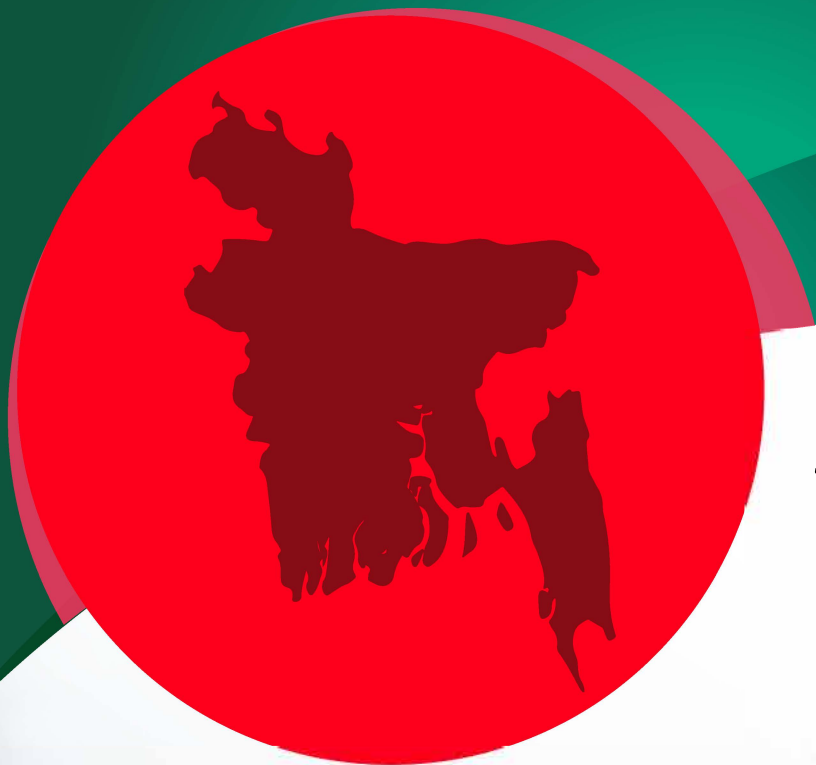


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Tax Culture: The Bangladesh Perspective

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Abstract

The direct tax administration of Bangladesh is characterised by poor tax compliance. Reasons for such poor tax compliance are manifold. One of the important factors to be considered is tax culture which can greatly contribute towards improvement of voluntary compliance in the field of income tax. The paper argues that Bangladesh lacks a tax culture which needs to be developed for ensuring voluntary tax compliance. The paper delves into the causes of poor tax culture in Bangladesh while discussing some of the measures adopted by the National Board of Revenue to improve the situation.

1 Introduction

Tax culture refers to taxpayers' compliant behaviour. It is essential to ensuring sustainable development of a country (UNDP, 2008). Sustainable development goals cannot be achieved without a robust tax policy which plays a vital role in tax administrations (Chuenjit, 2014). It is argued that if the tax culture issue is not considered seriously, many goals of revenue collection cannot be achieved successfully (Martinez-Vazquez & McNab 2000; Sinkuniene, 2005). However, tax culture reflects the tax compliance mentality of a region's taxpayers in general terms. It is understood in terms of taxpayers' consciousness regarding payment of tax. Georgi Boss (1999), Minister for Taxes & Duties of the Russian Federation, remarked that "There is not any country where people are happy to pay taxes but they do pay taxes because of their tax culture" (Zafar, 2018). However, tax culture encompasses more than the tax mentality, and varies from country to country. The tax culture is more than what is generally meant and demonstrates the embeddedness of different actors in the national culture, of which the tax culture is only a subsidiary part. Actors include taxpayers, politicians, tax officials, experts (such as tax intermediaries) and academics (Nerré, 2001). Tax culture denotes not only the tax system and existing tax practice, but also the relationship between the tax administration and taxpayers (Atuguba, 2006). This relationship builds up a culture of taxation (Chuenjit, 2014) which is based on trust and belief and can be termed a fiduciary one (Ahmed, 2016).

Poor tax compliance reflects a poor tax culture. It is observed that developing countries like Bangladesh face a formidable challenge to improve revenue collection in an efficient, fair and consensual way because of the challenge of a poor tax culture (IMF et al, 2011). Thus, Bangladesh's poor income tax compliance indicates the

country's insufficient tax culture. It is urgent that this culture be improved to achieve sustainable economic and social development in the face of the current global financial crisis. Against this backdrop, tax administrations around the world are persistently creating new techniques to improve tax culture (OECD et al, 2013). The purpose of this article is to argue that poor tax culture in Bangladesh impedes efficient revenue collection in the field of income tax. So a robust, sustainable tax culture must be established to improve tax compliance. The next section provides definitions and the concept of tax culture. Subsequent sections discuss the causes of poor tax culture, and some initiatives of the National Board of Revenue (NBR) to improve tax culture in Bangladesh. Some concluding remarks are offered at the end.

