on tax evasion in Bangladesh that linked it with corruption. This thesis has identified the possible causes of tax evasion, taking into account the three processes of Bangladesh tax regime, viz., tax policy formulation, its implementation and compliance. In addition, the thesis has shown a nexus between the three players in the tax system. This research has contributed to the tax evasion and corruption literature by revealing how the nexus of these three actors operates across the three processes of a tax system and thereby facilitates tax evasion and corruption.

The second is its contribution to the public policy literature. The basic foundation of this thesis is the tax policies of Bangladesh. The research was conducted to better understand how tax policies are formulated, implemented and complied with. Finally, it has identified and

explained shortcomings in the tax policy formulation process of Bangladesh. Accordingly, weaknesses and loopholes of tax policies have been examined. Moreover, how the formulation of tax policies creates scope for tax evasion and corruption has been shown in the thesis by stressing the tax amnesty policies of Bangladesh. Furthermore, tax policy implementation and its compliance have also been examined with an aim to learn more about tax evasion and corruption. Overall, the thesis contributes to public policy analysis, focusing on the tax policies of Bangladesh.

The third is its contribution to public finance. Taxation and fiscal policy are the essence of the thesis. It has highlighted the overall tax system of Bangladesh. Policy guidelines for a better tax system may be the greater contribution of the thesis.

The fourth contribution is to public administration and management. Aspects of the Bangladesh public administration, including bureaucratic hierarchy (in the tax administration), the decision making process, interactions between the legislative and executive branches and the constitution have been researched. Furthermore, areas of management, including organisation (NBR), human resource management, salary structure, training and co-ordination are investigated in respect to tax evasion and corruption.

The fifth is the contribution in political economy. This thesis has shown how political interests can influence economic issues, including income taxes. It has also highlighted the interplay of politics, bureaucracy and businesses. Hence, two major theories of political economy, public choice and rent-seeking, have been utilised as a 'heuristic template' to investigate the phenomena of tax evasion and corruption.

The sixth is the contribution to tax evasion literature. The Allingham-Sandmo model is examined in the thesis and it shows the influence of tax rates, penalties and probability of detection in the tax evasion decisions of risk-averse taxpayers.

Finally, the thesis has relevance and application to governance study. The research has brought forward major issues of governance, viz., the role of government, politics and bureaucracy, the importance of multiparty participation in tax policy formulation process, the importance of public participation and voice, the necessity of long-term vision and mission, transparency, accountability, citizen rights in the form of taxpayer services, and so on.

However, this thesis has contributed not only to the academic literature, but also to various applied fields. For instance, this study could be useful for reform projects of the tax system, tax compliance stimulation programs, taxpayer education programs, tax awareness programs, and taxpayer and tax official interaction programs. Furthermore, this thesis will help generating anti-corruption and anti tax evasion strategies.

In summary, this thesis has contributed to academia, policy makers, professionals, the business community, the corporate sector, tax practitioners, NGOs, Donor Agencies, the World Bank, the Asian Development Bank and other organisations with an interest in taxation and corruption.

## **8.6 FUTURE RESEARCH DIRECTIONS**

This thesis will inspire future researchers in many ways. The empirical evidence derived from this research generates a thirst for an expanded study to consolidate the findings and explanations for advancing knowledge on tax evasion and corruption. Further research could be undertaken on each of the processes of the tax regime in Bangladesh. A focus group could be conducted among politicians, tax officials and taxpayers for creating scope face-to-face share views, opinions, expectations and difficulties. The cross-discussion could bring out new issues regarding tax evasion and corruption in Bangladesh not investigated in this study.

By investigating income tax evasion, this study has created scope for conducting research on corporate tax evasion and value-added tax evasion in Bangladesh. Hence, the research design of this study will enable future researchers to design their study. The design and findings of this study may encourage future researchers undertaking investigation on corporate sector tax evasion in Bangladesh. Moreover, a further survey could be conducted on tax evasion in Bangladesh employing a large sample. Future researchers might be interested in conducting a survey on tax evasion by selecting a larger sample amongst the three groups involved in this study.

This study was conducted only in one city, Dhaka. However, Bangladesh's tax administration is comprised of different Taxes Zones situated in six other geographical divisions: Chittagong, Rajshahi, Khulna, Barisal, Sylhet and Rangpur. Accordingly, each division could become a sample area for conducting study on tax evasion. Furthermore, an extensive survey across the

Taxes Zones could be carried out to grasp the phenomenon of tax evasion from a broader context. Research on how to combat tax evasion and corruption could also be undertaken.

This study might inspire future researchers to analyse taxpayers' behaviour and explore the demographic study of tax evasion in Bangladesh by employing more direct questions regarding tax evasion. Moreover, the design and findings of this study could be used in conducting a cross-country analysis of tax evasion, especially in developing countries. Furthermore, a comparison could be made between Bangladesh and a developed country in order to explore the similarities and dissimilarities of tax regimes of developing and developed countries. This cross-country analysis will help modernise and strengthen the Bangladesh tax system, as well as learn ways to deter tax evasion.

This study has utilised mixed methods for analysing tax evasion and its relationship with corruption. Econometric and mathematical models could also be used in showing the relationship between tax evasion and corruption in the context of Bangladesh. Finally, the findings and analysis of this thesis will be interesting for a future researcher to conduct research into the black economy.

## **8.7 LIMITATIONS OF THE STUDY**

Tax evasion is a complex phenomenon to understand, observe and research (Braithwaite 2009; Friedland, Maital & Rutenberg 1978). Hence, investigating tax evasion in the context of Bangladesh appeared to be more critical due to the significant gap in the existing literature. Considering it is one of the pioneer initiatives for conducting comprehensive research on tax evasion in Bangladesh, as well as relates this to corruption, this research has its limitations.

Firstly, the scope of this research is limited to one single-country-based case study – Bangladesh. Secondly, this research limits its focus to investigating personal income tax evasion. The corporate sector of Bangladesh has not been examined due to limitations of time and scope. Therefore the causes and issues of tax evasion in the corporate sector remained unexplored here.

Secondly, evasion in two other major sources of revenue, customs and value-added tax, remained beyond the scope of the present research.

Thirdly, the size of the survey sample may be a limitation. It was limited to a select number of groups. However, given the sensitive nature of the study, the sample size could be less emphasised. It should also be considered cautiously that the empirical study is entirely concerned with internal affairs as well as the socio-economic, political and administrative context of Bangladesh. Therefore, generalising the findings regarding tax evasion may be difficult, since institutions and culture vary around the world. As Webley and Hessing (1992) note, the tax system is complicated and differs significantly from one country to another.

Fourthly, this study has avoided investigating some direct aspects of tax evasion and corruption. The empirical data analysed here mirrored the perceptions and views of respondents about tax evasion and the nexus of interest groups in causing tax evasion and corruption. It is significant to mention that asking respondents about their tax information, i.e., whether they have a TIN or not, or whether they have complied with tax payments or not, have been consciously avoided in the study. The purpose of the study was to not to identify tax evaders but to investigate the reasons for tax evasion. Nevertheless, estimation of tax evasion is difficult due to the problem of the reliability of data, given the pervasiveness of the phenomenon (Braithwaite 2009).

