

Event Report on

Tax Reform in Bangladesh: Opportunities and Priorities

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1.0 Background

Bangladesh's tax system presents an opportunity for reform, with potential for improved revenue collection, equity, and efficiency through a broader tax base and better enforcement. The taxation system in Bangladesh is characterized by a narrow base and numerous exemptions, necessitating urgent reforms to improve revenue collection. The country's total revenue as a share of GDP stands at a low 8.09%, one of the lowest in the world, which is significantly below its peers.¹ This limited revenue base hampers the government's ability to make critical public investments, particularly in sectors like energy, transportation, and human capital development. Additionally, a substantial portion of the country's revenue comes from indirect taxes, such as VAT and import duties, which disproportionately affect lower-income citizens. Meanwhile, higher-income individuals often evade taxes, exacerbating inequality within the system and highlighting the need for tax reform to enhance efficiency and equity.

Taxation, along with factors like market size and stability, plays a key role in attracting FDI and expand business opportunities, which can drive economic growth, competitiveness, and job creation. Taxation plays a critical role in attracting Foreign Direct Investment (FDI), as favorable tax rates and targeted incentives help draw investments, while high taxes and complicated systems can have the opposite effect. However, the relationship between FDI and tax rates is multifaceted, influenced not only by taxes but also by other factors like market size, political stability, infrastructure, human capital, and regulatory conditions. A comprehensive approach to improving the business environment is essential for fostering FDI, which can contribute significantly to economic growth. The influx of FDI has the potential to boost competitiveness, drive technological advancements, and create jobs, ultimately benefiting the country's economy.

Bangladesh's tax system faces challenges that require urgent reforms to boost revenue. Bangladesh faces several challenges in mobilizing revenue through its tax system, including a limited revenue base, complex administration, and a system that fails to meet GDP expectations. Compliance with tax regulations is also burdensome, with businesses encountering significant hurdles in claiming input tax credits. These credits can only be claimed under specific conditions, such as when transactions are taxable at the standard VAT rate, and businesses must follow strict procedural rules for documentation. Despite various government initiatives to address these challenges, many issues remain unresolved, underscoring the urgent need for reforms to simplify the tax system and increase revenue generation.

Bangladesh struggles with low tax revenue and a small government sector. In recent years, Bangladesh has struggled to meet its expected revenue targets, with actual revenue collection consistently falling short of projections. The government's sector, accounting for only 13% to 14% of GDP, is one of the smallest globally, significantly limiting its budgetary allocations and public expenditures.² As a result, the country often experiences a budget deficit, which worsens socio-economic inequality. FDI has been a key driver in sectors such as Ready-Made Garments (RMG), Telecommunications, and Energy, bringing in record inflows and contributing to growth in technology, skill development, and infrastructure. However, low tax revenue and complex tax systems continue to pose significant challenges for sustainable economic development.

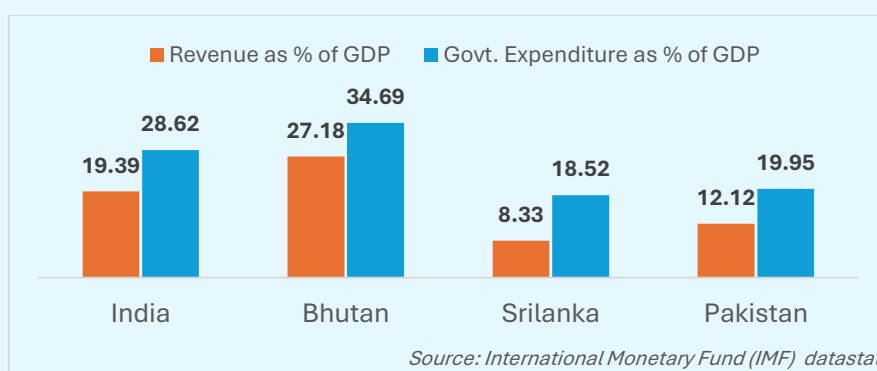
¹ Bangladesh's Domestic Resource Mobilization: Imperatives and A Roadmap