2 Definition of Tax Culture

Defining tax culture seems as difficult as the term culture itself. Culture refers to the beliefs and behaviours of a society (Spencer-Oatey, 2012). British anthropologist Tyler (1870) (cited by Avruch, 1998) defines culture as follows:

'Culture ... is that complex whole which includes knowledge, belief, art, morals, law, custom, and any other capabilities and habits acquired by man as a member of society.' Spencer-Oatey (2008) defines culture in the following style:

Culture is a fuzzy set of basic assumptions and values, orientations to life, beliefs, policies, procedures and behavioural conventions that are shared by a group of people, and that influence (but do not determine) each member's behaviour and his/her interpretations of the 'meaning' of other people's behaviour.'

Research on tax culture is going for the last 70 years although in a very sparse way. Tax culture is country-specific and it is not very easy to define. It is not something to be understood within a span of one or two years. Tax culture is a concept which is to be understood from national context. Every nation in the world is different and every nation has nation-specific tax culture. It is a phenomenon (Sinkuniene, 2005) that involves citizens' perception about paying taxes and the tax administration in a country. Schumpeterian view point is that "Tax Culture is an expression of human spirituality and creativity". Pausch (1992) understands tax culture of a country as being connected with personalities determining the evolution of the tax system. According Nerre (2001), the topic of tax culture appears precisely at the intersection of economics, sociology and history. Nerre (2001) states, 'Recently, the importance of tax cultural considerations has become more obvious, since the necessary reform measures to the tax systems of transformation economies partly have failed due to their tax-cultural incompatibility.' The concept of tax does burgeon in the perception of the society and it is embedded or deep rooted in the very artery of society. Long ago Schumpeter (1929) shed light on the concept of tax culture when he compared taxation with art. Schumpeter (1929) narrated, "Like any social institution every tax outlives the era of its economic and psychological appropriateness. But as with all other social institutions anything nonconformist in the tax system does not live eternally. Slowly the tide of evolution wears it away." Schumpeter's analogy of tax culture with art centres on the creators of the taxation system (Nerre, 2001). Spitaler (1954) also took the same approach as did Schumpeter. Nerre (2001) states, 'Important for a comprehensive definition of tax culture, though, appears Spitaler's insight that taxation is influenced by economic, social, cultural, historical, geographical, psychological and further differences prevailing in the individual countries and their societies.'

Tax culture is sometimes explicated exclusively from taxpayers' compliance perspective i.e., voluntary compliance with the tax statutes. It is sometimes associated with the willingness of the citizens to pay tax (Berger, 1998) and tax consciousness of the taxpayers (Tanzi & Tsibouris, 2000). Vazquez & McNab (2000) on the other hand argues that tax reform should take into consideration tax culture. Nerre (2001) defines tax culture as follows:

A country-specific tax culture is the entirety of all relevant formal and informal institutions connected with the national tax system and its practical execution, which are historically embedded within the country's culture, including the dependencies and ties caused by their ongoing interaction.

However, tax culture seems to be learned, not inherited like general culture. It is gathered from the environments and the pattern of peer behaviour and response to tax compliance. Whether it is genetic or not can be a good topic of tax research. In Bangladesh tax culture is seen as the regular payment of tax. This becomes evident when the Prime Minister of Bangladesh Sheikh Hasina, on the eve of the national taxday in 2010, called the people of Bangladesh to develop a tax culture by paying taxes regularly, which is a prerequisite for economic and social development (The Daily Star, 2010).

3 Causes of Poor Tax Culture in Bangladesh

The phenomenon of tax culture including the concept of tax itself has not yet been substantially explored in Bangladesh tax research. However, insights are revealed when one looks at the compliance rate and number of tax payers in Bangladesh. At present, 3.7 million people hold Taxpayer's Identification Numbers (TIN) and of them, 1.6-1.7 million submit tax returns. It is estimated that there are at least, eight million taxable people in the country (Dhaka Tribune, 2017). Neighbouring country India has 95 million taxpayers (Mishra & Prasad, 2018). Tax ratio to Gross Domestic Product (GDP) in Bangladesh is 8.5% which is one of the lowest in the region. Informal economy is very strong in the country. Ministry of Finance, Government of Bangladesh, in a report in 2011 indicates that 45 per cent to 81 per cent GDP of Bangladesh belongs to the underground economy. Informal economy as per cent of GDP in developing countries is in the range of 44-50 per cent in comparison to 14-16 per cent in the OECD countries (Rahman, 2015). The statistics provided represent the lack of taxpaying culture in Bangladesh. The root causes of poor tax culture in Bangladesh are manifold. The causes are discussed below:

