

## **Tax Evasion and Avoidance Practices in Some Selected Corporate Firms of Bangladesh**

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*The present study is based on a total number of 9 (Nine) tax appeal cases and opinions of a total number of 32(thirty two) respondents belonging to relevant tax officials and tax practitioners. The main reason of selecting the topic is the large scale prevalence of the tax evasion and avoidance crimes in Bangladesh which adversely affect both the volume and nature of Government finance. This study highlights the main reasons for tax evasion and tax avoidance, major techniques adopted by the corporate firms in evading and avoiding corporate taxes, authorities responsible for adopting the techniques thereof, impact of tax evasion and avoidance practices on the revenue of the Government in particular and the economy of the country, as a whole and ways and means of preventing tax evasion and avoidance practices. In order to curb widespread tax evasion and avoidance practices, the study suggests some preventive measures. Of these, effective implementation of tax rules and provisions, creating awareness of the tax payers for paying reasonable taxes, arranging more and more publicity for paying taxes, appointing adequate trained tax officials, ensuring access of the tax officials to the bank accounts and relevant software of the tax payers are the major preventive measures.*

**Field of Research:** Tax Management

### **1. Introduction**

Tax evasion refers to such deliberate criminal non-fulfillment of tax liabilities. In contrast, tax avoidance refers to deliberate acts of reducing one's taxes by legal means. However, the distinction is not always clear because tax laws are not always precise. Moreover, when taxpayers try to find loopholes with the intention to pay less tax, even if technically legal, their actions may be against the spirit of the law and in this sense considered noncompliant. (Wenzel 2002).

Tax evasion and fiscal corruption have been universal and persistent problems throughout history with manifold economic consequences. Two thousand five hundred years ago, Plato was writing about tax evasion, and the Ducal Palace of Venice has a

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stone with a hole in it, through which people once informed the Republic about tax evaders (Tanzi, 2000a).

The five year plans of the Government of the People's Republic of Bangladesh (As for example The First Five Years Plan of Bangladesh, 1973) have indicated that a sizeable number of persons especially the businessmen evade & avoid taxes. As a result, the yield of income tax is very low in Bangladesh as a percentage of Gross Domestic Product. The escaped burden of tax is inevitably passed on to indirect tax payers' causing price hiking in the country. Therefore, in Bangladesh, tax evasion & avoidance pose to be a serious problem which stimulates the researcher to undertake the study aiming at critically analyze tax evasion and avoidance practices committed by selected corporate firms operating in Bangladesh. No study was so far conducted on tax evasion and avoidance practices in corporate firms operating in Bangladesh. Present study is an effort to this end.

This paper consists of five main sections. Section two of the study deals with existing literature review on the related subject; while section three examines methodology including research design. Section four presents the findings of the study and finally section five provides conclusion, limitation and policy implementation for further research.

## 2. Literature Review

Although a number of papers have considered the issue of income tax evasion, impacts and regulatory issues of tax evasion, changes in capital gains tax rates affect taxpayer compliance, indirect tax evasion in a competitive market ect. A very few have considered the practices of tax evasion and tax avoidance. One of the exceptions is a paper which considers the very special case of tax evasion and avoidance practices in Bangladesh. However, the study reviews the existing literatures on the following way:

Alm, and McCallin (1990) analyzed the individual's decisions when illegal tax evasion and legal tax avoidance were simultaneously available and when both yield uncertain returned.

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. The study also explored some current ongoing regulatory measures as well as possible ways to combat such practices.

Cai and Liu (2009) investigated whether market competition enhances the incentives of Chinese industrial firms to avoid corporate income tax. The study also estimated the effects of competition on the relationship between firms' reported accounting profits and their imputed profits based on the national income account. The study examined that firms in more competitive environments engage in more tax avoidance activities.

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Chen, Been-Lon (2003) investigated the tax rate, tax evasion and economic growth, and compared them with otherwise identical economies except those without tax evasion. It found out that an increase in both unit cost of tax evasion and punishment–fines reduced tax evasion, whereas an increase in tax auditing reduced tax evasion only if the cost of tax enforcement is not too high. It also pointed out that three policies are quantitatively effective in discouraging tax evasion, but with small growth effects, unless the degree of government externality was very high.

