Knowledge, Attitude and Practice of Tax System in Bangladesh: Towards Tax Justice[1]

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Abstract

The baseline survey investigates the opinion of grass-root people about their understanding on knowledge, attitude and practice of tax system of Bangladesh. The general understanding of TAX and VAT is common for people but because of not taking VAT receipt VAT paid by the people might not go to state treasury. Study indicates that government should put high VAT on luxury goods and lower VAT on necessary goods rather than a uniform VAT system. In addition the government also should increase direct tax base so that deadweight loss of the society is reduced.

Key Words: Tax justice, VAT, Direct tax, KAP, Fairness, Equity, Luxury goods

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1.0 Introduction

Taxation plays an important role in shaping the distribution of benefits and thus tax is very important for economic development. So it is imperative to know at how developing countries can both raise more revenue and do so equitably, through better tax systems – indeed through tax justice. Tax justice is about four things above and beyond the duty of the individual to be tax compliant. Tax justice is about understanding why we tax, about defining the attributes of a good tax system, about defining the process that delivers tax justice and finally it is about understanding transparency (Richard Murphy, 2010). Thus to ensure tax justice it is vital to first understand the knowledge, attitude and practice of tax system of a society which is basically the objective of this study.

Bangladesh, as an emerging developing country, is committed to augmenting revenue and achieving fiscal discipline with a view to increasing self-reliance. But the tax-GDP ratio of Bangladesh is one of the lowest among SAARC countries (9.98% in 2011 according to WDI database 2013) and even though there are some improvements, the performance is still unsatisfactory as compared to other countries at the similar stage of economic development. The most important factors behind low domestic resource mobilization in Bangladesh are tax avoidance and tax evasion. Moreover, the collection of tax revenue mainly depends on indirect tax sources rather than direct taxes (See table 1). Tax system in Bangladesh is not pro-poor and tax burden mainly falls on general people. To be specific, the voice from grass root level has never been considered with much importance to reformulate the tax system of Bangladesh. Thus, the aim of this paper is to investigate the understanding of citizens' perception and opinion about tax, tax system and tax justice.

Table 1: Direct vs. Indirect Tax[2]

Fiscal Year	Direct Tax (%of Total Revenue)	Indirect Tax (% of Total Revenue)
2003-04	14.73	62.43
2004-05	14.99	61.94
2005-06	16.82	60.23
2006-07	18.89	58.79
2007-08	19.66	56.85
2008-09	21.53	57.69
2009-10	22.36	57.23
2010-11	24.43	58.39
2011-12	25.05	57.57

2.0 Literature review

Piggott, J., & Whalley, J. (1998) developed a general equilibrium tax model where they evaluate the impacts of equal yield base broadening in indirect taxes from high rate narrow based (typically manufactures) taxes to broad based taxes (including services) such as a VAT. They showed there are welfare benefits from equal yield VAT base broadening breaks down once tax induced increases in self supply of previously non taxed goods and services and in informal sector activity (in small scale construction and other areas) are taken into account. Similarly, Alderman, H., & Del Ninno, C. (1999) in their paper shows the revenue forgone with zero VAT rates on necessary commodities and compare tax relief for the poor and change in nutrients consumed from alternative tax exemptions. Gemmell, N., & Morrissey, O. (2003) also review available evidence on the effects of various taxes on distribution and the poor to address this neglected aspect of reform. They found VAT on exports and goods consumed especially by the poor (e.g. kerosene) are the most consistently found to be regressive, whereas VAT on 'luxury' items such as cars, beverages and alcohol are the most likely to be progressive.

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[2] Source: NBR statistical report.

Narayan, P. K. (2003) in his study uses a computable general equilibrium model to examine the economy wide effects of this VAT policy. He found that while the VAT improves government revenue and brings about a small 0.6% increase in real GDP, it fails to address investment levels. VAT actually leads to a decline in investments and a reduction in real consumption and national welfare.

Roy, R., & Weeks, J. (2004), implied that VAT is not pro-poor. They argued that the virtues of the value added tax (VAT) are greatly exaggerated, and its negative aspects insufficiently appreciated. Developed countries have different issues on VAT. The cases for developed countries are a little bit different though based on circumstances. Sullivan, M. A. (2010) in their study on Canada, argued that the Introduction of VAT in Canada has not led to any burst in overall taxation because VAT is more visible and transparent. The federal revenues as a share of GDP and total (federal and provincial) revenue as a share of GDP have remained fairly steady since the introduction of a VAT in 1991. In a study on Ukraine and Jamaica, Bird, R. M., & Gendron, P. (2006) Concluded that if a developing country needs a general consumption tax then VAT is the one to have in all cases , however this does not imply that the VAT already existed does not necessarily the 'best' VAT for their circumstances.

3.0 Methodology

Primary data have been collected through interviewing randomly selected individuals from selected locations of Bangladesh. Such primary data provided insight on peoples' knowledge, attitude and practice about the tax system of Bangladesh. The study team covered about one-eighth of the SUPRO district committee based districts in Bangladesh (i.e., 6 districts). These 6 districts have been selected randomly using the list of 45 SUPRO district committee based districts. These districts are Barishal, Kustia, Shariatpur, Rajshahi, Rangamati and Habiganj. From each selected districts, 8 village/mahalla (for rural areas respondents have been interviewed in villages and for urban areas in mahalla) have been randomly selected. From each of the selected village/mahalla equal number of respondents has been interviewed using a Structured Interview Schedule. To determine a representative sample size of respondents of the quantitative survey the following formula has been used:

$$n = \frac{Z^2 pqN}{Ne^2 + Z^2 pq} \times deff \times nr$$

Where,

n = Estimated Sample Size of respondents for the quantitative survey

p = Anticipated value (0.50) for maximum sample size

q = 1- p

Z = Standard normal variate value at 95% confidence level

e = Precision level

deff = Design effect

nr = Non-response

N = Total number of eligible respondents in the survey area

Using such formulation with design effect 1.2 and assumed 4 percent non-response rate, the estimated sample size of respondents for the quantitative part of the study is 480. The sample respondents have been equally distributed among the selected districts (i.e. 80 respondents from each of the selected districts). From each of the selected village/mahalla, 10 respondents have been interviewed. The selected respondents have been interviewed randomly from each of the selected village/mahalla using serpentine method.

