

Awareness of Taxpayers on the Tax Structure of Bangladesh

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Abstract: Taxes are the most important source of revenue of the modern governments. It is compulsory levy, to be paid by citizens who are liable to pay it, imposed by the government. Hence refusal to pay a tax is a punishable offence. The aim of tax collection is to finance the government expenditure to ensure public interest and welfare. Taxation is a way to transfer the resources from private or non-government sectors to government sectors. This study deals with the perceptions on the different aspects of tax structure in Bangladesh. The overall findings reveal that most of the taxpayers are not satisfied with the present tax structure in Bangladesh and there are huge gap between the expectation and implementation gap regarding canons of taxation.

Field of Research: Accounting.

Key-words: Tax, Taxpayers, Tax System.

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I. Introduction

Tax is the best form of fund for making investment by a nation. The modern states are welfare states with an aim of attaining highest welfare. So from time to time the countries over the world have brought special changes in the tax structure for making it more competitive in the international front. Indirect taxes are a major source of tax revenues for governments worldwide and continue to grow as more territories move to more consumption-oriented tax regimes. In indirect taxation, the actual taxpayer, i.e., the person who bears the financial burden of the tax does not pay the tax directly to the public treasury. Since this type of tax is levied on the operations that are carried out by business owners or service providers, they are the ones who are liable for payment to the State. Taxes are the major source of mobilizing internal resources of an economy. Bangladesh revenue structure has been burdened by taxes from indirect sources for long time and usually characterized by heavy import and excise duties

Bangladesh revenue structure has been burdened by taxes from indirect sources for long time and usually characterized by heavy import and excise duties. To cope with the challenge due to globalization, government of developing countries has to cut down such duties and levies. As a result, governments of developing countries have to collect more revenue either through value added tax (VAT) or from direct taxes. In Bangladesh, VAT was introduced in 1991 by replacing the sales taxes still known as the vital reform of Bangladesh revenue structure.

Total taxes in Bangladesh are divided into direct and indirect taxes. Direct taxes in Bangladesh consist of taxes on income (income tax, corporation tax, agricultural income tax etc.) and taxes on property (wealth tax, gift tax, estate duty, capital gains tax, urban property tax, house rent, land revenue, registration and non-judicial stamp etc.).

The revenue structure of Bangladesh shows that indirect taxes contribute the lion's share in the overall revenue earnings and in fact, it accounts for more than sixty percent of the total revenue receipts. In other words, indirect taxes are still the primary source of generating internal resources for Bangladesh.

A number of registered taxpayers always remain in lower income groups for either due to mainly more available tax incentives or tax exemptions and share a little burden of taxes often at lower marginal rates. In case of Bangladesh, such taxpayers are of small and medium traders and manufacturers. In that sense, the wage earners seems rightly taxed as such taxes are withheld by employer and paid by them.

II. Literature Review

Taxation is one of the important elements in managing national income, especially in developed countries and has played an important role in civilized societies since their birth thousands years ago (Lymer and Oats, 2009: 1).

The main objective of imposing certain taxes on the public is to generate revenues for the government for public expenditure (Singh, 1999; Shanmugam, 2003; Lymer and Oats, 2009: 2). However, there are other

functions of taxes as suggested by Lymer and Oats (2009: 2) including to reduce inequalities through a policy of redistribution of income and wealth so that income gap between the rich and the poor is not as significant.

Taxes are also expected to ensure economic goals through the ability of the taxation system to influence the allocation of resources including transferring resources from the private sector to the government to finance the public investment programs the direction of private investment into desired channels through such measures as regulation of tax rates and the granting of tax incentives. (Palil,2010)

It is anticipated that a large proportion of taxpayers unable to complete their own returns due to lack of knowledge and understanding of SAS. Tax compliance can be defined as the degree to which a taxpayer complies or fails to comply with the tax rules of their country. It is accepted that the goal of an efficient tax administration is to foster voluntary tax compliance using all possible methods including penalties (Tapan K. Sarker, 2003).