² Bangladesh's Domestic Resource Mobilization: Imperatives and A Roadmap

1.1 Strengthening the Economy: The Influence of Domestic Revenue Mobilization Process for Sustainable Development

Domestic resource mobilization is essential for sustaining budget expenditures, fostering national ownership, and reducing reliance on external aid. However, Bangladesh faces significant challenges in this area, as reflected in its growing dependence on foreign assistance for development projects. Although modern tax systems aim to maximize revenue while minimizing the burden on taxpayers, Bangladesh's heavy reliance on indirect taxes places an unequal strain on its citizens. This burden is exacerbated by the large segment of the population classified as "hard to tax" and widespread tax evasion among larger corporations. As a result, Bangladesh's low tax-to-GDP ratio limits resource allocation across various sectors, affecting critical areas—evident in 2020 when the country spent only 0.5 percent of its GDP on public health and less than two percent on public education.³

Figure 1 Comparative Analysis with Neighboring Countries in 2022



A comparison with neighboring countries highlights significant differences in revenue and government expenditure as a share of GDP. India reports 19.39% in revenue and 28.62% in government spending, Bhutan 27.18% and 34.69%, Sri Lanka 8.33% and 18.52%, and Pakistan 12.2% and 19.95%. In contrast, Bangladesh allocated just over 13% of its GDP to government spending in 2022, with revenue accounting for only 8.9% of GDP⁴. The country's upcoming dual graduation—LDC graduation in November 2026 and its middle-income status achieved in 2015—introduces new challenges. Maintaining LDC graduation will require greater resource allocation to manage new trade regimes, offset preference erosion, and address rising compliance

³ Raihan, S. (2024, February 11). Bangladesh's SDG performance: A changed approach can help us get ahead. *The Daily Star*. <https://www.thedailystar.net/opinion/views/news/bangladeshs-sdg-performance-changed-approach-can-help-us-get-ahead-3540711>

⁴ Government expenditure, percent of GDP % of GDP, International Monetary Fund (IMF) [Public Finances in Modern History - Government expenditure, percent of GDP \(imf.org\)](https://data.imf.org/?ts=CountryList&cs=Public%20Finances%20in%20Modern%20History%20-%20Government%20expenditure,%20percent%20of%20GDP) [Public Finances in Modern History - Government revenue, percent of GDP \(imf.org\)](https://data.imf.org/?ts=CountryList&cs=Public%20Finances%20in%20Modern%20History%20-%20Government%20revenue,%20percent%20of%20GDP)

costs. Without effective revenue mobilization strategies, adjusting the budget to meet these diverse demands becomes increasingly difficult.

1.2 Bottlenecks of the Taxation System of Bangladesh

Bangladesh's tax system is more complex than that of many other countries. A study by the Policy Exchange of Bangladesh highlights that the current tax administration is outdated, inefficient, and prone to corruption. Digitizing the tax system is essential to improve transparency and ease of use. However, businesses encounter challenges due to the perception of tax system complexity. This complexity can deter both domestic and foreign investors, despite the availability of tax incentives for certain projects. Additionally, concerns about an inefficient and bureaucratic tax administration further raise questions about the system's effectiveness and its impact on business operations.

Figure 2 Problems related to the taxation system of Bangladesh



To achieve sustainable revenue streams and effective revenue mobilization, Bangladesh must undertake significant tax reforms and enforce fiscal discipline. A robust fiscal framework is vital for economic growth, yet the current tax structure struggles to generate the desired revenue. This challenge is compounded by ad hoc tax policies that fail to deliver substantial revenue increases. Strengthening the revenue base requires comprehensive tax reforms focused on digitization, simplification, and institutional changes. Additionally, sound fiscal management and efficient funding mechanisms are crucial for maintaining a sustainable budget deficit. Despite its potential, income mobilization through State-Owned Enterprises (SOEs) remains largely untapped, requiring major reforms in pricing and governance.

2.0 Roundtable: Tax Reform in Bangladesh: Opportunities and Priorities

Implementing effective tax reforms can improve revenue collection, ensure greater equity, and foster a more business-friendly environment. Addressing bottlenecks such as outdated policies and procedural complexities will unlock critical fiscal resources for investments in infrastructure, social services, and climate resilience. These reforms align with the government's long-term vision for sustainable growth and poverty reduction.