The structured interview questionnaires consisted of six sections:

1. Socio-Economic Characteristics (gender, age, educational attainment, employment status etc.)

2. General Understanding of Tax (knowledge about basic concept of tax, common practices etc.)

3. Tax Administration (TIN number, e-TIN system, perception of TIN holders about Tax using a five point scale)

4. Tax Payer's Attitude (attitude of all respondents regarding Tax, Tax system, Tax payment etc. using a five point scale)

5. Direct Tax (TIN number holder's attitude, practice, and understanding about Tax, Tax system, Tax payment etc. using a five point scale)

6. Tax Justice and Equity (perception of all respondents regarding Tax justice and equity using a five point scale)

Fieldwork for the survey commenced on September 22. 2013 and was completed on September 25, 2013. Fieldwork was carried out by 6 interviewing teams. In total, 461 respondents have constructed the final sample of this base line survey.

4.0 Results and Discussion

Tax system in Bangladesh is not pro-poor and tax burden mainly falls on general people as we have discussed it earlier. The voice from grass root level has never been considered with much importance to reformulate the tax system of Bangladesh. Therefore, it is important to place greater emphasis on administrative reinvention and policy reform in order to identify and remove the loopholes in the tax system in Bangladesh and make it more pro-poor. Since an effective, justifiable and pro-poor tax system requires deep understanding of opinion of general people, the objective of this study to identify and understand tax payers' perception about the current tax system in Bangladesh.
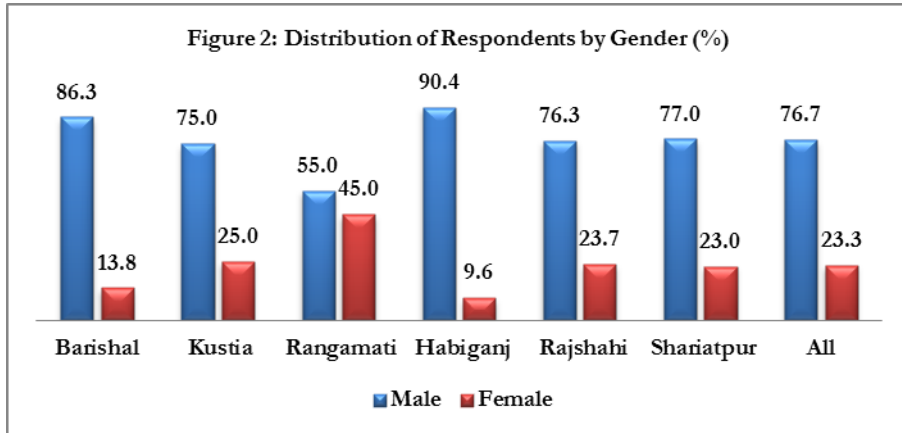
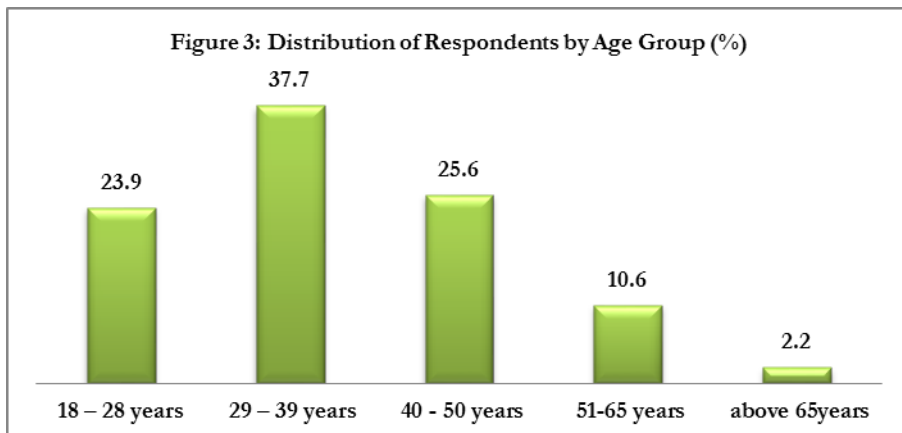## 4.1 Socio-economic profile of the respondents

Residence, Gender and Age

The distribution of the respondent population of this survey according to their location is presented in figure-1. It is found that 76.1% of the total 461 sample population lives in urban area whereas 23.9% people live in rural area.