Das-Gupta et al (1995) showed 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.

Green (2009) has highlighted ten reasons of tax evasion. The paper have also suggested that part of the reason the norms against tax evasion are so unstable is that there is confusion about exactly why tax evasion should be regarded as morally wrong. To that end, the debate over the moral content of tax evasion is revisited and extended.

Marrelli, M and Martina R (1988) have shown 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, James M. (1987) investigated how changes in capital gains tax rates affect taxpayer compliance. It also found that a one percent increase in the marginal tax rate reduces voluntary compliance by between one half and one percent. These results confirmed the findings of previous studies based on individual household data.

Simser (2008) explored tax evasion and avoidance typologies with a view to understanding 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.

Slemrod, J (1985) developed a methodology that used microeconomic data from individual tax returns to test for the presence of tax evasion. The test was then applied to a large sample of taxpayers drawn from the U.S. Treasury tax file for 1977. The frequency of evasion indicated by the test was significantly greater than zero and within the wide range the other evidence suggests was the extent of evasion.

Stella, P (1991) examined the circumstances under which amnesties are likely to had a beneficial impact on revenue collections. It concluded that, while in general it might be correct to impose a reduced penalty on individuals who voluntarily disclosed tax evasion, short lived amnesties of the type most frequently observed in practice were unlikely to generate genuinely additional revenue, particularly when judged against the potential danger of reducing future tax compliance.

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Virmani, A (1989) addressed the issue of indirect tax evasion in a competitive market. Evasion in such a market was shown to be associated with production inefficiency. The results also suggested that Laffer-type curves could arise due to evasion.

### 3. Methodology and Research Design

Primary data were obtained on the basis of a structured questionnaire designed especially for this study and containing a group of questions covering the study objective. The questionnaires were distributed to a study sample of forty (40) respondents of two groups' namely top level tax officials and 24 persons engaged as tax practitioners especially in the area of company assessment. Of the top level tax officials 8 (eight) are of the rank and status of DCT (Deputy Commissioner of Taxes) from administrative tax authority and 8 (eight) are of the rank and status of joint commissioner of tax (Appeal division). All the respondents of both the groups were selected purposively in order to having easy access to the requisite data and information. However, we received data from 32 (thirty two) respondents. So the rate of respondents was 80%.

Secondary data included a total number of 09 (Nine) appellate cases belonging to the assessees of significant corporate firms operating in Bangladesh. These cases were collected by the researcher himself from the relevant tax officials assuring them that the names of the corporate firms would not be disclosed in the study and these would be used only for this research study.

The collected primary and secondary data and information were critically analyzed and interpreted by the researcher himself in order to make the study more informative and useful to the readers. The findings of the study may be useful to the prospective researchers desiring to make further study on this vital national issue, in one hand, and to the tax planners, on the other, for reforming existing tax laws provisions with a view to alleviating tax evasion and avoidance practices to a great extent.

### 4. Discussion on Findings

The analysis of the selected respondents' opinions reveals the following techniques and modes by adopting which the assessees of all types whether individuals, partnership firms, sole-trader business, companies and corporations try to evade and avoid income taxes. The responses of the respondents have been tabulated in the following table 1.

Table 1 reveals that techniques namely showing benami transaction, showing inadmissible expenses as admissible, making wrong classification of business expenditure, low quality of service provided in return for taxes have been the mostly used as opined by the 100% respondents. Again, 75% respondents opined that showing excessive depreciation, claiming excessive tax deduction, tax exemption and

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**Table 1: Showing responses as regards to techniques and modes adopted in evading and avoiding taxes**