With increasing global focus on tax transparency and digital transformation, Bangladesh could adopt innovative tax practices that enhance efficiency and inclusivity. Modernizing fiscal policies and integrating digital solutions will not only improve revenue mobilization but also strengthen Bangladesh's position as an attractive destination for both domestic and foreign investment.

The round table discussion, jointly organized by Policy Exchange of Bangladesh and SMAC Advisory Services Limited, will convene policymakers, private sector leaders, and tax experts to explore opportunities and priorities for tax reform in Bangladesh. The event will feature keynote presentations, panel discussions, and open forums to encourage collaboration and knowledge sharing. It aims to identify practical solutions to advance the recommendations of the NBR Reform Committee and establish a robust fiscal framework for Bangladesh's sustainable future.

Table 1: Program Agenda

Sl.	Activity	Speaker(s)	Time Allocation
1	Welcome & Introduction of Participants & Agenda	Mrs. Zareen Mahmud, FCA, Director, SMAC Advisory Services Limited	03-05 minutes
2	Keynote on Proposed Fiscal Policy Reforms	Mr. Masrur Reaz, Founder & Chairman, Policy Exchange of Bangladesh	05-10 minutes
3	Keynote on Proposed Tax Policy Reforms	Mr. Snehasish Barua, FCA, Director, SMAC Advisory Services Limited	20-25 minutes
4	Distinguished Opinion from Panelist 1	Mr. Mir Nasir Hossain, Managing Director, Mir Akhter Hossain Ltd Former FBCCI President	03-05 minutes
5	Distinguished Opinion from Panelist 2	Dr. Muhammad Abdul Majid, Head of Tax Reform Committee, NBR Former Chairman, National Board of Revenue (NBR)	03-05 minutes
6	Moderated Open Discussion	Representatives from Key Stakeholders	10-15 minutes
7	Closing Remarks	Mr. Md Abdur Rahman Khan, FCMA, Chairman, National Board of Revenue (NBR)	20-25 minutes

2.1 Insights from the Keynote Presentation

To enhance the efficiency of tax administration, it is imperative to establish a clear distinction between tax administration and tax policies. This separation would allow for more specialized focus on policy development while ensuring that administrative tasks are streamlined and effective. The modernization of the tax system should also prioritize the adoption of dynamic and effective budget processes, aimed at fostering transparency and accountability in public finance management. Strengthening the revenue management system is crucial to optimize the collection and allocation of resources, particularly by integrating and reforming the VAT departments for both tax and customs duties. These changes will help create a more coherent structure, driving efficiency in revenue generation and enhancing overall compliance.

Furthermore, the modernization of processes through computerization will significantly improve the functionality and reach of the tax system. Expanding the size of the established economy and reassessing the single currency system could provide a stable foundation for sustainable growth. A reassessment of the regulatory framework for tax and excise duties is also necessary to ensure that the system remains competitive and adaptable to global changes. Reducing the rate of the tax burden would help stimulate business activity, while concurrently strengthening the revenue department will ensure that revenue collection remains robust and resilient.

The keynote paper presents eleven tax reform proposals, among which are:



- **Separating tax administration from tax policy** suggests creating a distinct division between the management and implementation of tax policies and the formulation of tax laws to improve efficiency, transparency, and accountability in tax systems.
- **Making the budget process more dynamic and effective** is to reform the budgeting system to make it more responsive to economic changes, enabling quicker adjustments and better resource allocation for national development goals.
- **Automation of tax collection** introducing technology-driven solutions to streamline the tax collection process, ensuring accuracy, reducing human error, and improving the speed and effectiveness of revenue generation.
- **Reducing the size of the informal economy while expanding the formal economy** implementing policies that encourage businesses to move from the informal sector into the formal economy, ensuring better tax compliance and fostering economic growth.
- **Setting a unified VAT rate and reviewing the existing law** proposing the establishment of a single Value Added Tax (VAT) rate to simplify the tax structure, along with a thorough review of current VAT laws to ensure they are fair and effective.
- **Introducing a tier-based import duty structure** would involve creating a system where import duties are categorized based on the type and value of imported goods, promoting fair trade and protecting domestic industries.
- **Establishing a minimum import duty for domestic manufacturers** introducing a minimum import duty to protect local manufacturers from unfair competition, ensuring

a level playing field for domestic industries to thrive while still fostering international trade.