Figure 1: Distribution of Respondents by Residence (%)
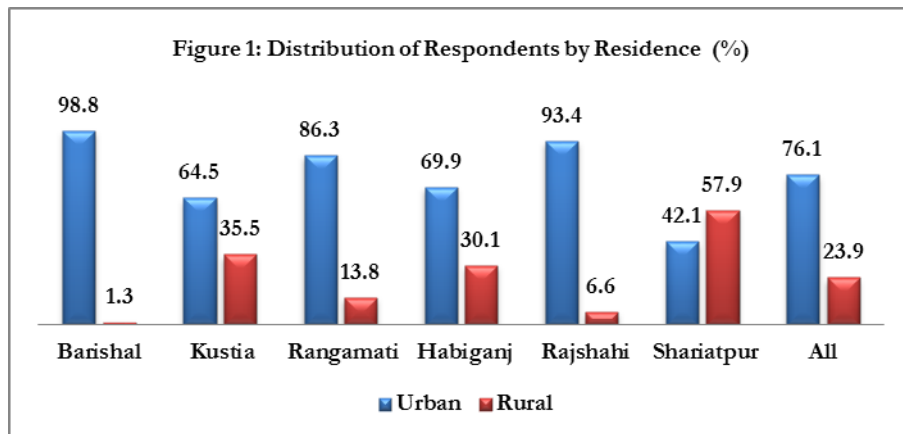
Results of this survey reveal that 76.7% of the respondents are male and 23.3% are female. Figure-2 portrays the distribution of sample individuals of this survey. Analysis of the survey result depicts that the percentage of female respondents is the highest in Rangamati whereas male respondents are the highest in Habiganj.

Figure 2: Distribution of Respondents by Gender (%)

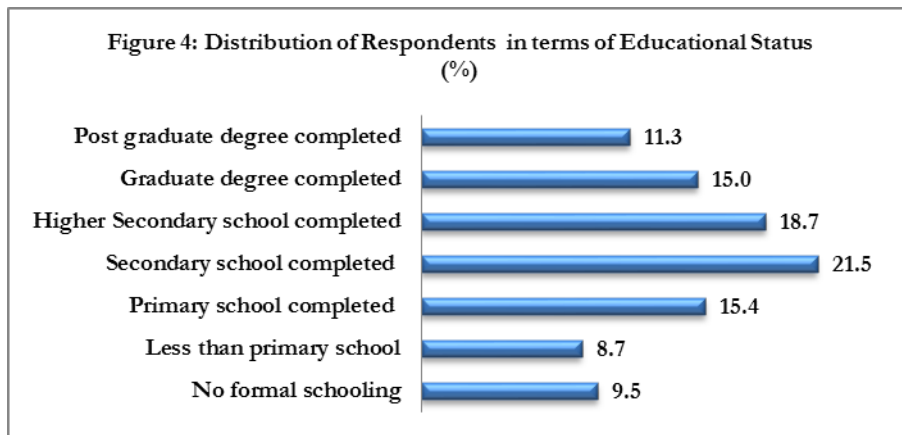|	Barishal	Kustia	Rangamati	Habiganj	Rajshahi	Shariatpur	All
Male	86.3	75.0	55.0	90.4	76.3	77.0	76.7
Female	13.8	25.0	45.0	9.6	23.7	23.0	23.3

Data on age of the sample population has been collected by creating five age groups in this survey which is presented in the figure-3. It is found that 37.7% of the total sample people are in the age group of 29-39 years. Only 2.2% respondents fall in the category of above 65 years. On an average about 60% of the total respondents is young in this survey which is almost similar to the national average.

Figure 3: Distribution of Respondents by Age Group (%)

18 – 28 years	29 – 39 years	40 - 50 years	51-65 years	above 65 years
23.9	37.7	25.6	10.6	2.2

Education

About 10% of the individuals surveyed in this study have no formal education. In addition to this, the percentage of individuals who have not completed primary education is almost 9%. It is found that (figure 4) the percentage of respondents completing higher secondary education is about 19.Moreover,
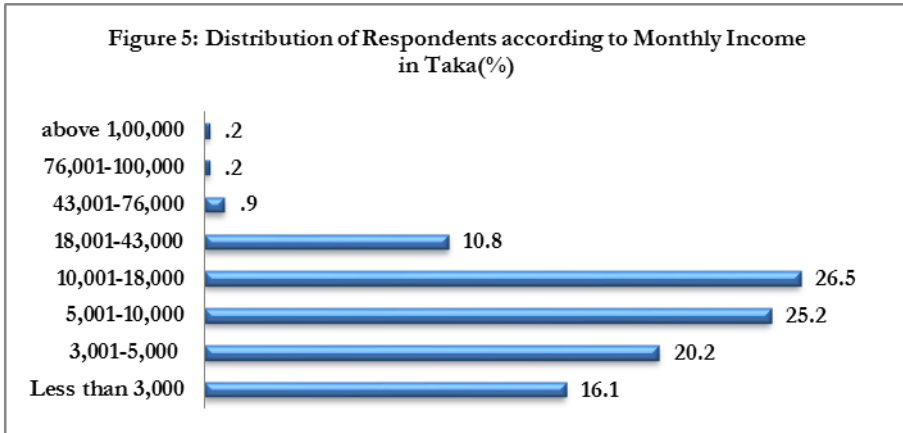
15% and 11.3% of the total people surveyed have completed graduation and post-graduation degree respectively.

Figure 4: Distribution of Respondents in terms of Educational Status (%)

- Post graduate degree completed: 11.3
- Graduate degree completed: 15.0
- Higher Secondary school completed: 18.7
- Secondary school completed: 21.5
- Primary school completed: 15.4
- Less than primary school: 8.7
- No formal schooling: 9.5

Income

The survey has gathered information on individual income by creating income group according to the current eligible income tax brackets in Bangladesh. Individuals earning less than TK. 2,20,000 per year are exempted from paying income tax. Since the study is about tax system analysis, per month income cluster are created in line with income tax brackets in Bangladesh. However, first two categories represent extreme poor and poor individuals in this study. Figure-5 presents the percentage distribution of the respondents in terms their monthly income level. For example, 16.1% of the individuals report that their monthly income is less than TK. 3,000. Again, 26.5% of the total respondents fall in the income group of TK. 10,001- 18,000. According the results of this base line survey, only about 12% of the respondents are eligible for paying income tax at different rates according to their income level.