Despite these limitations, this research has implications for Bangladesh as well as for other developing countries with similar tax regimes and politico-historical and cultural contexts. Although the research questions, propositions and design of this study were primarily concerned with a single country, Bangladesh, a number of issues related to tax evasion and corruption investigated in the study may be common to developed, developing and transitional countries.

## **8.8 CONCLUDING REMARKS**

The major intention of this empirical study was to examine issues surrounding tax evasion and its relationship with corruption in the context of Bangladesh. The scarcity of literature on the phenomenon of tax evasion and relating it in the context of Bangladesh provided the impetus for this study. Utilising a mixed methods research design and deduction-induction reasoning, this research examined the issues responsible for tax evasion. In this regard, the study sought to identify and analyse issues related to the three processes of the Bangladesh tax regime: tax policy formulation, its implementation and compliance. While investigating the issues, it was evident that the weaknesses of these three processes cause tax evasion.



Hence, the weaknesses of each process of the Bangladesh tax regime were comprehensively examined. This study also investigated a nexus between the three major players in the tax regime: politicians, public officials and other interest groups. Accordingly, the study revealed how this nexus operates across the three processes of the tax system and contributes to tax evasion and corruption.

This thesis has endeavoured to address the dearth of empirical research on these critical and sensitive issues. Throughout the research process, the researcher was conscious of the sensitivity of the research phenomena as well as the presence of several limitations for conducting research on such critical issues. For overcoming most of the limitations, the researcher took care in designing the research protocol. Specific attention and care were taken to develop the three sets of survey questionnaire, keeping in mind the sensitivity of the research topic. Given the complexity in dealing with tax evasion and corruption, the researcher has employed mixed methods in order to capture a broader picture. While the survey method helped to obtain statistical findings, the qualitative method complemented it in explaining and elaborating the findings in a more detail manner. Together with survey and face-to-face interviews, the researcher attended an important roundtable seminar on tax evasion as a participant-observer. The discussants at the seminar were taxpayers representing key professional and business communities, policy makers including the Finance Minister and Finance Advisor of the Prime Minister, and senior tax officials. The observation of the seminar added credibility to the study. The discussions of the roundtable participants helped validate the consistency of the findings of the survey and in-depth interviews.

It is important to mention here that most of the findings derived from the three sets of empirical data utilised in this study complemented each other. Throughout the analysis and discussions of the empirical findings, a sequence was carefully maintained using survey findings, first generating a number of tables, then utilising the findings of the in-depth interviews and roundtable seminar to explain and elaborate the survey results. Other secondary information, including government documents, project reports, and relevant literature were reviewed to further ensure the consistency of the empirical findings. Thus a systematic analysis, discussion and presentation of data collected through mixed methods made the results reliable and valid. In fact, the researcher has left no stone unturned to better understand the case of enquiry ‘in as much depth as is feasible’ (Eisenhardt 1989, p. 539).

In this thesis, the researcher argues that the causes of tax evasion do not fall only on the shoulders of taxpayers; rather, the weaknesses of the three processes of the Bangladesh tax regime contribute to tax evasion. It is further argued that a nexus between politicians, public officials, and other interest groups including businesspeople contributes to each of the processes of the tax system and this facilitates tax evasion.

This study concludes with the hope that, in the near future, the Bangladesh tax regime will be able to achieve a simple and pragmatic 'Tax Code', a modern and computerised NBR, adequately remunerated tax officials, and culturally aware taxpayers.

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## **APPENDICES**

### **Appendix I**

#### **Political Economy of Corruption: The Case of Tax Evasion in Bangladesh**

##### **QUESTIONNAIRE**

##### **GROUP-1**

##### **TAX POLICY FORMULATION**

Thank you for your participation in the project ‘Political Economy of Corruption: The Case of Tax Evasion in Bangladesh’. Your participation in this project is absolutely voluntary. As your privacy is of utmost importance, please note that the confidentiality of your response will be strictly maintained. Access to written records and the audiotapes from the interviews will be made available only to the researchers involved. Completed questionnaires will be kept on Monash University premises in a locked filing cabinet only accessible to the primary researchers of this project, and will be destroyed after five years of storage. Your participation will remain confidential ensuring your absolute anonymity in the doctoral thesis, and/or respective publications and presentations emanating from this research endeavour. Please refer to the explanatory statement provided with this questionnaire for any further inquiries.

G1. In your opinion, how prevalent is tax evasion in Bangladesh?

<u>Very High</u>	<u>High</u>	<u>Moderately High</u>	<u>Medium</u>	<u>Low</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

G2. Do you think that, since the independence of Bangladesh, the extent of tax evasion has been on the rise in number?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

G3. Do you think that, since the independence of Bangladesh, the extent of tax evasion has been on the rise in volume?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1. Do you think that, inappropriateness of all three processes of taxation regime, including tax policy formulation, its implementation, and compliance, contributes to tax evasion in Bangladesh?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.1i Do you think that, in Bangladesh, tax policies are formulated without comprehensive research on the flaws of the tax system, including tax evasion, and the ways to overcome these flaws?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.1ii Do you think that, while formulating tax policies in Bangladesh, the policy makers would have benefited more by comparing Bangladeshi tax policies with similar policies of leading developing and developed countries?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.1 iii Do you think that, limited specialised knowledge of some section of policy makers is responsible for formulating tax policies which do not provide enough safeguards against tax evasion ?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.1iv Do you agree that, the Income Tax Ordinance 1984 needs a thorough revision in order to cope with contemporary Bangladesh and check tax evasion?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.1v Do you think that, there is an absence of effective participation by all political parties in the tax policy formulation process, which is responsible for making such policies inadequate to combat tax evasion?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.1vi Do you think that, tax policies are formulated in Bangladesh in a manner which does not reflect people's opinion and participation for their views on tax evasion?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.1vii Do you think that, colonial legacies are still reflected in the Income Tax Ordinance 1984?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.1 viii Do you think that, tax policy formulation reflects a short-term orientation that, in effect, deters the government from minimising tax evasion and maximising long-term benefit?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.1ix Do you think that a clear definition of tax evasion is needed in order to detect it?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.1x Do you agree that various loopholes or anomalies of tax laws and policies are responsible for causing tax evasion in Bangladesh?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.1xi Do you think that, frequent changes in tax-related documents (for example: income tax return forms, statement of assets and liabilities, statement regarding particulars of lifestyle) are responsible for causing tax evasion in Bangladesh?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.1xii Do you think that, tax amnesty policies (the government may forgive tax evaders for their offences without any penalty and prosecution) are formulated in Bangladesh in a manner which encourages a tax evasion culture?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P2 Do you think that, tax evasion in Bangladesh is considered to be the outcome of a nexus of several interest groups, including political actors, public officials, businesspeople and other taxpayers, and their involvement in tax policy formulation, its implementation and compliance?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P2.1i Do you think that a significant number of the Parliament Members are leading businesspeople in Bangladesh, which creates a conflict of interests in formulating tax policies?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P2.1ii Do you think that political actors are likely to influence the tax policy formulation process in order to attract personal direct and indirect advantages?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P2.1iii Do you think that public officials are likely to influence the tax policy formulation process in order to attract personal direct and indirect advantages?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P2.1iv Do you think that businesspeople and other taxpayers are likely to influence the tax policy formulation process in order to attract personal direct and indirect advantages?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Su</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