2.2 Key Insights



*Dr. Masrur Reaz,
Chairman & CEO, Policy Exchange
Bangladesh*

There is urgency of advancing fiscal policy reforms to align with Bangladesh’s economic growth trajectory and evolving trade landscape, with a focus on modernizing tax policies, enhancing compliance, and streamlining administrative processes. Data demonstrated that a 1% increase in tax rates leads to a 3.5% decrease in foreign investment, while reducing the tax burden by 20% could increase foreign investment by 14 times, highlighting the critical need for tax reforms to attract foreign capital, encourage investment and boost revenue. Reforms in the tariff and tax sectors are essential for improving economic efficiency and attracting investment. These reforms will help streamline the system, enhance revenue collection, and ensure competitiveness in the global market.



*Snehasish Barua, FCA,
Managing Director, SMAC Advisory
Services Limited*

The proposed tax policy reforms were outlined, with a focus on creating a transparent, equitable, and business-friendly tax environment to attract investment and drive economic resilience. Actionable strategies were presented to foster such a system, including the implementation of a single VAT rate of 10% across the country. It was argued that the current VAT rate of 15% is excessively high for a developing economy like Bangladesh and does not align with the

To boost investment
create a transparent,
equitable tax
environment

Propose a 10% VAT
rate to ease business
burdens

Address tax
contribution
disparities across
market sectors

challenges faced by many businesses in complying with VAT exemptions. Additionally, a significant discrepancy in tax contributions across businesses in specific sectors was highlighted, with companies holding 40% of the market share contributing 70% of the sector's revenue, while those with 60% of the market share contribute only 30%, resulting in a loss of 70-75% of potential revenue for the National Board of Revenue (NBR).

2.3 Remarks from the Discussant



*Shams Mahmud,
Former Director, BGMEA*

Restructuring tax policies in Bangladesh is crucial for ensuring long-term economic stability and enhancing efficiency in the garment sector. Proper utilization of jhoot (cloth scraps) through a circular approach could significantly reduce dependency on imports, potentially saving the country around \$9 billion. However, inconsistencies in taxation create challenges for factory owners, as burning textile scraps remains both cost-effective and tax-free, while selling them incurs VAT, increasing operational costs. This discrepancy discourages sustainable practices and hinders the development of a circular economy. Aligning tax policies to support circularity, reducing financial burdens on businesses, and ensuring tax justice are essential steps toward fostering a more sustainable and resilient economic framework.



*Debabrata Ray Chowdhury,
Head of Legal & Taxation, Nestlé
Bangladesh*

Changes in tax rates led to the cancellation of a planned project, resulting in job losses and revenue reduction. The impact of tax rate fluctuations on investment was highlighted, with an example from 2022 when a \$2.5 million investment was planned based on the prevailing tax rate. However, a subsequent tax rate changes two years later forced the cancellation of further investments. The current tax framework was described as challenging for both local and foreign investment, as well as business operations, due to the lack of continuity. Frequent changes in the duty structure, which initially attract investors, ultimately hinder long-term investment and employment generation. Tax simplification measures are suggested to address these issues.



*Syed Abdul Momen,
Deputy Managing Director & Head of SME,
BRAC Bank*

It has been noted that, in contrast to numerous other nations that extend tax exemptions to foster entrepreneurial growth, Bangladesh does not offer tax holidays or comparable incentives for new business ventures. This absence of fiscal support serves as a deterrent to the establishment of new enterprises, thereby constraining broader economic expansion. Moreover, there have been calls for the enhancement of taxpayer services and the implementation of comprehensive, inclusive reforms to strengthen the development and sustainability of SMEs.