Figure 5: Distribution of Respondents according to Monthly Income in Taka(%)

above 1,00,000 — .2
76,001-100,000 — .2
43,001-76,000 — .9
18,001-43,000 — 10.8
10,001-18,000 — 26.5
5,001-10,000 — 25.2
3,001-5,000 — 20.2
Less than 3,000 — 16.1

More than half of the population belongs to low-middle and middle income category of the income distribution.

4.2 Respondent knowledge about tax

In this survey, all the respondents answer the question of whether having heard tax before or not. It is obvious from the figure-6.

Figure 6: Respondents having heard of Tax before

13%

87%

■ Have heared of Tax

■ Have not heared of Tax
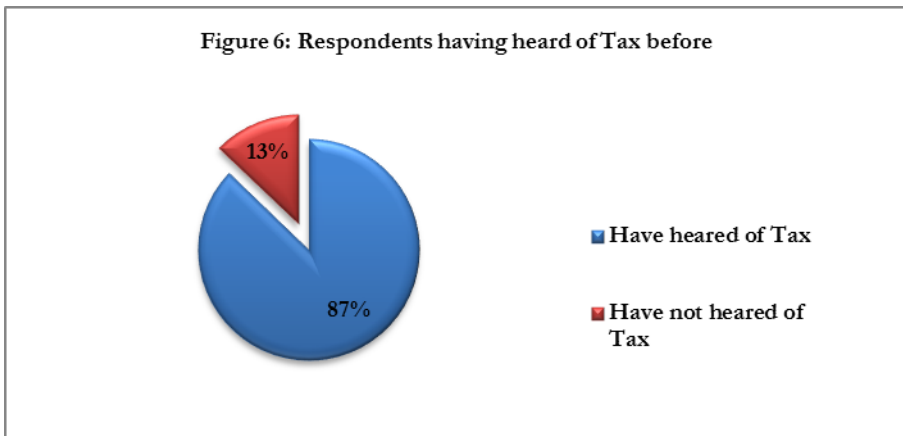
From the figure-6 we can see that 87% of the respondents know about the word tax. About 13% of the total individuals covered in this survey are even unfamiliar with the word tax. It means that 402 individuals out of the total 461 respondents are more or less familiar with the word tax. It is revealed from the analysis that Shariatpur is the district with the lowest (about 64%)

proportion of respondents knowing about tax. Since about 64 percentages of the respondents in this district are from rural area, this finding is not unusual.

4.3 Respondent knowledge about VAT

In order to know the peoples' knowledge about value added tax (VAT), respondents are asked the question of whether having or not having the knowledge of paying VAT while purchasing some common goods and services. Figure-7 presents respondents awareness about paying VAT.


Figure 7: Respondents aware of paying VAT (%)
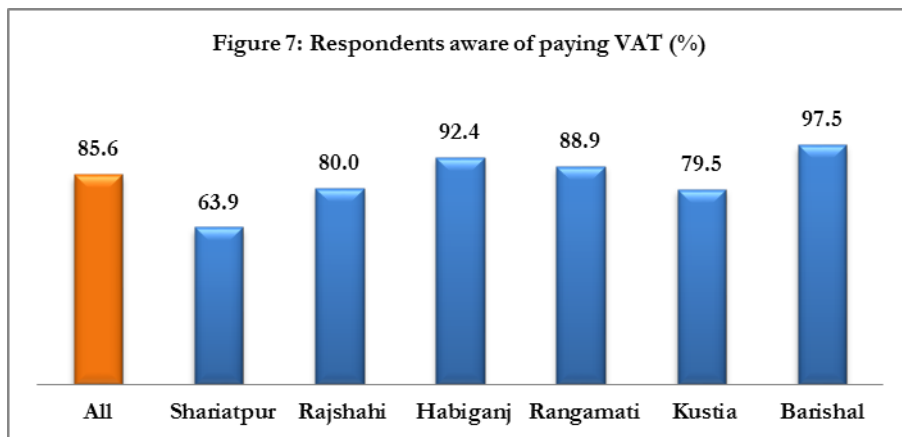
It is found that 85.6% of the respondents know that they pay VAT to the government when they buy goods and service. In other words, out of 402 respondents familiar with tax, 344 respondents are aware of paying vat at the time shopping necessary goods and services. It means that about 86 % of the respondents know that they pay VAT. Barishal has the highest proportion (97.5%) of people who are aware of paying VAT at the time of buying goods and services while the percentage (63.9) is the lowest in case of Shariatpur. So, this result is again confirms that respondents from rural area are less knowledgeable about tax and VAT.