- (a) *Lack of Patriotism*: Patriotism is the quality which generates coherence and holds a nation together as it did in Bangladesh in 1971. It is one of the most powerful and deepest human drives (McAdoo, 1931). Patriotism is different from nationalism. It can be labelled as a strong devotion to one's country (Geys & Konrad, 2016). Evidence is there that patriotism increased voluntary compliance during the time of war. Konrad and Qari (2009) state, '... we assume that tax payments generate a patriotic "warm glow", and a higher warm glow for more patriotic persons'. Despite scant research in the field, it can be said that patriotism encourages voluntary compliance and building a strong tax culture in a given society. People of Bangladesh seem to be lacking in patriotism (Rahman, 2015).

The poor compliance statistics as discussed earlier speaks for the lack of patriotism of the taxpayers of Bangladesh. This in turn negatively affects the tax culture in Bangladesh.

- (b) *Lack of Knowledge:* Taxpayer's lack of tax knowledge contributes to non-compliance. Studies suggest that one possible means of ensuring tax compliance is to enhance taxpayers' tax knowledge (Loo, 2006). Researchers suggest that tax knowledge is *sine qua non* to augment voluntary compliance by the taxpayers (Kasipillai, 2000; Saad, Mansor & Ibrahim, 2003; Kasipillai & Jabbar, 2003). Empirical studies were undertaken in Malaysia, Australia, and New Zealand. In Australia it was found through research that small business taxpayers even do not have primary knowledge regarding their tax liability which in turn might lead to noncompliance (McKerchar, 1995). Such evidence was also found among individual taxpayers in Malaysia who unintentionally committed mistakes in their tax return forms (Loo, McKerchar, & Hansford, 2008). Taxpayers' knowledge is augmented by proper tax education. Taxpayers' education level is a vital factor that influences taxpayers' compliance level specially knowledge in terms of tax legislations Eriksen & Fallan, 1996; Engida & Baisa, 2014). In Bangladesh, taxpayers lack tax knowledge for various reasons. For example, the complexities of tax statutes discourage taxpayers to gather tax knowledge. There is a lack of publicity of tax obligations and tax regulations on the part of the tax authorities. Tax education is not the part of education curriculum in the school and college levels. Outreach tax education system is not yet at the satisfactory level. As a result, taxpayers in Bangladesh cannot get proper tax knowledge which in turn impedes the increase of tax culture in the country.
- (c) *Tax Law Complexities:* Tax law complexities and inadequacies provide opportunities for tax evasion by discouraging honest taxpayers to be noncompliant and encouraging dishonest taxpayers to create ways to evade taxes (FTB, 2006) bypassing laws with the help of tax advisers and big law firms (Braithwaite & Braithwaite, 2001). This negatively impacts tax culture. The present tax statute of Bangladesh is complex and full of rebates and exemptions (Waresi, 2012). A tax statute is complex if, under the law, compliance becomes difficult, requires a significant amount of money, and is not easy to comprehend by taxpayers (Hussain, 2003). Hussain (2003) and Akhand (2012) state that the income tax law of Bangladesh is complex. This is demonstrated by the *Income Tax Manual*, which is divided into two parts, with Part I alone containing 187 sections and eight schedules. These sections are again divided into numerous subsections, while the schedules are divided into several parts. In addition, every year, the parliament passes finance acts that cause various changes in the income tax law. To apply these finance acts, the NBR issues circulars, statutory rules and orders, and various clarifications. This frequent change to the law is another major cause of complexity. The income tax law also depends on various other laws of the land for proper implementation; thus, the income tax laws of Bangladesh are complex and exacerbate the problem of noncompliance.
- (d) *Narrow Tax Base:* Narrow base (Mondal, 2010) both in terms of income and population is the primary cause of unsatisfactory revenue collection. This is particularly true in case of direct taxes in Bangladesh. This narrow base impedes tax culture. McCarten (2005) finds that, in direct taxes, agricultural land is not a buoyant source of revenue. Begum (2007) shows that a significant number of tax expenditure measures exist for both direct and indirect taxes, which adversely affects overall revenue. It is also argued that the large number of tax exemptions, incentives and special provisions erode the tax base, thereby causing the existing tax base to narrow (Haider, 2013). Thus, Bangladesh needs to explore how the tax base can be broadened, and how people in the informal sector can be brought into the tax base.
- (e) *Presence of Corruption:* Corruption reigns in almost all revenue departments of developing countries (Howard, 2001), and corruption causes tax evasion (Tanzi & Davoodi, 2000). Likewise, in Bangladesh, corruption in the tax department is a cause of tax evasion. Tax administration in Bangladesh is perceived as corrupt (Hassan & William, 2016). Survey evidence supports this, with more than 50 per cent of surveyed taxpayers stating that they had been asked by tax officers to pay bribes. In addition, 58.5 per cent of the survey respondents believed that corruption in the tax department is a cause of tax evasion (RIRA, 2003). A third-party information system can be used to reduce corruption. Through third-party reporting, the Income Tax Department of Bangladesh (ITDB) will receive data that will be permanently stored in the data bank. These data cannot be destroyed or hidden, and can be accessed at any time, even if it is possible for the time being to suppress it by giving bribe to the officials. As a result, taxpayers will not be interested in corruption, which will reduce the opportunity for tax officers to indulge in corrupt practices.
- (f) *Nepotism and Personal Relationship among Taxpayers and Tax Officials:* The issue of nepotism