Sl. N.	Specific technique and mode	No. of respondents	% of respondents
1	Not recording cash transactions	10	62.5
2	Under invoicing by importers and exporters	8	50.0
3	Showing benami transactions	16	100.0
4	Showing cash credit	8	50.0
5	Showing excessive depreciation	12	75.0
6	Showing personal expenses as business expenses	8	50.0
7	Showing excessive wastage of raw materials in production process	10	62.5
8	Showing bogus bad debts	8	50.0
9	Creating reserve and provision for bad debts	8	50.0
10	Making wrong classification of business expenditures as capital and revenue	16	100.0
11	Showing inadmissible expenses as allowable	16	100.0
12	Claiming excessive tax deduction, tax exemption and tax credits	12	75.0
13	Bribing the low morale tax officials	8	50.0
14	Claiming tax holidays which is not genuine in nature	6	37.5
15	Lack of compliance of tax laws and provisions in full	11	68.75
16	Low ability of tax authority, both administration and appellate to enforce tax liability	11	62.5
17	Low tax morale of the tax payers	10	62.5
18	Low quality of service provided in return for taxes	16	100.0
19	High compliance costs	8	50.0
20	Weak capacity on the part of tax administration in detecting and prosecuting tax evasion and avoidance practices of the tax payers	8	50.0
21	Showing revenue income as capital income	9	56.25

Source: Field survey

tax credits have also been used as the most important techniques. Again, 68.75% respondents opined in favor of lack of compliance of tax laws and provisions in full which has been used as the most important techniques. Moreover, 62.5% respondents opined the techniques namely not recording cash transactions, showing excessive wastage of raw materials in production process, low ability of tax authority, both

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administration and appellate to enforce tax liability and low tax morale of the tax payers which have been widely used as the techniques. Lastly, the remaining techniques, namely showing revenue income as capital income, under invoicing by importers and exporters, showing cash credit, showing personal expenses as business expenses, showing bogus bad debts, creating reserve and provision for bad debts, bribing the low morale tax officials, high compliance costs, weak capacity on the part of tax administration in detecting and prosecuting tax evasion and avoidance practices of the tax payers have also been used by 50% to 56.25% respondents.

As to the query, the respondents mainly the tax officials have mentioned some reasons for tax evasion and avoidance relating to low ability of tax administration and low tax morale as well as high tax rate. Again, as regards the technique followed by DCT indicate tax evasion and avoidance cases. The relevant DCT have mentioned some techniques of which gathering relevant information, remaining constant vigilance, intelligence inspection of the books of accounts and other documents of the tax payers and audit report etc, have been the major techniques.

Tax evasion and avoidance undoubtedly have inverse impact of the economic condition of the country in general and tax revenue the government in particular. As a result, average total tax revenue as percentages of GDP has been low.

Lastly, the learned respondents of the study have suggested some ways and means of prevention of tax evasion and tax avoidance of which following are the vital:

- i. Creating awareness of paying taxes for the welfare of the state and its citizens
- ii. Effective implementation of the tax rules and provisions
- iii. Making stringent rules and provisions of the tax
- iv. Appointing adequate trained and experienced tax officials
- v. Empowering tax officials to take necessary panel actions
- vi. Imposing high monetary penalty in the form of fines
- vii. Ensuring access of the tax officials to the bank accounts and relevant software of the tax payers
- viii. Measures improving tax compliance by properly educating the tax payers and addressing tax compliance costs and administrative costs.

## 5. Conclusion

Tax evasion and avoidance by the corporate firms are undoubtedly corporate crimes. Such tax evasion and avoidance practices are one of the main means of corporate crimes which are usually followed by the greedy corporate firms. Tax evasion and avoidance crimes have prevalent across the world since a long ago which have manifold adverse economic consequences. One of the main economic consequences of tax evasion and avoidance is the deprivation of the government exchequer from huge revenue. This is more true in case of Bangladesh. In Bangladesh, existence of tax evasion and avoidance is a regular phenomenon now a days. The escaped burden of tax through tax evasion and avoidance is inevitably passed on to indirect tax payers'

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causing inflation in the country. Therefore, in Bangladesh, tax evasion & avoidance pose to be a serious problem. However, the main limitation of the study is the limited coverage of the samples e.g. only 09 (nine) appeal cases and only 32 respondents of two categories such as Tax practitioners and Tax officials. This is because of time and money constraints at the disposal of the researchers, in one hand, and the unwillingness and the busy schedule of the Tax officials, on the other, in order to provide us with more appeal cases and their valued opinions.

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