4.4 Awareness about VAT receipt

If any consumer buys goods and services, he or she should receive a VAT receipt from the seller. To know about this fact, respondents are asked about whether or not they receive VAT receipt. The estimate (see figure-8) from the survey reveals that only 14.05% of the surveyed people are aware of VAT

receipt. District wise analysis shows that only 3.3 % respondents from Kustia know this issue of tax while 33.1 % respondents from Habiganj are aware taking of VAT receipt.
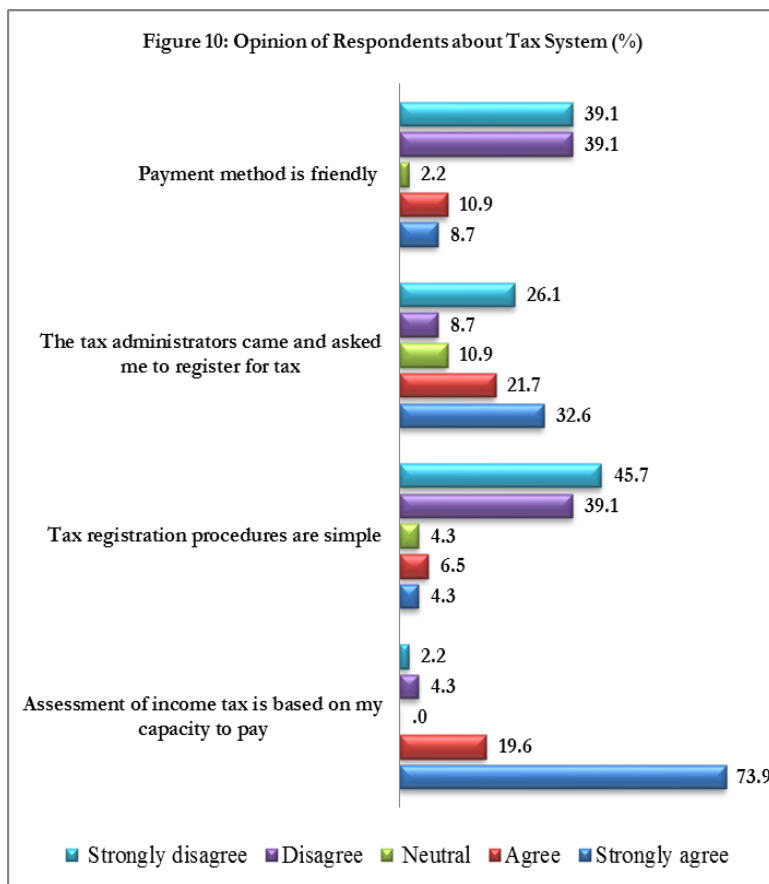

Figure 8:Knowledge about VAT receipt (%)
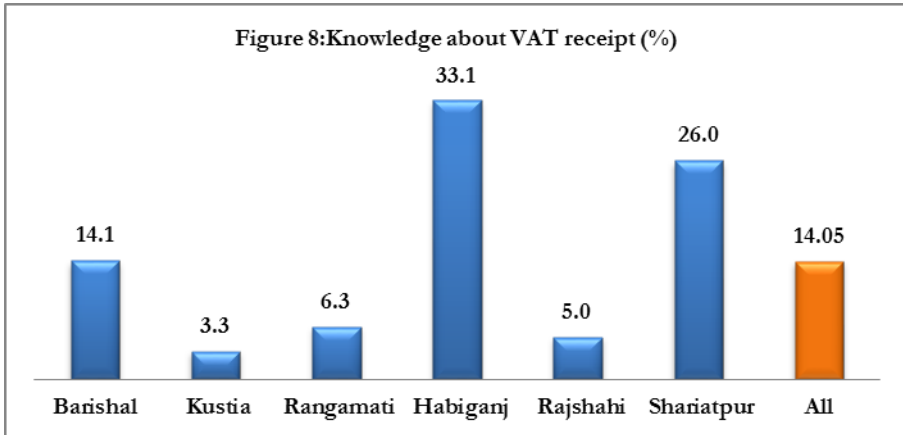
4.5 Opinion about current VAT rate

In this study, respondents are asked to express their opinion about current VAT rate in a four point scale. The findings are presented in figure-9. 43% and 30 % individuals consider current VAT rate   are too high and high respectively. 21% of the survey people think that this rate is fair while 6% regard it as low.


Figure 9: Opinion about Current VAT Rate
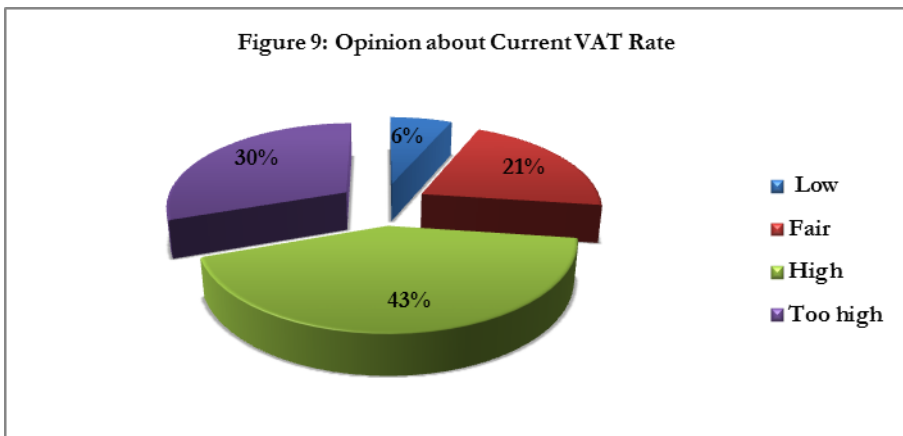
4.6 Tax System Assessment

Information regarding assessment of tax system by general people is very important to make it more effective and people friendly. Data has been collected on different subjects in this purpose. This survey gathered opinion of the general people about tax system. Respondents are asked to give their view on different aspects of tax system such as payment method, tax registration process etc. Figure-10 summarizes findings of respondents' opinion about four important statements on tax system. 78 % of the tax payers express their disagreement on the statement that tax payment is friendly. About 46% of the respondents with TIN strongly oppose the statement of simple tax registration procedure. When people are asked to comment on the assessment of income tax, about 74% strongly agree that income tax is imposed according their own capacity.