P2.1v Do you think that interest groups play a vital role to push the government to formulate provisions to legalise black money as a tool to evade tax?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P2.1vi Do you think that in return for party donations, the political party in power may formulate tax policies that favour particular interest groups in evading tax?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Would you like to make any other comments in relation to tax policy formulation and tax evasion (if any)?**

**Would you like to be forwarded a summary copy of the result of this study? (Yes/No)**

**THANK YOU FOR YOUR COOPERATION**

## **Appendix II**

### **Political Economy of Corruption: The Case of Tax Evasion in Bangladesh**

#### **QUESTIONNAIRE**

#### **GROUP-2**

#### **TAX POLICY IMPLEMENTATION**

Thank you for your participation in the project ‘Political Economy of Corruption: The Case of Tax Evasion in Bangladesh’. Your participation in this project is absolutely voluntary. As your privacy is of utmost importance, please note that the confidentiality of your response will be strictly maintained. Access to written records and the audiotapes from the interviews will be made available only to the researchers involved. Completed questionnaires will be kept on Monash University premises in a locked filing cabinet only accessible to the primary researchers of this project, and will be destroyed after five years of storage. Your participation will remain confidential ensuring your absolute anonymity in the doctoral thesis, and/or respective publications and presentations emanating from this research endeavour. Please refer to the explanatory statement provided with this questionnaire for any further inquiries.

G1. In your opinion, how prevalent is tax evasion in Bangladesh?

<u>Very High</u>	<u>High</u>	<u>Moderately High</u>	<u>Medium</u>	<u>Low</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

G2. Do you think that, since the independence of Bangladesh, the extent of tax evasion has been on the rise in number?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

G3. Do you think that, since the independence of Bangladesh, the extent of tax evasion has been on the rise in volume?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1. Do you think that, inappropriateness of all three processes of taxation regime, including tax policy formulation, its implementation, and compliance, contributes to tax evasion in Bangladesh?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.2 i Do you think that shortage of staff in the tax administration is responsible for the failure to check tax evasion?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.2ii Do you think that inadequate infrastructural and logistic strength of the tax administration is responsible for tax evasion?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.2iii Do you think that inadequate automation and computerisation in the tax administration is responsible for causing tax evasion?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.2iv Do you think that inadequate co-ordination inside the tax administration works as a factor in causing tax evasion?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.2v Do you think that flaws in enforcement and work process work as a factor in causing tax evasion?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.2vi Do you think that inefficient risk management and insufficient protection and safety of tax officials are responsible for allowing tax evasion?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.2vii Do you think that the professional training system of tax officials is not efficient and adequate to check tax evasion?

Strongly Agree	Agree	Moderately Agree	Do Not Agree	Not Sure
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.2viii Do you think that the salary structure of the civil servants is not adequate to maintain subsistence living?

Strongly Agree	Agree	Moderately Agree	Do Not Agree	Not Sure
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.2ix Do you think that the deviation in the standard recruitment practices of officials work as a factor in causing tax evasion?

Strongly Agree	Agree	Moderately Agree	Do Not Agree	Not Sure
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.2x Do you think that the negligence of some sections of tax officials is responsible for causing tax evasion?

Strongly Agree	Agree	Moderately Agree	Do Not Agree	Not Sure
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.2xi Do you think that the desire to accumulate inappropriate wealth within the shortest time of some sections of tax officials is a major factor in allowing tax evasion?

Strongly Agree	Agree	Moderately Agree	Do Not Agree	Not Sure
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.2xii Do you think that the mixing of administrative roles and personal interests of some sections of tax officials is responsible for allowing tax evasion?

Strongly Agree	Agree	Moderately Agree	Do Not Agree	Not Sure
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.2xiii Do you think that too much discretionary power of tax officials might lead them to be corrupt?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.2xiv Do you think that the inadequate disciplinary action is responsible for corruption in the tax department?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.2xv Do you think that the ambiguity of tax laws facilitates corrupt practices?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.2xvi Do you think that a higher tax rate may increase the possibility of higher negotiated inappropriate benefits?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.2xvii Do you think that inadequate remuneration of tax officials compels them to become involved in taking inappropriate benefits?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.2xviii Do you think that the reward system of tax officials for excess collection of tax by finding tax evasion can reduce corruption?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P2 Do you think that, tax evasion in Bangladesh is considered to be the outcome of a nexus of several interest groups, including political actors, public officials, businesspeople and other taxpayers, and their involvement in tax policy formulation, its implementation and compliance?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P2.2i Do you think that taxpayers might offer inappropriate benefits to tax officials in return for showing underreported income or claiming undue tax benefits?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P2.2ii Do you think that taxpayers might ask tax officials a favour for escaping audit in return for inappropriate benefits?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P2.2iii Do you think that sometimes powerful political actors pressure the tax officials to settle tax disputes in their own favour?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P2.2iv Do you think that pressure from taxpayers, colleagues, and superiors is responsible for making tax officials facilitate tax evasion?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Would you like to make any other comments in relation to tax policy formulation and tax evasion (if any)?**

**Would you like to be forwarded a summary copy of the results of this study? (Yes/No)**

THANK YOU FOR YOUR COOPERATION



## **Appendix III**

### **Political Economy of Corruption: The Case of Tax Evasion in Bangladesh**

#### **QUESTIONNAIRE**

#### **GROUP- 3**

#### **TAX POLICY COMPLIANCE**

Thank you for your participation in the project ‘Political Economy of Corruption: The Case of Tax Evasion in Bangladesh’. Your participation in this project is absolutely voluntary. As your privacy is of utmost importance, please note that the confidentiality of your response will be strictly maintained. Access to written records and the audiotapes from the interviews will be made available only to the researchers involved. Completed questionnaires will be kept on Monash University premises in a locked filing cabinet only accessible to the primary researchers of this project, and will be destroyed after five years of storage. Your participation will remain confidential ensuring your absolute anonymity in the doctoral thesis, and/or respective publications and presentations emanating from this research endeavour. Please refer to the explanatory statement provided with this questionnaire for any further inquiries.

G1. In your opinion, how prevalent is the tax evasion in Bangladesh?

