

The Tendency toward Tax Evasion in Bangladesh

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Tax evasion has always been practiced among tax payers in Bangladesh. But the actual reason for this practice has always remained a mystery. This research has taken the initiative to find a possible reason for such behavior among current tax payers in the country. A structured questionnaire was used among 300 tax payers to collect primary information which was later broken down through the usage of SPSS to reach at a justified end. Few hypotheses were generated and tested using the primary data and in most cases the null hypothesis were accepted. A model was developed, including a dependent variable and eleven independent variables (categorized as demographic and intellectual). The model was found significant for this research by conducting a regression analysis. Finally a correlation analysis was done between dependent and selected independent variables to generate a statistical conclusion of this paper. The core aim of this inquiry was to share some insight about the tax evasion tendency in Bangladesh and to motivate interested parties in taking appropriate action.

Keywords: Tax Evasion, NBR, Ethics

1. Introduction

Tax has always been the primary source of revenue for Bangladesh. Government of our country tries to meet its ever increasing expenditures primarily public service, defense, education, technology, agriculture, infrastructure by imposing multiple tax on people working and earning money inside the country. From the year - end report on fiscal position it is found that the total actual expenditure for the income year 2011 – 12 by the government was Tk. 15,81,900 million which was 17.31% higher than the last financial year. On the other hand, tax revenue collected by the Government was Tk. 11,38,700 million in the financial year of 2011 – 12. As a result, a gap of Tk. 443,200 million existing which our government will have to fill up with foreign aid and money borrowed from the World Bank. Although, the collection of tax revenue has increased from 2008 to 2012, it is surprising to see that tax gap has also increased every year. It cannot be denied that our economy is growing everyday and more people are now having taxable income. In such a situation, one of the many reasons why income and expense gap of our country is not decreasing over the year is the tax evasion tendency of our taxpayers. As we pay tax without the expectation of any direct return, it is obvious that more and more taxpayer will lose interest in paying the Government a portion of their hard earned income when any indirect benefit becomes difficult to find. Money whitening facility is not helping either as it discourages honest taxpayers to report and pay the appropriate amount of tax. Considering the emergency and the importance of this issue, this research was conducted to share some insight regarding tax evasion in Bangladesh and also tried to identify possible reasons that influences tax evasion tendency among current tax payers of Bangladesh.

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2. Literature Review

Tax evasion is defined by many researchers in many ways. Richardson (2008) defined tax evasion as “international illegal behavior or activities involving direct violation of tax law to evade the payment of tax.” Tax evasion is not a modern phenomenon. Plato had written about tax evasion almost two hundred years ago (Tanzi, 2000). To make things more interesting, tax evasion has become a worldwide practice among tax payers around the globe. There have been a lot of studies at different times to understand such behavior of tax payers and the findings have never been uniform. Chen, Been – Lon (2003), has found in a study 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. Green (2009) has indicated in a study that there is confusion about exactly why tax evasion should be regarded as morally wrong. Morales (1998) examined the views of Mexican immigrant street vendors and found they are more loyal to their family than to the government. Lack of mechanism to collect taxes and the belief that government does not deserve part of a worker’s income was found to be the main reason of tax evasion in Armenia (McGee, 1999). According to Yitzhaki (1974) a raise in the marginal tax rate unambiguously entails lower underreporting of income if, as is the case of Switzerland, the penalty rate is imposed on taxes evaded. Fishburn (1981) has demonstrated that, the same conclusion holds for a linear progressive tax schedule with penalties imposed on taxed evaded. Ho and Wong (2008) concluded that individuals with stronger ethical mind may have favorable compliance attitude as they will regard complying with rules and regulations as an obligation that must be honored. The study of Bobek and Hatfield (2003) also indicated that the ethical beliefs of individuals are best means of improving tax compliance. Such an important phenomenon has remained almost unexplored in Bangladesh till today. There are few literatures available regarding this subject matter. Rahman (2005) in his research indicated that tax evasion or dodging of tax return is causing a significant amount of revenue losses in Bangladesh. This paper has focused on this burning issue as it is conducted to serve two basic purposes firstly, to test how factors identified by different scholars around the world affects in our country and secondly to become a stepping stone for all future research in this area.