Figure 10: Opinion of Respondents about Tax System (%)

Payment method is friendly
- 39.1
- 39.1
- 2.2
- 10.9
- 8.7

The tax administrators came and asked me to register for tax
- 26.1
- 8.7
- 10.9
- 21.7
- 32.6

Tax registration procedures are simple
- 45.7
- 39.1
- 4.3
- 6.5
- 4.3

Assessment of income tax is based on my capacity to pay
- 2.2
- 4.3
- .0
- 19.6
- 73.9

■ Strongly disagree ■ Disagree ■ Neutral ■ Agree ■ Strongly agree

4.7 Perception about Direct Tax

This survey also collects opinion about direct tax from the sample individuals. Direct tax payers are asked to reveal their view about different aspects. For example, 32.6% and 34.8% respectively strongly disagree and disagree regarding the statement that the tax system is easy to understand (figure-11). Again 87% of the individuals paying direct taxes strongly agree that everyone should comply with the tax rules. People give mix of opinion about bribing tax officials even paying the right amount of tax.

Figure 11: Tax Payers' Opinion about Direct Tax (%)
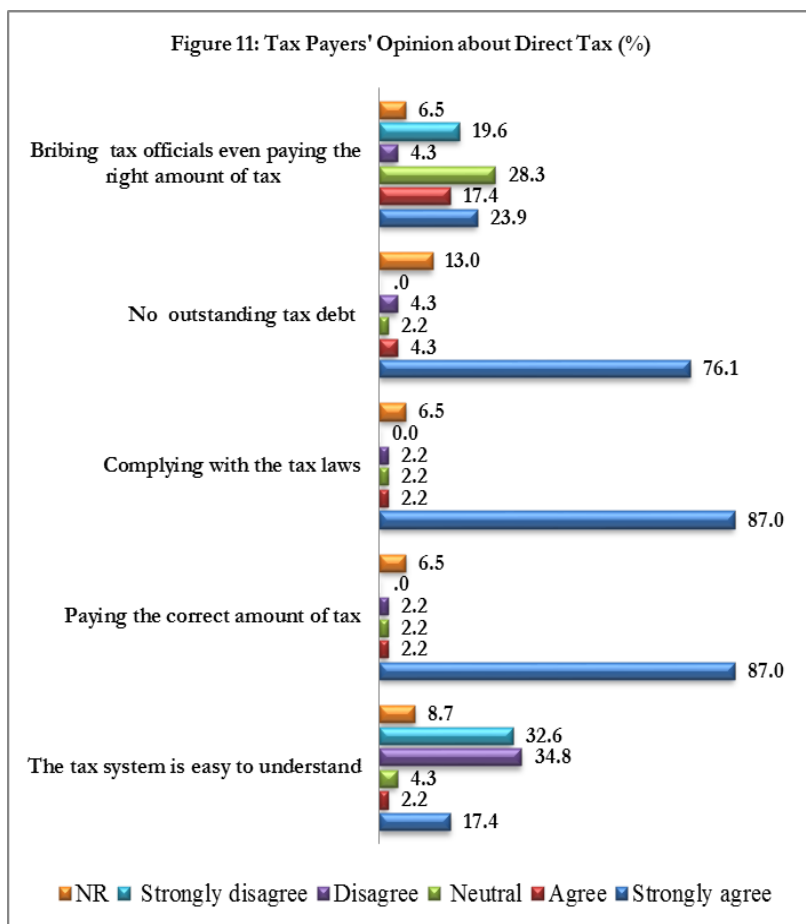
For instance, about 24 % strongly take position with this statement. 87 % of the respondents strongly believe everyone should pay the right amount of

tax. 76.1% of the tax payers fully support the statement that I have no outstanding debt with tax authority. In fine, we can say that most taxpayers feel that they should pay correct amount of tax and comply with tax while. Moreover, most of them have the view that tax system is difficult to understand.

4.8 Attitude of the Tax Payers towards Tax

One of the objectives of this survey is to collect information about taxpayer's attitude. Respondents tax payers are asked to express their opinion over some statements related to paying taxes. For example, 44% of the respondents (Figure-12) strongly disagree with the statement that paying tax is a material loss while only 17% of the tax payers take strong position on this statement. In total about half (50%) of the respondents agree that paying tax is a material loss for them. The percentage of respondents remain neutral in this issue is about only 2. Complicacy in the tax payment system sometimes discourages people to pay tax.


Figure 12: Paying tax is a material loss
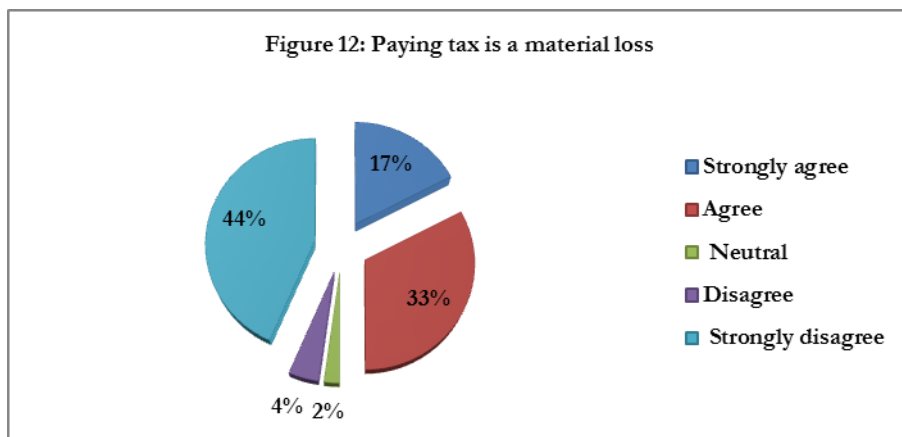
Respondents in the sample districts are also asked to share their view on this matter. It is observed from figure-13 that 63 % of the individuals strongly agree with the statement of discouragement in paying tax due complexity in the tax system. The percentage of the respondents who oppose this matter is quite low (17 %). This gives an important indication that tax system should be made simple to encourage people to pay taxes.