<u>Very High</u>	<u>High</u>	<u>Moderately High</u>	<u>Medium</u>	<u>Low</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

G2. Do you think that, since the independence of Bangladesh, the extent of tax evasion has been on the rise in number?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

G3. Do you think that, since the independence of Bangladesh, the extent of tax evasion has been on the rise in volume?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1. Do you think that, inappropriateness of all three processes of the taxation regime including tax policy formulation, its implementation, and compliance, contributes to tax evasion in Bangladesh?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.3i Do you think that paying tax is a moral, social, and legal obligation?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.3ii Do you think that there is an absence of a tradition of voluntary tax compliance in Bangladesh?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.3iii Do you think that cultural, behavioural, and psychological aspects of taxpayers are responsible for evading tax?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.3iv Do you think that norms, values, and attitudes of taxpayers are responsible for causing tax evasion?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.3v Do you think that the low level of education of the population influences tax evasion?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.3vi Do you agree that the majority of those who are eligible to pay tax are still out of the income tax net of Bangladesh?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.3vii Do you think that taxpayers in higher-income brackets, who pay tax at higher rates in progressive tax systems, are more likely to underreport their income and evade tax?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.3viii Do you think that the tendency of tax evasion of ‘middle income people’ might be lower than of ‘rich people’?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.3ix Do you think that businesspeople, professionals, self-employed people, and house and land owners evade tax in order to quickly maximise their income?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.3x Do you think that people evade tax out of feelings of inequality, injustice, and unfairness regarding the tax regime?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.3xi Do you think that taxpayers’ views on the ‘use of taxes’, the ‘burden of taxes’, and perceived benefits received in exchange for paid tax could influence people to evade tax?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.3xii Do you think that the disappointment of taxpayers with the government’s spending policies such as defence spending or spending on bureaucracy influence taxpayers to evade tax?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.3xiii Do you think that, inadequate and inefficient customer service of the tax administration works as a factor in causing tax evasion?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.3xiv Do you think that, the absence of e-services for taxpayers work as a factor in causing tax evasion?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.3xv Do you think that the absence of a taxpayer-friendly environment influences tax evasion in Bangladesh?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.3xvi Do you think that the complex procedures and red tape of bureaucracy compel people to evade tax?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.3xvii Do you think that the return filing system is too complex in Bangladesh and this encourages people to evade tax?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.3xviii Do you think that the complexity of tax laws and regulations of Bangladesh work as a factor in evading tax?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.3xix Do you think that high rates of income tax are one reason for tax evasion in Bangladesh?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.3xx Do you think that low rates of penalties are responsible for causing tax evasion?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.3xxi Do you think that an increase in the probability of detection may prevent tax evasion?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.3xxii Do you think that the weakness of the audit and investigation system is responsible for allowing tax evasion?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.3xxiii Do you think that the policy of tax amnesty sets bad precedents and encourages tax evaders in the hope that they will be forgiven for their past offences some time in future?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.3xxiv Do you think that the provision of making black money legal may inspire the regular taxpayers to evade tax with the philosophy that, instead of paying income tax in time, it is better to invest the money in further business and wait some time for the declaration of tax amnesties?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.3xxv Do you think that there is evidence that many prominent law makers and cabinet members evade their income taxes and later make their black money legal by using the facilities of tax amnesties, which may inspire the general public to evade tax?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P1.3xxvi Do you think that different financial institutions including banks encourage tax evasion as well as black economy by exploiting bank secrecy which enables transfer of capital from Bangladesh to other countries?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P2. Do you think that, tax evasion in Bangladesh is considered to be the outcome of a nexus of several interest groups, including political actors, public officials, businesspeople and other taxpayers, and their involvement in tax policy formulation, its implementation and compliance?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P2.3i A significant number of the Parliament Members are leading businesspeople in Bangladesh. Do you think that this may create a conflict of interests in complying with tax policies?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P2.3ii Do you agree that tax officials might demand inappropriate benefits in return for allowing underreported income or undue tax benefits?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P2.3iii Do you agree that tax audit and inspection authorities might demand inappropriate benefits in return for turning a blind eye during tax audit and inspection?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P2.3iv Do you agree that within the tax compliance process, a strategic interaction exists across self-interested income tax clients, tax agents, and tax officials, which causes tax evasion in Bangladesh?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P2.3v Do you think that the professionals, self-employed people, and house and land owners evade tax in collaboration with tax officials and facilitated by tax agents?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

P2.3vi Do you think that tax agents facilitate the payment of inappropriate benefits in evading tax?

<u>Strongly Agree</u>	<u>Agree</u>	<u>Moderately Agree</u>	<u>Do Not Agree</u>	<u>Not Sure</u>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



**Would you like to make any other comments in relation to tax policy formulation and tax evasion (if any)?**

**Would you like to be forwarded a summary copy of the results of this study? (Yes/No)**

**THANK YOU FOR YOUR COOPERATION**

## Appendix IV

### Shortage of Manpower of the Income Tax Inspection Directorate

No	Name of the Post	Number of Posts	Number of Appointments	Number of Vacancies	Opinion
1	Director General	1	1	0	
2	Additional Director General	4	4	0	
3	Deputy Director General	5	3	2	Among the 2, one Deputy Director General is deputed abroad. Another post is vacant which required to be filled immediately.
4	Assistant Director General	4	1	3	Among the 3, 2 Assistant Director Generals are in external- Bangladesh leave. Another post is fully vacant which required to be filled immediately.
5	Administrative Officer	0	0	1	This post is vacant due to the officer's retirement
6	Inspector of Taxes	12	6	6	These posts need to be fulfilled on an emergency basis in order to speed up the performance of the Directorate
7	Head Assistant	1	1	0	
8	Stenographer	5	0	5	

Source: Annual Report of the Income Tax Inspection Directorate (FY 2004-2005), Dhaka (Director General, Income Tax Inspection Directorate 2006).

## Appendix V

### Existing, Recommended and Approved Manpower (Class-I), 2010

No.	Name of the Post	National Pay Scale 2005 (BDT)	Existing Manpower	Recommended Manpower	Approved Manpower	Created Manpower
1	Commissioner of Taxes/ Equivalent Status	16,800-20,700	25	44	43	18
2	Additional Commissioner of Taxes/ Equivalent Status (Cadre)	15,000-19,800	46	116	66	20
3	Additional Commissioner of Taxes/ Equivalent Status (Non-Cadre)	15,000-19,800	0	02	1	1
4	Joint Commissioner of Taxes/ Equivalent Status (Cadre)	13,750-19,250	54	141	111	57
5	Joint Commissioner of Taxes/ Equivalent Status (Non-Cadre)	13,750-19,250	0	02	1	1
6	Deputy Commissioner of Taxes/ Equivalent Status (Cadre)	11,000-17,650	149	451	272	123
7	Deputy Commissioner of Taxes/ Equivalent Status (Non-Cadre)	11,000-17,650	0	05	3	3
8	Assistant Commissioner of Taxes/ Equivalent Status (Cadre)	6,800-13,090	216	432	410	194
9	Assistant Commissioner of Taxes/ Equivalent Status (Non-Cadre)	6,800-13,090	0	52	45	45
Total			490	1245	952	462

Source: Internal Resource Division, Bangladesh Secretariat, Dhaka (Secretary, Internal Resource Division 2010).

