Tax Avoidance and Evasion Practices in Bangladesh: A Study on Dhaka City

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Abstract
Tax payment is a civic duty and an obligatory contribution of citizens of a state imposed by the government. Tax is the major financial source of revenue that is used to meet public expenditure and development. In the present world, taxation is an instrument of economic policy. This study is designed to investigate the main reasons and ways of tax avoidance and evasion in Bangladesh. The study is based on a random sample of 200 respondents in Dhaka city including both tax payers and tax collectors. A structured questionnaire was developed and administrated for data collection. Results revealed that the main cause of tax avoidance and evasion is the dissatisfaction of existing tax rates followed by fear about tax, complex payment system, lack of tax collector cooperation, tax assessment system, lack of tax information and lack of counseling campaigns. The study also found that the reserve and provision is main way of tax avoidance and evasion followed by help of legal advisor, showing less income, shown more expenses and investment allowances and individual intention. Tax authority should properly review and evaluate the assessment and collection procedures. Media campaign and awareness development are also essential to minimize the tax avoidance and evasion.
Keywords: Bangladesh, Revenue, Tax, Tax avoidance, Tax evasion.

1. Introduction

Tax is one of the prime sources of government revenue in a state collection (Fisher, et al., 1989). It is a strong social and economic tool of the government in regulating the economy. Tax can be defined as a compulsory payment by individual and companies to the state. Tax is a non-punitive but compulsory levy by the Government on properties and income of individuals and corporations within the territory. Tax is the transfer of resources from the private to the public sector in order to accomplish some of the nation's economic and social goals (Richardson, 2006). It is imposed by the government on the income, profit or wealth of an individual, partnership and corporate organization. To regulate the economic sectors into right direction by encouraging the production and distribution of useful goods and discouraging the harmful products, imposing tax is essential (Onyeukwu, 2010).

Tax avoidance means taking undue benefit of the loopholes, lacunae or drafting mistakes for reducing tax liability and thus avoiding payment of tax which is lawfully payable (Warner, 1965). Generally it is done by twisting or interpreting the provisions of law and avoiding payment the tax. Tax avoidance is the legal utilization of the tax regime to one's own advantage, in order to reduce the amount of tax that is payable by person and it is very much within the law.

In contrast, tax evasion is the general term for efforts by individuals, firms, trusts and other entities to evade taxes by illegal means. Tax evasion usually entails taxpayers deliberately misrepresenting or concealing the true statement of their affairs to the tax authorities to reduce their tax liability. It also includes, in particular, dishonest tax reporting such as declaring less income, profits or gains than actually earned; or overstating deductions. Tax Evasion apart from being a moral wrong also amounts to a breach of the tax laws (Nwachukwu, 2006). It is as a deliberate and willful practice of not disclosing full taxable income in order to pay less tax. Tax evasion is a intentional violation of tax laws and it is evident in situations where tax liability is fraudulently reduced or false claims are filled on the revenue tax form (Farayola, 1987).

Tax is imposed by government on her subjects to enable her finance or run public utilities and perform other social responsibilities. Income tax is one of the principal sources of government revenue. The national budget of Bangladesh in 2016-17 fiscal year reveals that the contribution of income tax is 35.4% of total revenue. Number of registered taxpayers (direct tax) is 3.5 million and the number of return filers (direct tax) is1.2 million where the total population is about 160 million. The above statistics reflects a very low rate of tax collection or payment done by registered tax payers. Thus tax evasion and tax avoidance is a problem facing by the tax authority of Bangladesh. The problem lies in the collection of the taxes especially from the self-employed individual such as the businessmen, contractors and professional practitioners like lawyers, doctors, and traders in shops. This study helps to determine the causes of tax evasion and avoidance on personal income tax generation in Bangladesh.

2. Literature review

Numerous studies have been done for investigating causes of tax avoidance and evasion and related factors. In this Section some of the existing literature and research findings have been discussed.

Bandyopadhyay (2012) examined the facts, impacts and regulatory issues of tax evasion. The study explored possible reasons, motivating factors as well as methods of tax evasion practices with experiences cited from different countries. He also explored some current ongoing regulatory measures as well as possible ways to combat such practices. Simser (2008) explored tax evasion and avoidance typologies with a view to understand how they work and the implications for those who handle the wealth of others. The study pointed out that the structuring transactions to avoid or minimize taxes were highly complex. Das-Gupta et al. (1995) reveled that both revenues collected and compliance were significantly affected by tax structure. In addition, inflation as well as declining assessment intensity had a significant negative effect, while traditional enforcement tools had only a limited effect on tax payment and tax collection process. Marrelli and Martina (1988) found that the optimal amount of tax evasion for each firms depends not only on the degree of collusion of the market but also on the relative market share of the firms; increasing collusion, however leads to larger amount of tax evasion of the market. Poterba and James (1987) investigated how changes in capital gains tax rates affect taxpayer compliance. They also found that a one percent increase in the marginal tax rate reduces voluntary compliance by between one half and one percent. Ahangaret al. (2011), did a study on tax evasion in Iran and focused that among the factors contributing towards tax evasion are weakness of tax rules, accumulation of tax cases, complexity of tax laws, lack of proper tax culture, and corruption of tax agents. Developing countries are characterized with culture of non-payment of tax which results is low tax morale. Torgler et al. (2007) found a significant relationship between tax morale and tax compliance. The factors which influence taxpayer's morale to pay tax are government failure to provide sufficient and quality public goods and services in return for taxes.