Figure- 13: Discouragement in paying tax due to complicacy
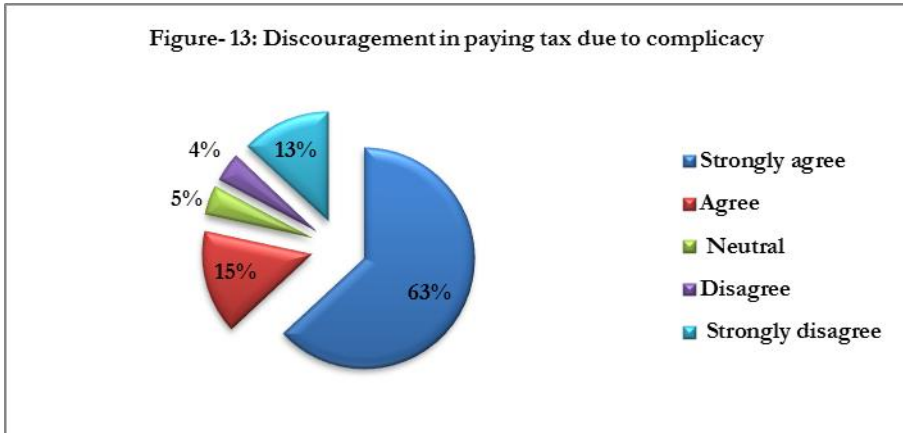
4. 9 Tax Justice and Equity

Opinion about identical VAT rate

In Bangladesh, people have to pay same amount of VAT irrespective of their income level. Tax system in Bangladesh is progressive but due to identical VAT rate on most of the goods and services, the burden of tax mainly falls on low income and low-middle income group. The reason behind this scenario is the high unequal distribution of income in Bangladesh. In this context, this survey seeks to collect respondent's opinion about current VAT rate. The findings are presented in figure-14. In this study it found that 51% the respondents believe that VAT rate should not be identical for everyone as there is income difference among people. For example, 32% of the respondents strongly oppose the system of same VAT rate for all people despite income difference. Moreover, 19 % oppose in imposing same VAT rate for all people.

Figure 14: Opinion about Identical VAT rate despite Income Difference
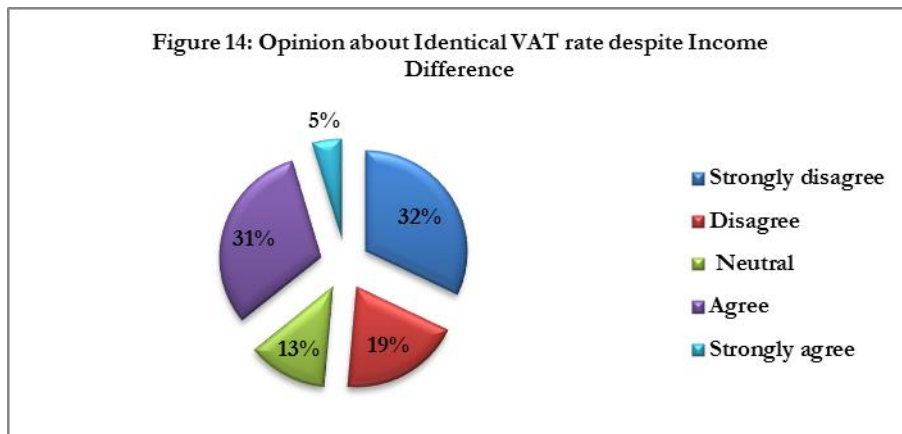
Opinion about increasing VAT on luxury goods

Respondents' opinion about raising VAT on luxury goods by the government is also collected in this study. Analysis of their opinion is presented in figure-15. The findings suggest that 63% of the respondents are in favor raising VAT on luxury goods. On the other hand only 20% in total are against increment of VAT on luxury goods.


Figure 15: Opinion about increasing tax on luxury good
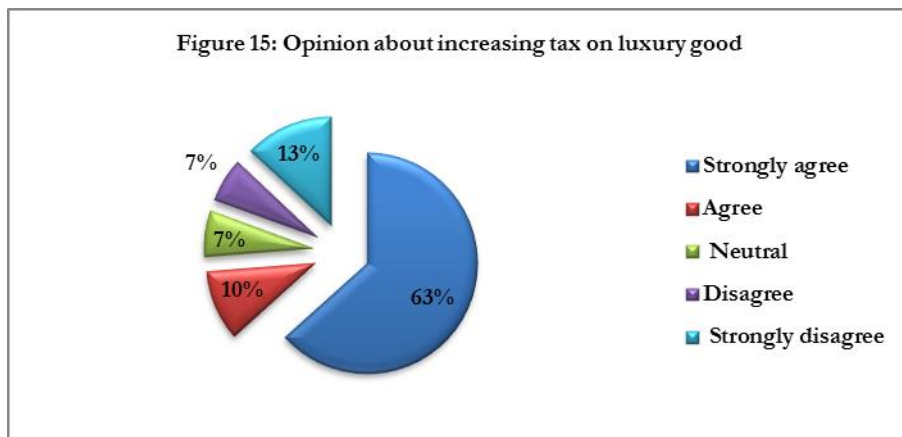
4.10 Perception on fair taxation and inconsistency of the tax rules