## Appendix VI

### Existing, Recommended and Approved Manpower (Class-II), 2010

No	Name of the Post	National Pay- Scale 2005 (BDT)	Existing Manpower	Recommended Manpower	Approved Manpower	Created Man-power
1	Extra- Assistant Commissioner of Taxes/ Equivalent Status	5,100-10,360	126	212	201	75
2	Physical Instructor	5,100-10,360	1	1	1	0
3	Dormitory Super	5,100-10,360	0	1	1	1
4	Administrative Officer	5,100-10,360	16	0	16	0
5	Support Engineer	5,100-10,360	0	60	34	34
6	Superintendent	4,100-8,820	62	0	32	0
7	Inspector of Taxes	4,100-8,820	512	1150	1000	488
Total			717	1440	1315	598

Source: Internal Resource Division, Bangladesh Secretariat, Dhaka (Secretary, Internal Resource Division 2010).

## Appendix VII

### Existing, Recommended and Approved Vehicles, 2010

No.	Type of Vehicle	Existing Number	Recommended Number	Approved Number	Increased Number
1	Car	26	49	44	18
2	Zip	54	507	145	91
3	Micro Bus	07	91	78	71
4	Mini Bus (For Staff)	35	85	43	08
5	Pick Up	0	02	0	0
6	Speed Boat	0	03	01	01
7	Motor Cycle	47	701	47	0
8	Bicycle	15	988	873	858

Source: Internal Resource Division, Bangladesh Secretariat, Dhaka (Secretary, Internal Resource Division 2010).

## Appendix VIII

### Existing, Recommended and Approved Office Equipment, 2010

No.	Name of the Equipment	Existing Number	Recommended Number	Approved Number	Increased Number
1	Computer and Accessories	715	3798	3548	2833
2	Air cooler	28	379	46	18
3	Photocopier	26	96	86	60
4	Fax	25	48	43	18
5	Server and Accessories	0	49	43	43
6	Multi Media, HP Screen and Others	0	02	02	02

Source: Internal Resource Division, Bangladesh Secretariat, Dhaka (Secretary, Internal Resource Division 2010).

## Appendix IX

### Summary of Survey Findings Related to Sub-Proposition P1.1

Issues/Questions	Strongly Agree (%)	Agree (%)	Moderately Agree (%)	Do Not Agree (%)	Total (N)
(i) Tax policies are formulated without comprehensive research on the flaws of the tax system, including tax evasion, and the ways to overcome these flaws	20.0	66.7	13.3	0.0	100.0 (30)
(ii) While formulating tax policies in Bangladesh, the policy makers would have benefitted more by comparing Bangladeshi tax policies with similar policies of leading developing and developed countries	36.7	33.3	30.0	0.0	100.0 (30)
(iii) Limited specialised knowledge of some sections of policy makers is responsible for formulating tax policies which do not provide enough safeguards against tax evasion	16.7	43.3	36.7	3.3	100.0 (30)
(iv) The Income Tax Ordinance 1984 needs a thorough revision in order to cope with contemporary Bangladesh and check tax evasion	43.3	53.3	3.3	0.0	100.0 (30)
(v) There is an absence of effective participation by all political parties in the tax policy formulation process, which is responsible for making such policies inadequate to combat tax evasion	40.0	40.0	16.7	3.3	100.0 (30)
(vi) Tax policies are formulated in Bangladesh in a manner which does not reflect people's opinion and participation for their views on tax evasion	26.7	60.0	10.0	3.3	100.0 (30)
(vii) Colonial legacies are still reflected in the Income Tax Ordinance 1984	31.0	58.6	10.3	0.0	100.0 (30)
(viii) Tax policy formulation reflects a short-term orientation that, in effect, deters the government from minimising tax evasion and maximising long-term benefit	36.7	36.7	23.3	3.3	100.0 (30)
(ix) A clear definition of tax evasion is needed in order to detect it	34.5	58.6	6.9	0.0	100.0 (30)
(x) Various loopholes or anomalies of tax laws and policies are responsible for causing tax evasion in Bangladesh	40.0	30.0	30.0	0.0	100.0 (30)
(xi) Frequent changes in tax-related documents (for example: income tax return forms, statement of assets and liabilities, statement regarding particulars of lifestyle) are responsible for causing tax	7.1	42.9	46.4	3.6	100.0 (30)

evasion in Bangladesh					
(xii) Tax amnesty policies (the government may forgive tax evaders for their offences without any penalty and prosecution) are formulated in Bangladesh in a manner which encourages a tax evasion culture	58.6	24.1	17.2	0.0	100.0 (30)



## Appendix X

### Summary of Survey Findings Related to Sub-Proposition P2.1

Issues/Questions	Strongly Agree (%)	Agree (%)	Moderately Agree (%)	Do Not Agree (%)	Total (N)
(i) A significant number of the Parliament Members are leading businesspeople in Bangladesh, which creates a conflict of interests in formulating tax policies	43.3	26.7	30.0	0.0	100 (30)
(ii) Political actors are likely to influence the tax policy formulation process in order to attract personal direct or indirect advantages	13.3	46.7	40.0	0.0	100 (30)
(iii) Public officials are likely to influence the tax policy formulation process in order to attract personal direct or indirect advantages	3.3	40.0	46.7	10.0	100 (30)
(iv) Businesspeople and other taxpayers are likely to influence the tax policy formulation process in order to attract personal direct or indirect advantages	6.7	56.7	33.3	3.3	100 (30)
(v) Interest groups play a vital role to push the government to formulate provisions to legalise black money as a tool to evade tax	43.3	23.3	33.3	0.0	100 (30)
(vi) In return for party donations, the political party in power may formulate tax policies that favour particular interest groups in evading tax	20.0	40.0	40.0	0.0	100 (30)