Tax knowledge possession had significant impact on favorable attitudes towards taxation. In 1974, Song and Yarbrough examined a sample from people of North Carolina City, to examine their knowledge on the objectives of a tax reform in the country. They found that those with higher fiscal knowledge had more positive tax ethics scores than those with lower fiscal knowledge (Song and Yarbrough, 1978). Eriksen and Fallan (1996) had also found that respondents undertaking tax law had improved their perception of fairness, tax ethics and attitudes to others' tax evasion. Meanwhile, Kasipillai, Norhani and Noor Afza (2003) confirmed the existence of a relationship between tax education and favorable attitude towards tax compliance. In Malaysia settings, Loo (2006) studied on groups of salary and wage earners and self employed individuals; found that those with better knowledge on the income tax law would improve their reporting compliance.

Bangladesh, as an emerging developing country, is committed to augmenting revenue and achieving fiscal discipline with a view to increasing self-reliance. The external environment influencing the tax performance of Bangladesh has changed remarkably as the country became increasingly integrated with the global economy during the 1990s (McCarten, 2005). In recent years, the Government of Bangladesh has initiated some administrative and policy reforms in the tax system. During the 1990s, Bangladesh economy experienced a process of harmonization with the global economy. As such, tax administration faced new challenges to improve its professional, technological and legal capacity in order to keep pace with this changed circumstances. Accordingly, tax system of Bangladesh has been undergoing a reform process in administrative and policy framework that addresses the tax system (including rate structure, new taxes or amendments thereto) as well as administrative or legal issues. (Begum,2007).

According to Ahsan (1995) and McCarten (2005), Inadequate Revenue Yield Relative to GDP, Heavier Reliance on Indirect Taxes, Narrowly Based Tax Structure, Low Revenue Productivity and High Administrative Costs are the facts of Bangladesh tax system with a comparative scenario of the sample countries.

Bangladesh is a low tax effort country having a high buoyancy ratio, implying that the policymakers of Bangladesh have the scope and potential to opt for greater revenue mobilization through internal resources in order to meet the budgetary deficit. Therefore, it is important to place greater emphasis on administrative reinvention and policy reform in order to identify and remove the loopholes in the revenue generation process. (Begum,2007).

The current income tax system in Bangladesh is a combination of both a SAS and official assessment system, and efforts are constantly being made to convert the system into a fully functional SAS. The main problems of the income tax system in Bangladesh are (i) the narrowness of the tax base, (ii) evasion and avoidance of tax, and, (iii) inadequate tax administration. Thus setting up of a simple and broad based tax system is crucial to the development of a better tax administration. Studies have identified the main impediments as the lack of tax education among the taxpayers followed by poor public relation activities and inadequate penalty provisions for errant taxpayers. The need to increase training and improve the working environment of tax officials, as well as establish an information management system are also seen as important factors to be met for better tax administration. (Sarker, 2003).

Tax evasion has generated huge international concerns for tax authorities and policy makers as tax evasion seriously threatens the capacity of governments to raise public revenue (GIZ, 2010).

Tax compliance is an important government policy issue for developing countries for several reasons. First, tax revenue is the bread-and-butter of state and local governments (Slemrod, 2015). In Kenya, it is the single largest source of government revenue. Second, taxation is the most viable strategy in the long run to wean a country out of foreign aid dependency. Developing countries are already financing most of their budgets with taxation, but the least developed countries are still highly dependent on foreign assistance (Mascagni, Moore and McCluske, 2014). Higher reliance on domestic, non-resource and non-aid revenues would allow for a higher level of stability, predictability and control in the budget process. An international monetary

fund (IMF) working paper found that "for each additional percentage point of gross domestic product (GDP) in resource revenue, there is a corresponding reduction in domestic (non-resource) revenues of about

0.3% points of GDP” (Crivelli and Gupta, 2014). Due to the significance of tax revenues, tax administrators in most countries usually put an enormous effort into understanding and dealing with noncompliance.

III. Objectives of the study

- To know about the choice of the taxpayers among different types of taxes.
- To identify the perception of the taxpayers about the payment of taxes.
- To find out the perception of the taxpayers regarding government expenditure of tax revenue.
- To assess the perception about the tax administration, avoidance of tax, satisfaction level of overall taxation system and the suggestions about the reformed tax system.
- To determine the gap between the expectation and implementation of the canons of taxation.

IV. Research method

Sample size

Total 300 taxpayers have been considered in this study on the basis of convenience sampling technique.