3. Research Objectives

The main objective of the study is to investigate the main reasons and ways of tax avoidance and evasion in the present tax administration system in Bangladesh. The specific objectives are as follows:
1. To point out the main reasons of tax avoidance and evasion.
2. To investigate how the tax payers avoid and evade tax.

4. Data and Methodology

The study applied quantitative research methods. The sample respondents were selected purposively. A representative random sample after considering 95% confidence interval and with 7% maximum allowable errors has been computed by using the following formula: $n = \frac{z^2 p (1-p)}{d^2} = 196$ (here 'p' is the perception of tax payers and for an unknown situation it can be considered that p=0.5). Thus, a number of 200 tax payer have been selected and considered as a representative sample from the population of Dhaka city of Bangladesh. A structured questionnaire was developed and pre tested before data collection. Questionnaire includes some demographic information of respondents. The attitude and manner for payment of taxes by the respondents were investigate through some specific statements using a five step liker scale ranging: Strongly Disagree (1), Disagree (2), Neutral (3), Agree (4) and Strongly agree (5) have been used for data collection. Data collection is organized by qualified enumerators and the researchers edited and coded the data. Data analysis was done by Statistical Package for Social Sciences (SPSS) software version 20.0.

5. Result and Discussion

5.1 Descriptive analysis

This section provides a little scenario of some background character of selected respondents. Since sample is drawn by convenience sampling technique, sample units are chosen in a way that it may maintain the aspects of national demographic profiles. It has also been ensured that sample represent different socio-economic and occupational categories.

Table 1: Profile of respondent

	Frequency	Percentage
Professional Classification		
Government service holder	73	37
Private service holder	56	28
Business man	33	16
Others	38	19
Total	**200**	**100%**
Gender		
Male	125	62.5
Female	75	37..5
Total	**200**	**100%**
Educational Qualification		
Post graduate	147	74
Graduate	41	20
Under graduate	12	6
Total	**200**	**100%**
Age Category		
18-30	27	13
31-40	127	64
41 and above	46	23
Total	**200**	**100%**

Results in Table 1 show that most of the respondents are male (63%). In the occupational categories, government service holders are in greater proportion (36.5%) followed by private service holders (28%) and business man (16.5%). A number of respondents belong to others (19%) category where small level entrepreneurs and self-employed individuals are included. It is also found that most of the respondents have post graduate degrees (74%), some are graduates (20%) and few undergraduates (6%) consists the sample. Most of the respondents belong to the age group 31-40 years (64%).

5.2 Reason for tax avoidance and evasion (TAE)
The questionnaire includes nine structured statements in order to investigate the respondents' attitude and their overall agreement level on tax avoidance and evasion. The formal t-test has also been carried out to evaluate the validity of the observed response for a large population. Obtained results are illustrated in Table 2.

Table 2: Causes of tax payers avoid and evade tax

	Mean	Standard Deviation	't'-value	Rank
Lack of tax collector cooperation	3.32	1.084	4.240**	4
Tax payment system is complex	3.38	1.123	4.784**	3
Fear about tax	3.42	1.099	5.338**	2
Tax assessment system	3.20	1.098	2.576*	5
Dissatisfaction on existing tax rate	4.03	1.084	13.438**	1
Lack of tax information	3.02	1.175	0.180*	6
Lack of counseling campaigns by the governments	1.88	0.669	-23.669**	7
**ρ value <0.01, *ρ value <0.05				

It is revealed that the highest mean agreement 4.03 is observed for the item "Dissatisfaction on existing tax rate". Therefore, tax payers' dissatisfaction is mainly responsible for tax evasion and avoidance and respective *p-value* (p <0.01) indicates that the observed response is statistically significant. Obtained result is also similar with a previous study by Adebisi and Gbegi, 2013. In most cases, respondents stated that they are afraid of taxes because they believe that they must show more income for the coming years that may become a burden. Results in Table 2 also have a reflection of their belief and therefore 'fear about tax' has been identified as the second major cause for tax avoidance and evasion with observed average agreement score 3.42 (*p-value* <0.01). Another major cause of tax avoidance and evasion is the existing tax payment system. Results indicate that the mean agreement score is 3.38 for the statement regarding complex tax payment system. Respective *p-value* (*p*<0.01) indicate that it is a significant cause of avoid and evade tax and even true for a large sample. The above result is also almost similar with the previous study by Awan and Hannan , 2014.