## Appendix XI

### Summary of Survey Findings Related to Sub-Proposition P1.2

Issues (Questions)	Strongly Agree (%)	Agree (%)	Moderately Agree (%)	Do Not Agree (%)	Total (N)
(i) Shortage of staff in the tax administration is responsible for the failures to check tax evasion	40.0	40.0	20.0	0.0	100 (30)
(ii) Inadequate infrastructural and logistic strength of the tax administration is responsible for tax evasion	50.0	36.7	13.3	0.0	100 (30)
(iii) Inadequate automation and computerisation in the tax administration is responsible for causing tax evasion	46.7	33.3	20.0	0.0	100 (30)
(iv) Inadequate co-ordination inside the tax administration works as a factor in causing tax evasion	3.3	46.7	33.3	16.7	100 (30)
(v) Flaws in enforcement and the work process work as a factor in causing tax evasion	23.3	60.0	16.7	0.0	100 (30)
(vi) Inefficient risk management and insufficient protection and safety of tax authorities are responsible for allowing tax evasion	20.0	40.0	40.0	0.0	100 (30)
(vii) Professional training system of tax officials is not efficient and adequate to check tax evasion	41.4	41.4	17.2	0.0	100 (29)
(viii) Salary structure of the civil servants is not adequate to maintain subsistence living	83.3	16.7	0.0	0.0	100 (30)
(ix) Deviation in the standard recruitment practices of officials works as factor in causing tax evasion	3.3	36.7	26.7	33.3	100 (30)
(x) The negligence of some sections of tax officials is responsible for causing tax evasion	0.0	31.0	48.3	20.7	100 (29)
(xi) The desire to accumulate inappropriate wealth within the shortest time of some sections of tax officials is a major factor for allowing tax evasion	16.7	30.0	30.0	23.3	100 (30)
(xii) The mixing of administrative roles and personal interests of some sections of tax officials is responsible for allowing tax evasion	0.0	48.3	37.9	13.8	100 (29)
(xiii) Too much discretionary power of tax officials might lead them to be corrupt	0.0	23.3	26.7	50.0	100 (30)
(xiv) Inadequate disciplinary action is responsible for corruption in the tax department	24.1	10.3	34.5	31.0	100 (29)

(xv) The ambiguity of tax laws facilitates corrupt practices	25.0	28.6	32.1	14.3	100 (28)
(xvi) A higher tax rate may increase the possibility of higher negotiated inappropriate benefits	3.3	33.3	36.7	26.7	(100) (30)
(xvii) Inadequate remuneration of tax officials compels them to become involved in taking inappropriate benefits	37.9	34.5	24.1	3.4	100 (29)
(xviii) The reward system of tax officials for excess collection of tax by finding tax evasion can reduce corruption	46.7	30.0	20.0	3.3	100 (30)

## Appendix XII

### Summary of Survey Findings Related to Sub-Proposition P2.2

Issues (Questions)	Strongly Agree (%)	Agree (%)	Moderately Agree (%)	Do Not Agree (%)	Total (N)
(i) Taxpayers might offer inappropriate benefits to tax officials in return for showing underreported income or claiming undue tax benefits	0.0	51.7	44.8	3.4	100 (29)
(ii) Taxpayers might ask officials a favour for escaping audit in return for inappropriate benefits	0.0	41.4	41.4	17.2	100 (29)
(iii) Sometimes powerful political actors pressure tax officials to settle tax disputes in their favour	10.0	63.3	23.3	3.3	100 (30)
(iv) Pressure from taxpayers, colleagues, and superiors is responsible for causing tax evasion	0.0	48.3	41.4	10.3	100 (29)

## Appendix XIII

### Summary of Survey Findings Related to Sub-Proposition P1.3

Issues (Questions)	Strongly Agree (%)	Agree (%)	Moderately Agree (%)	Do Not Agree (%)	Total (N)
(i) Paying tax is a moral, social, and legal obligation	50.0	40.0	10.0	0.0	100 (30)
(ii) There is an absence of a tradition of voluntary tax compliance in Bangladesh	34.5	51.7	13.8	0.0	100 (29)
(iii) Cultural, behavioural, and psychological aspects of taxpayers are responsible for evading tax	6.7	73.3	20.0	0.0	100 (30)
(iv) Norms, values, and attitudes of taxpayers are responsible for causing tax evasion	3.3	73.3	16.7	6.7	100 (30)
(v) The low level of education of the population influences tax evasion	6.9	62.1	24.1	6.9	100 (29)
(vi) The majority of those eligible to pay tax are still out of the income tax net of Bangladesh	50.0	30.0	20.0	0.0	100 (30)
(vii) Taxpayers in higher-income brackets, who pay tax at higher rates in progressive tax systems, are more likely to underreport their income and evade tax	46.7	36.7	16.7	0.0	100 (30)
(viii) The tendency of tax evasion of 'middle income people' might be lower than of 'rich people'	17.2	41.4	31.0	10.3	100 (29)
(ix) Businesspeople, professionals, self-employed people, and house and land owners evade tax in order to quickly maximise their income	10.0	53.3	36.7	0.0	100 (30)
(x) People evade tax out of feelings of inequality, injustice, and unfairness regarding the tax regime	16.7	53.3	30.0	0.0	100 (30)
(xi) Taxpayers' views on the 'use of taxes', the 'burden of taxes', and perceived benefits received in exchange for paid tax could influence people to evade tax	31.0	37.9	27.6	3.4	100 (30)
(xii) The disappointment of taxpayers with the government's spending policies, such as defense spending or spending on bureaucracy, influence taxpayers to evade tax	12.0	52.0	28.0	8.0	100 (25)
(xiii) Inadequate and inefficient customer service of the tax administration works as a factor in causing tax evasion	44.8	41.4	13.8	0.0	100 (29)
(xiv) The absence of e-services for taxpayers works as a factor in causing tax evasion	63.3	13.3	20.0	3.3	100 (30)
(xv) The absence of a taxpayer-friendly environment influences tax evasion	51.7	31.0	13.8	3.4	100 (29)

(xvi) The complex procedures and red tape of bureaucracy compel people to evade tax	36.7	40.0	16.7	6.7	100 (30)
(xvii) The return filing system is too complex in Bangladesh and this encourage people to evade tax	36.7	43.3	20.0	0.0	100 (30)
(xviii) The complexity of tax laws and regulations of Bangladesh work as a factor in evading tax	62.1	20.7	17.2	0.0	100 (29)
(xix) High rates of income tax are one reason for tax evasion in Bangladesh	31.0	62.1	3.4	3.4	100 (29)
(xx) Low rates of penalties are responsible for causing tax evasion	13.3	46.7	30.0	10.0	100 (30)
(xxi) An increase in the probability of detection may prevent tax evasion	58.6	20.7	17.2	3.4	100 (29)
(xxii) The weakness of the audit and investigation system is responsible for allowing tax evasion	53.3	36.7	10.0	0.0	100 (30)
(xxiii) The policy of tax amnesty sets bad precedents and encourages tax evaders in the hope that they will be forgiven for their past offences sometime in future	42.9	50.0	3.6	3.6	100 (28)
(xxiv) The provision of making black money legal may inspire regular taxpayers to evade tax with the philosophy that, instead of paying income tax in time, it is better to invest the money in further business and wait some time for the declaration of tax amnesties	37.9	55.2	6.9	0.0	100 (29)
(xxv) There is evidence that many prominent lawmakers and cabinet members evade their income taxes and later on make their black money legal by using the tax amnesties and this may inspire the general public to evade tax	56.7	26.7	10.0	6.7	100 (30)
(xxvi) Different financial institutions including banks encourage tax evasion as well as black economy by exploiting bank secrecy which enables transfer of capital from Bangladesh to other countries	17.9	42.9	39.3	0.0	100 (28)