3. Rationale for the Study

Tax is defined by Dalton as a compulsory contribution imposed by a public authority irrespective of the exact amount of service rendered to the taxpayer in return and not imposed as a penalty for any illegal offences (Warriach, 2012). In Bangladesh, National Board of Revenue act as the public authority whose sole responsibility is implementation of tax laws regulated by Income Tax Ordinance, 1984 and collection of predicted taxable income from taxpayers every fiscal year. Although, it is a duty of every individual living and earning through the different ways in Bangladesh to pay the proper amount of taxes for the economic development of the country but tax payers are always looking for ways to avoid this duty. Theoretically tax revenue is seen as a powerful tool for the Government in poverty alleviation through optimum allocation of available tax revenue, but our Government is using it more like a control mechanism to balance the supply and demand of different commodities. Sometimes few development works are seen which generally appears as a publicity stunt to win election. A country which became top in corruption in 2005 (BBC, 2005), it is obvious that tax payers would try to justify their evasion tendency by pointing to that direction and looking at the other way. There has also been a significant increase of tax lawyers in the country, some of them are found to have a low tolerance for

Hasan

ethics and are ready to do things favoring the tax payer just to keep a steady income. Tax evasion is here in Bangladesh and it exists in both personal and corporate levels. MNCs operating in Bangladesh are practicing tax evasion through illegal transfer pricing which was identified by NBR and dealt with corresponding actions very recently (Editorial, 2013). But for years, NBR anticipations have suffered from being based on outdated sample data, extrapolated by the growth in overall tax liability (Sarker and Kitamura, 2006). There can be thousand of problems existing in a country, but none of them should be used as a shield to justify tax evasion tendency of any taxpayer. We should treat it as a disease and help people to understand that it does more harm to the country than it does to them. Although, there is much dispute as to what factors contribute most effectively to tax payer compliance (Gordon, 1996) but this research was conducted to identify possible reasons of tax evasion and to motivate both researchers and Government to focus more time and effort on this issue to develop a cure for this infections disease before it is too late. Otherwise, the hope of Bangladesh becoming a developed country one day will never become a reality.

4. Objectives of the Study

The primary objective of the research was to identify factors that influence tax evasion among tax payers in Bangladesh.

More specifically, this research was conducted to:

1. Determine the correlation, if any, among tax evasion and selected demographic independent variables.
2. Determine the correlation, if any, among tax evasion and selected intellectual independent variables.
3. Identify the factor(s) that has the most influence on tax evasion.
4. Establish the significance of the proposed model through regression analysis.
5. Suggest further areas of research on the subject matter.

5. Methodology

5.1 Research Design

This research was done using the survey method. A structured questionnaire was used to gather quantitative information from selected sample which was developed using a Likert scale of one to five (1 being strongly disagree and 5 being strongly agree). All the questions were close ended.

5.2 Sample Size

A sample is often defined as the subset of the population. A random sample method will be applied while selecting sample. The following formula derived by Anderson is used in determining the appropriate sample size for the research.

$$n = (Z_{\alpha/2})^2 p(1 - p) / E^2 \quad (\text{Anderson, 2011})$$

Hasan

Where,

- n = Sample Size
- E = Margin of Error
- p = Planning Value
- $(Z_{\alpha/2})$ = Confidence Level

Assuming a p value of .3, 0.025 for E and 1.0 for $(Z_{\alpha/2})$, the sample size derived from the above equation is = 336. To make things convenient, a sample size of 300 individuals of Dhaka city was taken as the final sample size.

5.3 Sources of Information

All the primary data were collected using the questionnaire through mail order survey. After collecting the data, it was analyzed using Statistical Package for Social Science (SPSS). Following tools of SPSS were used to derive statistical conclusion:

- A. Cronbach Alpha Test
- B. Correlation Analysis
- C. Regression Analysis

Besides the above mentioned tools, descriptive statistics were described in this paper through the use of tables. Secondary data were also used in this research and was collected from different books, journal articles, websites and newspaper articles.

5.4 Research Questions

This research was conducted to generate answers to the following questions:

- 01. Do demographic factors have more influence on tax evasion?
- 02. Do intellectual factors have a greater influence on tax evasion?
- 03. What is the correlation if any, among identified independent factors and tax evasion?
- 04. Is there any gender based difference in reasons of tax evasion in Bangladesh?