Data collection

This study is mainly based on primary data. A structured survey questionnaire has been used. Secondary sources are different local and international published articles, websites, seminar papers dealing with business taxation.

Data analysis

Data have been analyzed by using frequency, mean, percentages and paired-sample t-test.

Study period

Time period of the study was June to August ,2019.

V. Results and Analysis

Though there are many taxpayers in Bangladesh, most of them do not pay taxes regularly. Among the regular taxpayers, the author has considered 300 taxpayers from the recent tax-fair, 2018. The demographic background of the 300 taxpayers are as follow:

Table-1: Demographic background of the respondents

Gender	Frequency
Male	240
Female	60
Age	Frequency
Below 25	5
26-30	10
31-35	45
36-40	65
41-45	90
46-50	40
51-55	30
56-60	10
Above 60	5
Occupation	Frequency
Government organizations	60
Private organizations	240
Income level	Frequency
Below Tk.180000	15
Tk. 180000- 480000	180
Tk. 481000-880000	75
Tk. 8810000-1180000	20
Above Tk.1180000	10
Years for paying tax	Frequency
Below 5 years	95
6-10 years	120
11-15 years	60
16-20 years	20
21-25 years	5
Above 25 years	0

There are different types of taxes on different bases in Bangladesh, the author has considered the most popular types of tax and the result is given below:

Table-2: Perception on preferred types of tax and payment of tax

On the basis of number of taxes	Frequency
Single tax	180
Multiple tax	120
On the basis of impact and incidence of tax	Frequency
Direct tax	240
Indirect tax	60
On the basis of rate of tax	Frequency
Progressive tax	70
Proportional tax	225
Regressive tax	0
Degressive tax	5
You are paying	Frequency
Too much tax	85
Right amount of tax	185
Not enough tax	0
Not sure	30

This table shows that among the different types of taxes, taxpayers prefer single tax, direct tax and proportional tax. Most of the taxpayers think that they are paying right amount of tax which means the individual tax structure of Bangladesh is fair.

Tax is paid by both business concerns and individuals. Some taxpayers think the business concerns pay more tax while some feel they pay less tax. The perception about the payment of tax by different group of people are as follow:

Table-3: Perception on the payment of tax of different groups

Paying too little tax	Paying right amount of tax	Paying too much tax
Small business 12%	Small business 1.67%	Small business 0%
Large business 20%	Large business 10%	Large business 45%
Low-income earners 25%	Low-income earners 6.67%	Low-income earners 10%
Middle-income earners 10%	Middle-income earners 50.66%	Middle-income earners 35%
High-income earners 45%	High-income earners 14%	High-income earners 10%

This table reveals that most of the taxpayers believe that low-income earners and high-income earners are paying too little tax and middle-income earners are paying right amount of tax while large business are paying too much tax.

There are different opinions of the taxpayers about the expenditure on public services. Most of the taxpayers are unaware about the expenditures on public services. The findings are as follow:

Table-4: Perception on the government expenditure on public services

Govt. should spend a lot more on public services	35%
Govt. should spend a little more on public services	11.68%
Govt. are spending right amount on public services	6.66%
Govt. should spend a little less on public services	15%
Govt. should spend a lot less on public services	6.66%
Not sure	25%

Government spends collected money from tax in different sectors such as health, education, defence, social security/welfare and overseas aid. Taxpayers are divided in their opinion about the too much expenditure, right amount expenditure and too little expenditure on different sectors. The results are as below:

Table-5: Perception on sector wise government expenditure of total revenue

Sector	Spending too much	Spending right amount	Spending too little
Health	5%	15%	25%
Education	35%	53.33%	10%
Defence	40%	16.67%	16.67%
Social security/welfare	15%	11.67%	38.33%
Overseas aid	5%	3.33%	10%

Most of the taxpayers think Government are spending too much on defence sector, right amount money on education and too little tax revenue on social security/welfare.

The author asked the taxpayers about their general opinions on the tax administration, tax avoid tendency and satisfaction about tax system in Bangladesh on the basis of 7-point likert measurement scale where 1 denotes strongly disagree and 7 denotes strongly agree. The findings are as follow:

Table-6: Perception about tax administration, tendency of avoiding tax and satisfaction of tax system

Particulars	Mean statistics
Tax administration of Bangladesh is efficient and honest	3.66
Most of the people have tendency to avoid tax	6.50
Satisfaction level of tax system in Bangladesh	4.50

Significant number of taxpayers believe that tax administration of Bangladesh is not efficient and honest and also their satisfaction level about tax systems is neutral (neither satisfied nor dissatisfied). Most of the taxpayers think the tendency for avoiding tax is very high.