## Appendix XIV

### Summary of Survey Findings Related to Sub-Proposition P2.3

Issues (Questions)	Strongly Agree (%)	Agree (%)	Moderately Agree (%)	Do Not Agree (%)	Total (N)
(i) A significant number of the Parliament Members are the leading businesspeople in Bangladesh, which may create a conflict of interest in complying with tax policies	36.7	30.0	26.7	6.7	100 (30)
(ii) Tax officials might demand inappropriate benefits in return for allowing underreported income or undue tax benefits	44.8	31.0	20.7	3.4	100 (29)
(iii) Tax audit and inspection authorities might demand inappropriate benefits in return for turning a blind eye during tax audit and inspection	50.0	26.7	20.0	3.3	100 (30)
(iv) Within the tax compliance process, a strategic interaction exists across self-interested income tax clients, tax agents, and tax officials, which causes tax evasion	23.3	53.3	20.0	3.3	100 (30)
(v) Professionals, self-employed people, and house and land owners evade tax in collaboration with tax officials and facilitated by tax agents	34.5	51.7	10.3	3.4	100 (29)
(vi) Tax agents facilitate the payment of inappropriate benefits in evading tax	6.9	72.4	20.7	0.0	100 (29)

## Appendix XV

MONASH University



Date

### Introductory Letter

Dear Sir/Madam

I am currently conducting research on 'Political Economy of Corruption: The Case of Tax Evasion in Bangladesh'. The aim of this research is to define corruption from the perspective of political economy matching with the situation of Bangladesh. In fact, the nature, mode and meaning of corruption differ from situation to situation, society to society and country to country. Hence, this research will attempt to analyse the concept of corruption perceived in Bangladesh. Using a case study approach, this research will examine the issue of tax evasion as a form of corruption in Bangladesh.

I am writing this letter to invite you to participate in the study. I would highly appreciate if you would take part in this research as an interviewee.

The issue of tax evasion in Bangladesh deserves profound attention from researchers for several reasons. Firstly, tax evasion causes loss of revenue to the government exchequer. The government of Bangladesh is being deprived from the collection of proper revenue due to evasion of taxes. Secondly, tax evasion is an obstacle for proper utilisation of resources. Thirdly, tax evasion increases social injustice. Although, tax evasion is a serious problem for the economic progress of Bangladesh, it has drawn little or no research attention compared with other forms of corruption. From the above perspective, this study hopes to make a contribution for a better understanding of the issue of tax evasion in Bangladesh and to fill the gap in the existing literature about the issue.

It will follow qualitative and quantitative research based on both primary and secondary data. Secondary data will be collected from books, journals, reports, government publications and documents, newspapers and electronic media. It will conduct in-depth, face-to face interviews in order to collect primary data. The research seeks to interview the regulators, authorities, professionals and business people from different ministries, government and non government organisations, commissions, associations, and business firms, who are concerned with the responsibilities of tax policy formulation, its implementation, tax compliance, tax fraud investigation and raising awareness.

Hence, it will require a meeting with the intention of discussing and answering some questions about your views on the current status, nature, reason, impact and mechanism of tax evasion in Bangladesh. With your kind permission, I would like to audiotape the meetings



and write notes. The meeting will last approximately one to two hour and will be conducted at your convenience.

The confidentiality of the results will be strictly enforced. Access to written records and the audiotapes from the interviews will be made available only to my supervisors and me. The project will not contain information that you will not want to reveal, including your name and affiliation to any organisation. If necessary, the material will be reworded, or removed, and pseudonyms will be used to protect your secrecy.

I would highly appreciate your assistance and participation in this research. If you would like to discuss this further please feel free to contact me at my department on [REDACTED], my mobile on [REDACTED] or email at [REDACTED].

With Regards

Sincerely Yours

Signature

Name

Nashid Rizwana Monir

PhD Student

Department of Politics and International Relations  
School of Political and Social Inquiry  
Faculty of Arts, Monash University  
Postal Address: Room W503, Building 11, Clayton Campus, Wellington Road,  
Clayton, Victoria 3800, Australia  
Telephone: [REDACTED] (dept.), Mobile: [REDACTED]  
Facsimile: [REDACTED]  
Email: [REDACTED]

## Appendix XVI

MONASH University



Date

### Explanatory Statement

#### **Title: Political Economy of Corruption: The Case of Tax Evasion in Bangladesh**

My name is Nashid Rizwana Monir, and I am conducting a research project under the supervision of Senior Lecturer Dr. Dennis Frank Woodward, in the School of Political and Social Inquiry and Dr. Sharif As- Saber, in the Department of Management towards a Ph.D degree at Monash University. This means that I will be writing a thesis which is the equivalent of a 300 page book.

The aim of this research is to define corruption from the perspective of political economy matching with the situation of Bangladesh. In fact, the nature, mode and meaning of corruption differ from situation to situation, society to society and country to country. Hence, this research will attempt to analyse the concept of corruption perceived in Bangladesh.

Using a case study approach, this research will examine the issue of tax evasion as a form of corruption in Bangladesh. Different theories and approaches relevant to corruption and the tax evasion issue including public choice, rent-seeking and risk-averse approaches will be explored to illustrate the conceptual framework of the research.

The issue of tax evasion in Bangladesh deserves profound attention from researchers for several reasons. Firstly, tax evasion causes loss of revenue to the government exchequer. The government of Bangladesh is being deprived from the collection of proper revenue due to evasion of taxes. Secondly, tax evasion is an obstacle for proper utilisation of resources. Thirdly, tax evasion increases social injustice. Although, tax evasion is a serious problem for the economic progress of Bangladesh, it has drawn little or no research attention compared with other forms of corruption.

From the above perspective, this study hopes to make a contribution for a better understanding of the issue of tax evasion in Bangladesh and to fill the gap in the existing literature about the issue.

The study will follow quantitative and qualitative research based on both primary and secondary data. Secondary data will be collected from books, journals, reports, government publications and documents, newspapers and electronic media. It will conduct in-depth, face-to face interviews in order to collect primary data. The research seeks to interview the regulators, authorities, professionals and business people from different ministries, government and non government organisations, commissions, associations, and business firms, who are concerned with the responsibilities of tax policy formulation, its implementation, tax compliance, tax fraud investigation and raising awareness.

Hence, it will require a meeting with the intention of discussing and answering some questions about your views on the current status, nature, reason, impact and mechanism of tax evasion in Bangladesh. With your kind permission, I would like to audiotape the meetings and write notes. The meeting will last approximately one to two hours and will be conducted at your convenience.

The confidentiality of the results will be strictly enforced. Access to written records and the audiotapes from the interviews will be made available only to my supervisors and me.

Although, the material will not be used for commercial purposes, the information about the results of the project will be presented in my thesis, conferences, seminars, and in academic journal articles. The project will not contain information that the interviewees do not want to reveal, including their names and affiliation to any organisation. If necessary, the material will be reworded, or removed, and pseudonyms will be used to protect the secrecy of the respondent. Identification of the respondent and organisation, unless otherwise instructed by the interviewees, will be anonymous.