Lack of tax collector cooperation is another cause for the tax avoidance and evasion, as observed from the data. The result indicates that the mean agreement score is 3.32 for the related statement which is also statistically significant (*p-value* <0.01). Mughal and Akram (2012) found 'poor relationship of tax payers and authority' in their study.

The analysis of present tax assessment system discloses that in most cases the tax assessment is done by universal self-assessment method. This type of assessment has been criticized for a common tendency to hide the actual income and showing of more expenses for livelihood. Results in Table 2 indicate that respondents' are not satisfied with such an assessment system and they also agreed that it is liable for tax avoidance and evasion. The mean agreement score of 3.20 with respective significant p-value (p<0.05) indicates that the supporting statement is valid for a large population. Abdirahman, et al. (2015) also observed similar findings in their study.

From the results in Table 2 it is evident that lack of tax information is another vital cause for the tax avoidance and evasion. The observed mean agreement score is 3.32 for the related statement, and a significant p-value (p<0.05) explores the validity of the response for large population. The obtained result is similar with the previous study by Awan and Hannan (2014). Results also indicate that lack of counseling campaigns by the government is another cause for the tax avoidance and evasion by general peoples. The observed mean agreement score is 1.88 but it is statistically significant (p<0.01).

5.3 Means of tax avoidance and evasion

There are five statements included in the questionnaire in order to investigate the respondent's attitude and their overall agreement regarding the means of tax avoidance and evasion. Formal t-test has also been done to evaluate the validity of the observed response for a large population. Obtained results are illustrated in Table 3.

Table 3: Means of tax avoidance and evasion

	Mean	Std. Deviation	't' value	Rank
Reserve and provision	3.31	1.071	4.026**	1
Help of legal advisor	2.75	1.061	-3.399**	2
Showing less income	2.22	.925	-11.923**	3
Showing more investment allowances	2.18	.918	-12.639**	4
Individual intention	2.00	.836	-17.006**	5
**P-value <0.01, *P-value 0.01<0.05				

Result reveled that highest mean agreement 3.31 is observed for the item 'reserve and provision'. Therefore, creation of more reserve and provision is the main way of tax avoidance and evasion and respective *p-value* (p<0.01) prove that observed statement is statistically significant. It is found that respondents avoid and evade tax by the help of legal advisor and tax practitioners. Tax payers feel that advisor work on behalf of their benefits and calculate less tax by the aid of tax ordinance. Result in Table 3 also has a reflection of their thoughts. 'Help of legal advisor' has been recognized as the second major way of tax avoidance and evasion with observed average agreement score 2.75 (*p-value* <01). Another major way of tax avoidance and evasion is showing less income in financial statements. Results indicate that the mean agreement score is 2.22 for the statement 'showing less income'. Respective *p-value* (p<0.01) indicate that it is a significant way of tax avoidance and evasion tax. Bhuiyan (2012) found creation of reserve and provision and showing less income is the way of tax avoidance and evasion.

Showing more investment allowance provides an opportunity to get more tax rebate in a fiscal year. Results in Table 3 indicate that showing more investment allowance is another vital way of the tax avoidance and evasion. The observed mean agreement score is 2.18 for the related statement. Respective significant p-value (p<0.01) explores the validity of the response for large population. Results also indicate that tax payer avoids and evasion tax intentionally in general. In a normal sense tax payers have the intention to pay less tax because they don't get proper feedback from government. The observed mean agreement score is 2.00 but it is statistically significant (p<0.01). Adebisi and Gbegi (2013) concluded the similar opinion from their study.

6. Conclusion and Recommendation

Tax is the major financial source of revenue that is used to meet public expenditure and development. The study has attempts to explore the reasons and means of tax avoidance and evasion in Bangladesh. From the obtained result it can be concluded that the main cause of tax avoidance and evasion is the dissatisfaction of existing tax rates followed by fear about tax, complex payment system, lack of tax collector cooperation, tax assessment system, lack of tax information and lack of counseling campaigns. The study also found that the reserve and provision is main way of tax avoidance and evasion followed by help of legal advisor, showing less income, showing more investment allowances and individual intention. Tax authority should properly review and evaluate the assessment and collection procedures. Media campaign and awareness development initiatives are also essential to minimize the tax avoidance and evasion.

The following are some recommendations proposed to minimize tax avoidance and evasion in a certain extent.

- Tax payment system should make easier.
- Tax authority should properly review and evaluate the assessment and collection procedures.

- Tax authority should review the tax rates across various income categories and in different sectors.
- Counseling campaigns should make digitized.
- Tax collectors cooperation should be increased.
- Tax payers should be well informed that tax avoidance and evasion is a breach of the moral obligation to obey the law.

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