Day by day, the tax revenue amount is being increased due to increase in population and also in awareness among the people. The high amount can be improved many sectors in futures. Taxpayers opined about that which are stated as below:

Table-7: Perception about the future outcomes by raising tax

Outcomes	Frequency
More educated society	120
Lower unemployment	30
Less inequality	10
Better health and aged care services	35
Better children services	10
Better transportation system	35
Lower environment pollution	15
None of these can be achieved	45

Most of the taxpayers feel that the more tax revenue will give more educated society in future. Most of the taxpayers are dissatisfied with the present tax system of Bangladesh. In order to improve the tax system they have given some suggestions in their perspectives. The results are as follow:

Table-8: Suggestions for reforming the present tax system

Suggestions	Frequency
Make the personal income tax return process easier.	180
Reduce the number of different types of tax to reduce complexity.	50
Tax administration should be honest and efficient.	175
Simplify the deductions, rebates and exemptions that taxpayers need to be aware of	125
Emphasis should be changed on direct tax rather than mainly on indirect tax	100
High taxpayers (individual or company) should be given non-financial reward	115
To introduce more types of tax in order to collect more tax	95
Other	0

Major number of taxpayers think that personal income tax return process should be easier and also tax administration should be honest and efficient.

There are total 10 canons in taxation systems. They are- canon of equality, canon of certainty, canon of economy, canon of convenience, canon of adequacy, canon of simplicity, canon of elasticity, canon of diversity, canon of expediency and canon of functional efficiency.

Though the expectation level of taxpayers about these canons are higher, they believe their implementation level is not so high. So, there is gap between the expectation levels and implementation levels of these 10 canons. On this prediction the author outlined the following alternative hypotheses:

Hypothesis-1:

H_A = There are differences between the expectation level and implementation level of canon of equality.

Hypothesis-2:

H_A = There are differences between the expectation level and implementation level of canon of certainty.

Hypothesis-3:

H_A = There are differences between the expectation level and implementation level of canon of economy.

Hypothesis-4

H_A = There are differences between the expectation level and implementation level of canon of convenience.

Hypothesis-5:

H_A = There are differences between the expectation level and implementation level of canon of adequacy.

Hypothesis-6:

H_A = There are differences between the expectation level and implementation level of canon of simplicity.

Hypothesis-7:

H_A = There are differences between the expectation level and implementation level of canon of elasticity.

Hypothesis-8:

H_A = There are differences between the expectation level and implementation level of canon of diversity.

Hypothesis-9

H_A = There are differences between the expectation level and implementation level of canon of expediency.

Hypothesis-10:

H_A = There are differences between the expectation level and implementation level of canon of functional efficiency.

Table-9: Expectation gap regarding canons of taxation in Bangladesh

Canons	Significance
Canon of equality	.001
Canon of certainty	.000
Canon of economy	.004
Canon of convenience	.011
Canon of adequacy	.010
Canon of simplicity	.092
Canon of elasticity	.000
Canon of diversity	.000
Canon of expediency	.446
Canon of functional efficiency	.000

This table shows that there is difference in expectation levels and implementation levels regarding nine canons of taxation. The significance level is 1% as regards canon of equality, canon of certainty, canon of economy, canon of elasticity, canon of diversity and canon of functional efficiency. The significance level is 5% in case of canon of convenience, canon of adequacy and 10% significance level for canon of simplicity. Only there is no expectation gap in case of canon of expediency.

VI. Conclusion

At present, taxation is the mainstay of public expenditure. Moreover, in a developing economy with almost insatiable demand for investible fund; ever expanding development activities of Government have placed emphasis on taxation as the main source of fund. The tax structure of Bangladesh is not so developed which can meet the most of the public expenditures. The findings of this study reveal that the taxpayers are not satisfied with the implementation of canons of taxation as well as overall taxation system in Bangladesh. So, government should take necessary steps to improve the satisfaction level of the taxpayers.

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