*Mohammad Iqbal Chowdhury,
Chief Executive Officer, Lafarge
Bangladesh*

The role of revenue-related appellate tribunals has undergone a significant shift, moving from a review process to a revenue collection function. This shift has led to growing perceptions of unfairness in tax disputes, as the tribunals are now seen as more focused on collecting revenue rather than impartially reviewing tax cases. Criticism has been directed at the appellate revenue tribunal for transforming into a revenue-collecting body, thus compromising its role as an unbiased adjudicator of tax-related matters. Furthermore, there is a pressing need for quicker and more efficient services from the National Board of Revenue (NBR) to address the backlog and delays in tax disputes. Another critical issue is the prevailing mindset among tax officials, who often assume that businesses are deliberately evading taxes. This assumption needs to be reconsidered to foster a more fair and transparent tax system.



*Alihussain Akberail,
Chairman, BSRM*

To address the issue of unemployment, it was proposed that attracting more foreign direct investment (FDI) could create new job opportunities. Simplifying tax regulations was emphasized as a key factor in improving efficiency and compliance, thereby making the country more appealing to foreign investors. A 10% VAT rate was recommended to the interim government, arguing that a lower VAT would encourage greater tax compliance, ultimately boosting revenue and stimulating economic activity. Concerns were also raised about the cumbersome tax rebate procedures, with businesses reportedly facing harassment from tax officials when applying for rebates. For instance, the company has been unable to claim BDT 4.5 billion in tax rebates over the past seven years, highlighting the challenges businesses face. Streamlining these processes would not only improve the business climate but also attract more foreign investment.



*Kausar Alam, Vice President, Institute of
Cost and Management Accountants of
Bangladesh (ICMAB)*

It is essential to address the existing policy gaps and loopholes within the national tax framework. Furthermore, the modernization of tax administration is necessary to improve the efficiency, transparency, and effectiveness of tax collection. This, in turn, would contribute to the overall economic progress and stability of the nation.



*Zareen Mahmud Hosein, FCA, Director of
SMAC Advisory Services Limited*

The establishment of transparent and predictable tax policies is essential to fostering trust and confidence between the public and private sectors. Such policies are critical for creating a business environment conducive to investment, supporting long-term strategic planning, and ensuring equitable tax practices. This approach promotes fairness and accountability throughout the system.

2.4 Remarks from the Panelists



*Md Abdur Rahman Khan, FCMA, Chairman
of the National Board of Revenue (NBR)
Chief Guest*

The government reiterated its commitment to reforming fiscal policies to support economic development and emphasized the vital role of collaboration between stakeholders in achieving sustainable reform outcomes. It endorsed the implementation of a single VAT rate and supported the reduction of tax exemptions in various sectors. The IMF's recommendation to reduce exemptions to avoid a growing debt burden and ensure long-term fiscal stability was acknowledged. Additionally, the NBR will offer services related to 110 certifications and permissions from 19 authorities in the NSW, and a masterplan to fully automate NBR services is being drafted.

It is also hinted that the interim government may reduce subsidies for different sectors to generate substantial revenue to meet pressing requirements. Moreover, support for a unified VAT rate and saying the business community whether a 10-15% VAT rate would be a major issue, as a 10-15% VAT on value addition would not be excessively high. The government reaffirmed its perspective on tax reforms and the importance of collaboration between stakeholders in achieving sustainable outcomes.

A visiting delegation from the International Monetary Fund (IMF) emphasized the establishment of an "incredible" yet not impossible revenue target, which has placed significant pressure on revenue collection. The IMF further stated that reducing tax exemptions across various sectors is crucial to avoid an increase in the debt burden, which could eventually result in an uncontrollable debt situation.



*Mir Nasir Hossain,
Managing Director, Mir Akhter Hossain
Limited*

The opportunities for leveraging tax reforms to strengthen revenue collection while fostering sustainable economic growth were emphasized, along with concerns regarding the pervasive harassment by tax officers, particularly in the Large Taxpayers Unit (LTU). Many business owners expressed fear of excessive scrutiny and arbitrary withholding taxes, which discourage investment and tax compliance. The potential of tax reforms to boost revenue collection and promote sustainable economic growth was also highlighted. Additionally, it was suggested that fiscal policy be rationalized, with direct tax being the major contributor to total tax.