and personal relationship is hardly discussed in the field of tax compliance research. This phenomenon goes unnoticed in tax research. Anecdotal evidences are not uncommon in the Bangladesh tax administration which transpire that relatives and friends of tax officials do not pay tax or pay less. This relationship with the tax officials negatively affects tax culture in the country. Tax officials' low professional ethics causes corruption among tax officials (Pashev, 1995). This low ethics might be one of the factors that contributes to the cause of low tax morale and poor tax culture through nepotism and personal relationship between the taxpayers and the tax officials.

- (g) *Poor Enforcement Initiative:* In Bangladesh, enforcement mechanisms to collect tax and ensure compliance are very weak (Hassan & William, 2016). The income tax department of Bangladesh is characterised by the traditional system of subjective selection and intuitive enforcement, with no measurement criteria for success (NBR, 2012). The causes of this poor state of enforcement include corruption, lack of departmental shelters and political interference. For example, there is a recent trend to politicise the ITDB. Officers that support the political ideologies of the government receive good positions and are rewarded, while the opposite occurs for those with opposing political ideologies. As a result, officers who are politically suppressed are not encouraged to work properly for the government, which hampers the operation of a smooth and efficient tax administration. Politicisation of the administration is not a new phenomenon internationally, but is having severe effects in Bangladesh (Jahan, 2006).

The enforcement measures followed by the National Board of Revenue (NBR) for income tax include imposing penalties by tax officers under the tax law, freezing bank accounts, seizing bank transactions, criminal prosecution and raising risk points. However, as aforementioned, to improve enforcement activities, the NBR established the Central Intelligence Cell (CIC) in 2004. Since its establishment, the CIC has dealt with 1,750 evasion cases and prosecuted 100 taxpayers for tax-related offences (Karim, 2013).

- (h) *Taxpayers Perception Regarding Misuse of Tax Money:* Taxpayers' trust on the state is very important to build up tax culture. Though it is established that the relationship between the taxpayers and the state is an adversarial one, it is also much discussed in the recent years that there exists a fiduciary relationship between the taxpayers and the state (Ahmed, 2016). Taxpayers trust government with their tax money. They want to

believe that the government will spend the money appropriately to provide public goods. If they are not sure about the spending nature of the tax money, they are not encouraged to comply. This mistrust is not congenial to the development of a tax culture in society.

- (i) *Lack of Political Will towards Tax Reform:* In a country where the government does not try to promote tax reform targeting improvement of voluntary tax compliance, the citizens may not be concerned about paying taxes. It is argued that the politicians often remain non-committal to implement tax reform because of the fear of losing power (Case for Tax Reform, 2018). Some governments have strong political will towards tax reform like the USA (Cantillon, 2017). Legal changes aiming at ensuring voluntary tax compliance necessitates strong political will. In Bangladesh, like other developing countries, is might sometimes be frustrating that tax reform that would ensure taxpayers compliance is being discouraged particularly for political reasons. That is the stern reality that speaks for the poor tax culture in developing countries like Bangladesh.
- (j) *Lack of Appropriate Database to tap Tax Evasion and Non-Compliant Taxpayers:* In Bangladesh the ITDB is yet to leverage the use of Information and Communication Technology (ICT) effectively to address non-filing, under-reporting income, and areas such as crime and fraud that generate black money, which in many cases escapes taxation. Although the NBR started modernizing tax administration and there has been noticeable development in the field of ICT, still the use of ICT to tap tax evasion in Bangladesh has a long way to go. To effectively utilize ICT, NBR must ensure that there is standardization across all government Ministries, Departments and Agencies in terms of data capture, reporting, and record keeping. The data from different government and non-government agencies and departments like Bangladesh Bank, private commercial banks, should be interlinked so that if all the data is collected into one repository, it can clearly be segregated on the basis of taxpayer entity.

