# Modernizing Tax Administration in Emerging Economies: Structural Impediments and Policy Imperatives in Bangladesh

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## ABSTRACT

Despite ranking as one of the fastest-growing economies globally, Bangladesh presents a striking fiscal paradox: sustained GDP growth coupled with a chronically stagnant tax-to-GDP ratio. This paper analyzes the structural, administrative, and behavioral impediments to optimal tax collection within the framework of the National Board of Revenue (NBR). By examining a decade of fiscal policy, this study highlights how an over-reliance on discretionary tax incentives, a lack of comprehensive digitalization, and compromised audit independence have severely eroded the tax base and hindered tax elasticity. The findings suggest that transitioning from a concessionary fiscal model to a modernized, compliance-driven framework is imperative. Recommended policy shifts include mandatory e-filing ecosystems, risk-based auditing, and stringent regulatory oversight of tax practitioners to align Bangladesh's tax administration with international best practices.

**Keywords:** Tax Administration, Tax-to-GDP Ratio, Fiscal Policy, Base Erosion, Tax Compliance, National Board of Revenue (NBR), Emerging Economies.

## INTRODUCTION

### The Paradox of Growth and Inelastic Tax Yields

In the transition from a lower-middle-income to a developing nation, domestic resource mobilization is the cornerstone of sustainable fiscal health. Bangladesh has achieved remarkable macroeconomic milestones, yet its tax administration struggles to capture the expanding economic base. The country's tax-to-GDP ratio—hovering well below the average for South Asian nations and OECD benchmarks—indicates a system suffering from low tax buoyancy and high compliance costs.

This paper critically evaluates the operational performance of the National Board of Revenue (NBR) and the broader tax policy environment in Bangladesh. It identifies the root causes of revenue leakage and outlines urgent policy recalibrations required to build a resilient, modern tax infrastructure.

### Fiscal Policy and the Erosion of the Tax Base

Historically, Bangladesh's fiscal strategy has prioritized economic stimulation through aggressive tax concessions rather than broadening the tax base.

- **Overutilization of Tax Holidays:** To attract Foreign Direct Investment (FDI) and stimulate local manufacturing, successive policies have institutionalized extensive tax holidays and reduced corporate rates (dropping from 45% in the 1980s to the current 30-40% range).
- **Threshold Creep and Exemptions:** Continuous upward revisions to the personal income tax exemption thresholds, combined with unchecked discretionary powers granted to tax authorities, have effectively narrowed the net of eligible taxpayers.

- **Resultant Base Erosion:** While these policies catalyzed industrial growth, the lack of sunset clauses and poor post-incentive tracking failed to yield the expected "trickle-down" revenue, severely eroding the fundamental tax base.

**Structural and Administrative Bottlenecks**

The NBR faces significant operational challenges that inflate the cost of compliance and facilitate systemic inefficiencies:

- **The Digital Deficit:** The reluctance to fully transition from paper-based, traditional return filing to integrated digital platforms remains a primary bottleneck. The lack of cross-matching data through automated IT systems limits the NBR's ability to verify declarations against third-party financial data.
- **Procedural Complexity and Administrative Errors:** Convoluted tax codes and frequent manual interventions lead to a high volume of administrative errors. These errors inevitably result in protracted legal disputes, locking potential revenue in appellate tribunals for years.
- **Absence of Risk-Based Auditing:** The current audit selection process lacks sophisticated data-mining and risk-assessment engines, resulting in resource misallocation where compliant taxpayers are burdened while high-risk evaders remain unchecked.

**Behavioral Factors and Governance Challenges**

Beyond structural flaws, human elements significantly dictate tax collection performance in Bangladesh:

- **Taxpayer Morale and Evasion Culture:** A pervasive lack of trust in public expenditure, coupled with the perceived ease of evasion, diminishes voluntary compliance.
- **The Role of Tax Intermediaries:** Tax practitioners and agents frequently operate in a gray area, sometimes facilitating aggressive tax avoidance or outright evasion rather than acting as compliance partners.
- **Audit Independence and Corporate Manipulation:** The integrity of corporate tax returns is frequently compromised by a lack of true independence among statutory auditors. When financial statements are manipulated without regulatory consequence, corporate tax yields suffer directly. Furthermore, political influence often shields specific sectors from rigorous tax scrutiny.

**Strategic Policy Imperatives**

To rectify these systemic failures, a paradigm shift is required within the NBR and the Ministry of Finance. We propose the following targeted reforms:

- **Comprehensive Digital Integration:** Mandate end-to-end digitalization. This includes the expansion of e-TIN (Taxpayer Identification Number) requirements for all civic services, mandatory e-filing for corporate and high-net-worth individuals, and the deployment of AI-driven data cross-matching to detect underreporting.

- **Implementation of Risk-Based Audits:** Shift from arbitrary audit selection to an automated, risk-based engine. This minimizes human interaction, thereby reducing opportunities for rent-seeking and corruption among tax officials.

- **Rationalization of Tax Expenditures:** Conduct a rigorous cost-benefit analysis of all existing tax holidays and incentives. Implement strict sunset clauses and transition toward investment-linked deductions (e.g., accelerated depreciation) rather than outright profit exemptions.

- **Strengthening International Tax Frameworks:** As Bangladesh integrates further into the global economy, the NBR must build capacity to tackle complex international tax issues, specifically transfer pricing manipulations by Multinational Corporations (MNCs) and the taxation of the digital economy.

- **Regulatory Oversight of Intermediaries:** Establish a strict, enforceable code of ethics for tax practitioners and auditors, backed by severe penalties—including license revocation—for facilitating tax fraud.

## CONCLUSION

For Bangladesh to finance its ambitious infrastructural and social development goals, its tax administration must evolve from an outdated, concession-heavy model to a modernized, data-driven institution. The current tax collection performance is not merely a symptom of administrative under-resourcing, but of structural obsolescence. By embracing digital ecosystems, ensuring absolute transparency in audits, and phasing out inefficient tax expenditures, Bangladesh can fundamentally restructure its fiscal landscape. These necessary policy changes will ensure an elastic tax system capable of capturing the true wealth generated by its booming economy.

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