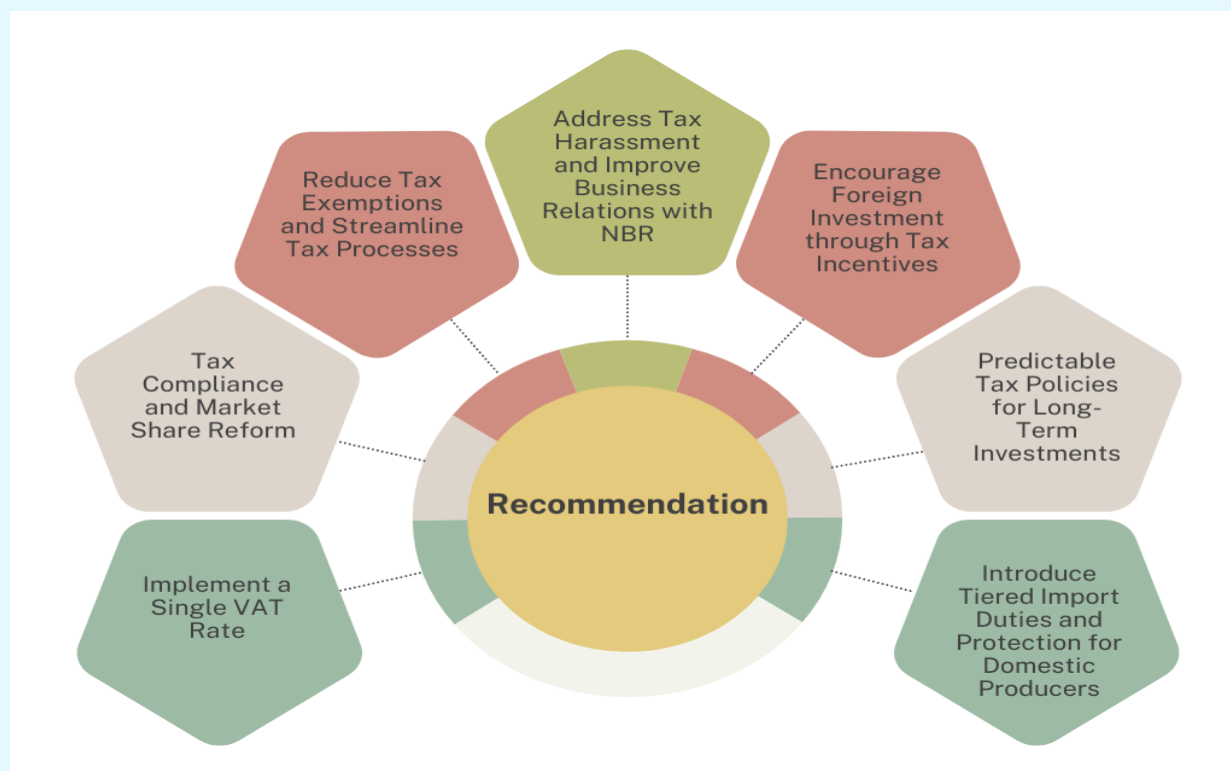


*Mohammad Refayet Ullah Mridha,
President, Economics Reporters Forum*

In Bangladesh, a transparent and predictable tax policy is essential to foster greater trust between the public and private sectors. With clear tax regulations and consistent enforcement, businesses can plan their investments with confidence, while citizens will be more willing to comply, knowing the system is fair and efficient. This trust can also lead to increased foreign direct investment (FDI), essential for economic growth. Furthermore, transparency in how tax revenues are used such as in infrastructure and social services can strengthen public support and promote greater civic engagement.