4 Initiatives of the NBR to Improve Tax Culture in Bangladesh

- (a) *Taxpayers' Education Program:* The National Board of Revenue (NBR) in Bangladesh is the apex body in charge of direct tax administration. This organisation understands the importance of taxpayer education in enhancing compliance. Thus, to improve this, the NBR has undertaken some important

and innovative taxpayer education programs. These programs are gradually being implemented by the NBR to create awareness about tax legislations and procedures, improve voluntary compliance, educate tax officers to perform their duties efficiently, help taxpayers prepare returns and pay taxes, educate taxpayers why they should pay taxes, and increase taxpayers' literacy (Karim, 2013).

Despite the apparent success of these initiatives, the overall tax compliance rate remains very low in Bangladesh. In 2013, less than one per cent of people paid tax in Bangladesh, the informal economy was growing and tax evasion was rampant. Thus, the steps taken by the NBR to educate people about their taxpaying obligations are insufficient to create awareness. This is evidenced by the NBR admitting that taxpayers in Bangladesh are unaware of their obligations to pay tax and the outcomes of doing so. Taxpayers are habitual defaulters and are inclined to disobey tax laws (Karim, 2011).

- (b) *Organizing Regular Income Tax Fair*: To encourage taxpayers' voluntary compliance, from 2010, the ITDB has held an annual income tax fair. At this fair, taxpayers can submit their return and pay their tax easily and without harassment. The income tax fair is considered successful to improve compliance (Mustafa, 2013), and taxpayers' reactions have been very positive. The tax fair is a regular event and is observed with festivities. Day long services are provided to the taxpayers and income tax returns are accepted without asking any questions. The fair is expected to improve the tax culture in the country.
- (c) *National Income Tax Day*: One important innovative step the NBR has taken is observing a National Income Tax Day on November 30. Every year since 2008, the NBR observes this day to motivate the people of the country to pay taxes. On that day, the income tax department holds rallies, seminars and workshops; displays banners and posters; distributes leaflets; holds discussions and conferences; and presents awards to the highest taxpayers. Special programs are broadcast on radio and television to help build tax awareness among the people. In 2013, the slogan of the income tax day was 'Boost income tax, bring prosperity to the nation and the people' (BSS, 2013).
- (d) *Taxpayers Recognition Program*: Under the Taxpayer Recognition Policy (introduced in 2008), the three highest- and two longest-paying income taxpayers from each of the 64 districts and six city corporations are given social recognition (certificates and crests) at a state function. In addition, under the National Tax Card Policy (introduced in 2010), the 10 highest personal and 10 highest corpo-

rate income taxpayers are accorded Commercially Important Person (CIP) status every year. Due to the innovative measures of the NBR in recent years, it is claimed that two to five million taxpayers every year are brought into the tax net. These measures have also improved the image of the income tax department in the eyes of the media and taxpayers, which has had a positive effect on taxpayers' compliance (OECD et al, 2013).

- (e) *Introduction of Bengali Halkhata to Collect Arrear Income Tax*: *Halkhata* is a Bengali program observed on the first of Baishakh, the Bengali month by the businessmen to collect their arrear. The day is observed with festivity and clients are treated with sweets and flowers. Like this culture the income tax department started organising *halkhata* to encourage taxpayers to pay their arrear tax. The program began in 2016 and is unique in the world so far. The program is expected to improve tax culture in the country.

5 Conclusion

An effective and efficient tax administration is *sine qua non* for sustained economic growth of Bangladesh. But tax compliance remains a challenge for the income tax department of Bangladesh. To improve voluntary compliance it is imperative that a strong tax culture be established in the country. It is observed in the present article, Bangladesh has a poor tax culture for reasons stated above. A robust tax culture necessitates the state to honour the basic tenets of the state-taxpayer fiduciary relationship. With the tax money the government should efficiently provide public goods to influence taxpayers' compliance behaviour. As tax culture is not inherited, rather it is acquired, the government should consistently try to establish a tax-friendly environment. The causes of poor tax culture have been identified, hence attempts should be made to address the problems. It is true that there is no silver bullet solution to the problem. But it is time that people form a positive perception about tax administration and public spending of tax money. It is also observed that the NBR recently did take some remarkable steps to improve the state of tax culture. But more is to be done, the sooner the better.

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