Respondents also expressed their opinion on fair taxation. They are asked to provide their view on the statement that paying tax is not justified as everyone

does not pay tax. About 50 % of the respondents strongly oppose the statement while 22% stand against this statement. The findings are presented in figure-16. Findings on the opinion about inconsistency in the application of the tax rules are depicted in figure-17. It is found that 52% are strongly agreed with this view.

Figure 16: Opinion about Fair Taxation

Figure 17: Inconsistency in the application of Tax Rules
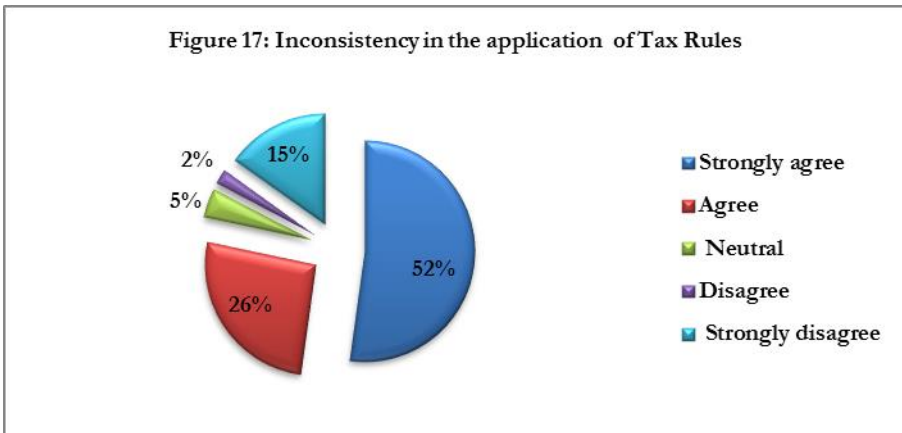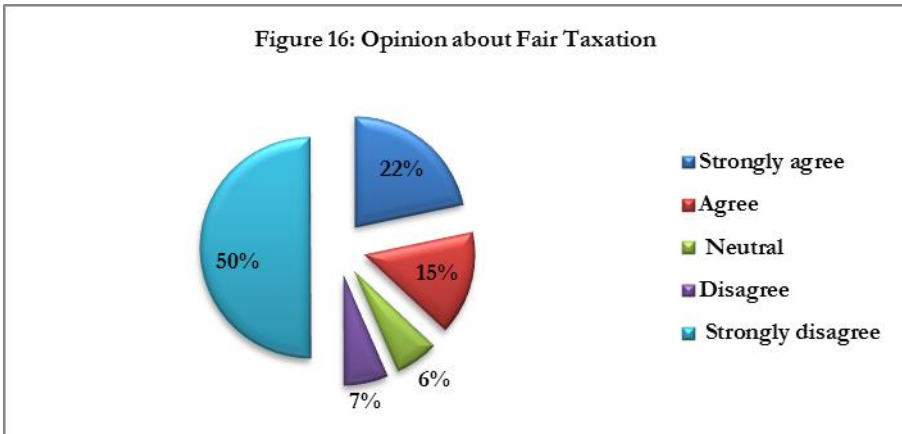
5.0 Conclusion

The general finding from the base line survey is that the people have a common understanding of tax. The findings of the study postulate that people from urban areas are more familiar with tax than people from rural areas. Analysis of the results from the base line survey indicates that people are generally familiar with VAT. However VAT paid by them may not reach the

state treasury as only about 14% of the respondents are aware of taking VAT receipt while buying goods and services. In addition, even though educated people know about VAT or indirect taxes, but poor, marginalized and less educated people have less familiarity or have a vague idea what VAT or indirect taxes are. Even though educated people knows about the VAT or indirect tax system doubts have been raised about the transparency of VAT system. Half of the study population of this survey is lower middle and middle income group. Also about 35 percent of people of this survey have not more than primary education. The tax justice has tiny meaning for most people because they believe that tax is something to pay to the government. But they do raise their voice that rich should pay more and everybody should pay according to their ability. Study results indicate that government should impose high VAT on luxury goods. The results of the base line survey also confirm that due to complex tax system and harassment and inefficiency, people who pay direct tax have fear and disincentives about the tax system. Even though indirect tax is a major source of tax revenue, cases where poor people are affected more like necessary goods, in those cases VAT burden might be decreased. Instead of a uniform VAT for all consumer goods, VAT on the necessary goods VAT can be reduced. Analyzing the findings from base line survey, it can be said that government should increase the direct tax base. But because of complex tax system and harassments and out of fear many direct tax payers might not be willing to pay properly. The lower level tax official in some cases might be the culprit which might be because of dishonesty, lack of training or even lack of proper manpower. To solve this issue the tax automation can be increased and also the government might create a gap between the tax payers and tax collecting officials. Instead of increasing the indirect tax base through increasing the goods net, the transparency from the seller side for tax payment is needed. General tax payers (direct and indirect) are doubtful about proper deposition tax in the state treasury. The main reasons behind this situation are centrally administered tax system, illiteracy of the mass people, less awareness about proper tax system etc.

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