3.0 Summary of the Roundtable

3.1 Recommendations from the Panelists



- **Implement a Single VAT Rate**
 - Adopt a **uniform VAT rate of 10%** across all sectors to simplify the tax system, reduce evasion, and enhance compliance. This will make the VAT system more transparent and predictable for businesses, encouraging wider participation in the formal economy.
- **Tax Compliance and Market Share Reform**
 - Address the issue of market share discrepancies by revisiting the tax contributions of dominant market players. **Re-evaluate the tax policies** to ensure that businesses pay taxes in proportion to their market share, closing the gap between large and small players, and reducing revenue losses for the NBR.
- **Reduce Tax Exemptions and Streamline Tax Processes**
 - Reduce tax exemptions across various sectors as per IMF's guidelines. Streamline and simplify the **tax exemption process** to ensure that it is not subject to arbitrary interpretation, thus preventing delays in claims and ensuring a level playing field for all businesses.
- **Address Tax Harassment and Improve Business Relations with NBR**
 - Implement a **tax-friendly environment** by training tax officers to adopt a **collaborative approach** with businesses, aiming to reduce harassment and facilitate smoother tax compliance. Review and revise the functioning of the **Large Taxpayers Unit (LTU)** to ensure it operates as a support system rather than an obstacle.
- **Encourage Foreign Investment through Tax Incentives**
 - Reform tax rates and reduce the overall tax burden, especially for foreign investors. **Offer tax incentives** such as **tax holidays** for new entrepreneurs to make Bangladesh an attractive investment destination, particularly in sectors with high job creation potential.

- **Predictable Tax Policies for Long-Term Investments**
 - Ensure **predictable tax policies** that do not change frequently, especially in critical sectors such as manufacturing and services. This will provide businesses with the certainty they need to make long-term investment decisions, fostering economic stability and job creation.
- **Introducing Tiered Import Duties and Protection for Domestic Producers**
 - Introduce **tiered import duties** and establish a **minimum import duty** for domestic producers to protect local businesses and ensure fair competition. This will support the growth of Bangladesh's manufacturing sector while preventing dumping from foreign markets.

4.2 Scope for New Research

- **Identifying Best Practices for Digital Tax Collection:** Investigate successful digital tax collection models in comparable economies to identify best practices. Analyze the monetary impact of digitizing tax systems and evaluate their effectiveness in improving compliance and revenue generation.
- **Reviewing and Assessing Tax Exemptions:** Conduct comprehensive reviews of existing tax exemptions to assess their impact on revenue generation and economic goals. This includes post-implementation evaluations to determine their effectiveness in fostering economic growth and investment.
- **Enhancing Tax System Predictability and Efficiency:** Explore methods to improve the effectiveness and predictability of Bangladesh's tax system. Focus on policy stability, administrative efficiency, and transparent processes to encourage long-term investment and sustainable economic development.
- **Sectoral Analysis of Tax Contributions:** Perform a sector-wise analysis to identify the contribution of various industries to GDP. Identify high-potential sectors that can generate increased revenue and evaluate the effects of tailored tax policies on these sectors.
- **Supporting Domestic Income Mobilization Initiatives:** Analyze strategies to strengthen Bangladesh's domestic income mobilization for sustained growth. Emphasize the role of direct taxation in reducing reliance on indirect taxes, which disproportionately affects vulnerable groups, and assess how increased direct taxation supports fiscal justice and reduces socioeconomic disparities.
- **Promoting Fiscal Responsibility and Transparency:** Study the impact of a well-designed direct taxation system on promoting fiscal responsibility among citizens and businesses.
- **Incentivizing Compliance and Investment:** Explore the potential for tax incentives to encourage new business ventures and foreign direct investment. Evaluate the effectiveness of tax holidays and other incentives in fostering entrepreneurial growth and reducing unemployment.
- **Modernizing Tax Administration:** Investigate approaches to modernizing tax administration to improve service delivery, reduce bureaucratic delays, and increase transparency. This includes evaluating the role of digital platforms in streamlining processes and addressing public concerns about tax compliance and harassment.

4.0 Annex

Pictures from the Event:





The Invitation Card:



Media Coverage:

- <https://www.facebook.com/reel/2855898301244843>
- <https://www.youtube.com/watch?feature=shared&v=UdPI7gSzkqY>
- <https://thefinancialexpress.com.bd/trade/stakeholders-convene-to-discuss-tax-reform-in-bangladesh-opportunities-and-priorities>
- [পলিসি এক্সচেঞ্জের গোলটেবিল সহজ ও স্বচ্ছ কর ব্যবস্থা সরকারের আয় বাড়াবে](#)
- [ভ্যাটহার ১০ শতাংশ নির্ধারণ করা জরুরি](#)