The results will be saved as electronic files (word file, excel file, power point slides, and potentially other software) and will be printed out in hard copies. With your request, I will send you the results in hard copies via postal mail and/or send it via email.

A copy of the completed transcript of our interview will be forwarded to you for your verification. The written reports will be stored for at least five years as prescribed by the University regulations and kept on University premises in a locked cupboard/ filing cabinet. A report of the study may be submitted for publication however individual participants will not be identifiable in such a report.

Being in this study is voluntary, no payment or reward is offered. You are under no obligation to consent to participation. However, if you do consent to participate, you may only withdraw prior to having approved the interview transcript.

If you would like to be informed of the aggregate research finding, please contact me directly on [REDACTED] or facsimile [REDACTED] or email [REDACTED]

If you would like to contact the researchers about any aspect of this study, please contact the Chief Investigator and Co-Investigator	If you have a complaint concerning the manner in which this research is being conducted, please contact:
<u>Chief-Investigator:</u>	

Dr. Dennis Frank Woodward  
 Senior Lecturer (Politics)  
 School of Political and Social Inquiry  
 Faculty of Arts, Monash University  
 Room W1132, Building 11  
 Monash University Clayton Campus  
 Wellington Road  
 VIC 3800  
 AUSTRALIA  
 Telephone: [REDACTED]  
 Facsimile: [REDACTED]  
 Email: [REDACTED]

Co-Investigator:

Dr. Sharif As-Saber  
 Senior Lecturer  
 Department of Management  
 Monash University  
 Room E579, Building 11  
 Monash University Clayton Campus  
 Wellington Road  
 VIC 3800  
 AUSTRALIA  
 Phone: IDD [REDACTED]  
 Fax: IDD [REDACTED]  
 Email: [REDACTED]

Professor Salahuddin Aminuzzaman  
 Department of Public Administration  
 University of Dhaka  
 Dhaka, BANGLADESH  
 Tel : [REDACTED] (off)  
 Tel : [REDACTED] (home)  
 Cell : [REDACTED]  
 Email: [REDACTED]

Thank you.

Signature

Name

Nashid Rizwana Monir

PhD Student

Department of Politics and International Relations  
 School of Political and Social Inquiry  
 Faculty of Arts, Monash University  
 Postal Address: Building 11, Clayton Campus, Wellington Road,  
 Clayton, Victoria 3800, Australia  
 Telephone: [REDACTED] (dept.), Facsimile: [REDACTED]  
 Email: [REDACTED]

## Appendix XVII

### Consent Form

#### Title: Political Economy of Corruption: The Case of Tax Evasion in Bangladesh

NOTE: This consent form will remain with the Monash University researcher for their records

I agree to take part in the Monash University research project specified above. I have had the project explained to me, and I have read the Explanatory Statement, which I keep for my records. I understand that agreeing to take part means that:

**I agree to be interviewed by the researcher** ☐ Yes ☐ No

**I agree to allow the interview to be audio-taped** ☐ Yes ☐ No

**I agree to make myself available for a further interview if required** ☐ Yes ☐ No

**The explanatory letter has been made available to me** ☐ Yes ☐ No

I understand that my participation is voluntary, that I can choose not to participate in part or all of the project, and that I can withdraw at any stage of the project without being penalised or disadvantaged in any way. I understand that any data that the researcher extracts from the interview for use in reports or published findings will not, under any circumstances, contain names or identifying characteristics. I understand that I will be given a transcript of data concerning me for my approval before it is included in the write up of the research.

I understand that any information I provide is confidential, and that no information that could lead to the identification of any individual will be disclosed in any reports on the project, or to any other party.

I understand that data from the interview will be kept in a secure storage and accessible to the research team. I also understand that the data will be destroyed after a 5 year period unless I consent to it being used in future research.

**Participant's name**

**Signature**

**Date**

If you have any queries, please contact the researcher at the address below

Nashid Rizwana Monir

PhD Student

Department of Politics and International Relations

School of Political and Social Inquiry, Faculty of Arts

Monash University

Postal: Monash University, Building 11, Clayton Campus, Wellington Road,  
Clayton, Victoria 3800, Australia

Email: [REDACTED]

Telephone: [REDACTED] [REDACTED]

Mobile: [REDACTED]

Facsimile: [REDACTED]

## Appendix XVIII



### Human Ethics Certificate of Approval

**Date:** 7 August 2009

**Project Number:** CF09/2124 - 2009001220

**Project Title:** Political economy of corruption: Case of Tax evasion in Bangladesh

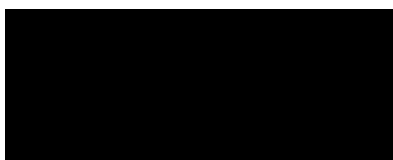
**Chief Investigator:** Dr Dennis Frank Woodward

**Approved: From:** 7 August 2009 **To:** 7 August 2014

#### *Terms of approval*

1. The Chief investigator is responsible for ensuring that permission letters are obtained, if relevant, and a copy forwarded to MUHREC before any data collection can occur at the specified organisation. **Failure to provide permission letters to MUHREC before data collection commences is in breach of the National Statement on Ethical Conduct in Human Research and the Australian Code for the Responsible Conduct of Research.**
2. Approval is only valid whilst you hold a position at Monash University.
3. It is the responsibility of the Chief Investigator to ensure that all investigators are aware of the terms of approval and to ensure the project is conducted as approved by MUHREC.
4. You should notify MUHREC immediately of any serious or unexpected adverse effects on participants or unforeseen events affecting the ethical acceptability of the project.
5. The Explanatory Statement must be on Monash University letterhead and the Monash University complaints clause must contain your project number.
6. **Amendments to the approved project (including changes in personnel):** Requires the submission of a Request for Amendment form to MUHREC and must not begin without written approval from MUHREC. Substantial variations may require a new application.
7. **Future correspondence:** Please quote the project number and project title above in any further correspondence.
8. **Annual reports:** Continued approval of this project is dependent on the submission of an Annual Report. This is determined by the date of your letter of approval.
9. **Final report:** A Final Report should be provided at the conclusion of the project. MUHREC should be notified if the project is discontinued before the expected date of completion.
10. **Monitoring:** Projects may be subject to an audit or any other form of monitoring by MUHREC at any time.
11. **Retention and storage of data:** The Chief Investigator is responsible for the storage and retention of original data pertaining to a project for a minimum period of five years.

Professor Ben Canny Chair, MUHREC



cc: Dr Sharif As-Saber, Ms Nashid Rizwana Monir

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Email [muhrec@adm.monash.edu.au](mailto:muhrec@adm.monash.edu.au)

[www.monash.edu/research/ethics/human/index/html](http://www.monash.edu/research/ethics/human/index/html)

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