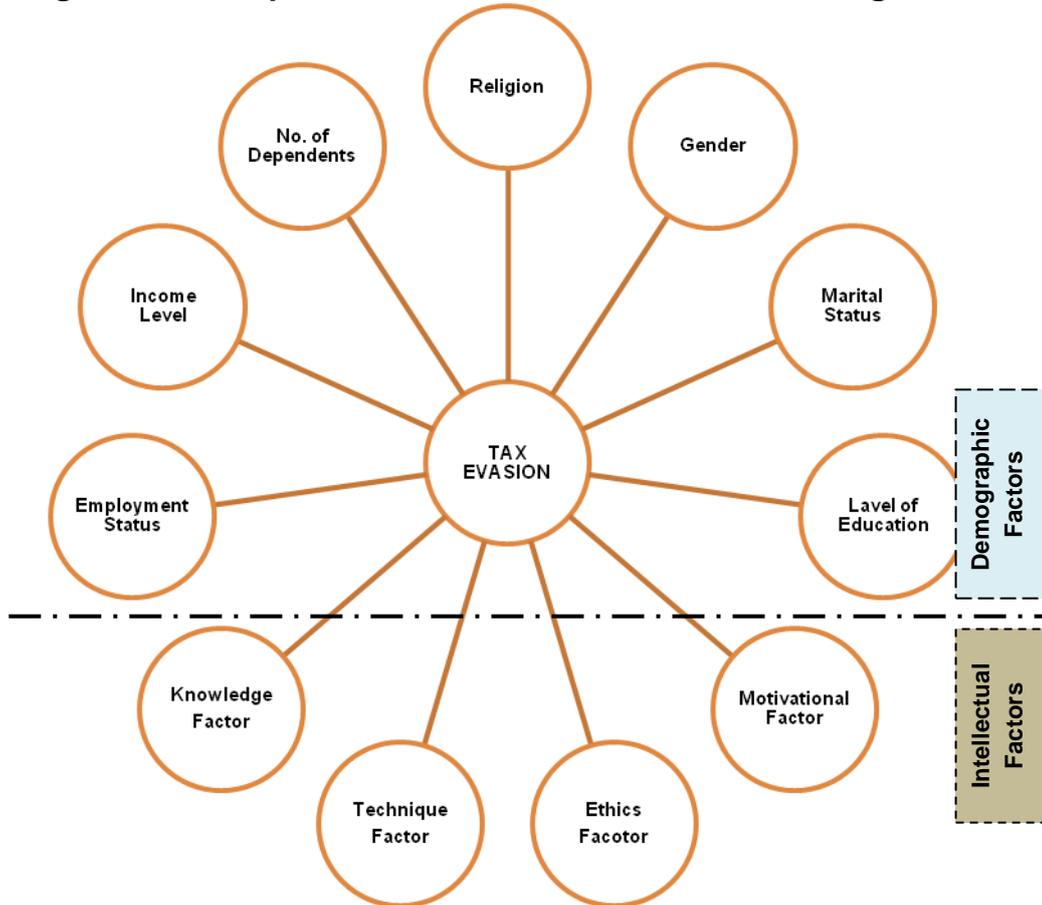
5.5 Hypothesis

Following null hypothesis have been generated to conduct this research:

- H1:** Tax evasion in Bangladesh is affected by identified independent variables.
- H2:** Male and female tax payers are influenced by same independent factors in tax evasion
- H3:** Tax evasion has a negative correlation with knowledge factors.
- H4:** Tax evasion has a negative correlation with Technique factors.
- H5:** Tax evasion has a positive correlation with Ethics factors.
- H6:** Tax evasion has a positive correlation with Motivational factors.

5.6 Conceptual Framework

Figure 1: Conceptual Framework of Tax Evasion in Bangladesh



6. Statistical Analysis

6.1 Descriptive Statistics

Table 1: Descriptive Statistics of Respondents

		Statistics							
		Religion	Gender	Age	Marital Status	Level of Education	Employment Status	Income Level	Number of Dependents
N	Valid	300	300	300	300	300	300	300	300
	Missing	0	0	0	0	0	0	0	0
Mean		1.07	1.30	2.82	2.00	4.17	3.09	2.33	2.37
Median		1.00	1.00	3.00	2.00	4.00	3.00	2.00	2.00
Mode		1	1	2	2	5	2	1	3

6.2 Cronbach’s Alpha Test

Cronbach’s Alpha is a statistical tool which is used to measure the reliability of a research conducted through the use of a questionnaire. It was developed by Lee Cronbach in 1951 as an attempt to provide the measure of the internal consistency of a test or scale

Hasan

(Cornbach, L.,1951). A higher alpha is always expected by researchers as it increases the reliability of the research. As mentioned in table- 1 below, the alpha value of this study is .697or 69.70% which on the higher side and we can conclude that the questionnaire used in this research is reliable.

Table 2: Reliability Statistics Values

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.637	.697	30

6.3 Correlation Analysis

Pearson correlation was used to measure the linear relationship among dependent and identified intellectual variables. It is evident from the below table that there are low level correlation exists among dependent and independent variable which is negative foe some and positive for other variables.

Table 3: Correlation Analysis of Variables

		I am tax payer	K	MF	T	E
I am tax payer	Pearson Correlation	1	-.130*	.165**	-.080	.008
	Sig. (2-tailed)		.024	.004	.166	.897
	N	300	300	300	300	300

Here, k is knowledge regarding the current tax policies, MF is motivational factors, T is Techniques used to evade tax and E is used for ethical arguments for tax evasion.

6.4 Regression Analysis

A multiple linear regression was conducted with 11 independent variables. Table – 2 indicates that the R square of the study is 39.80 percent which mean 39.80 percent variance of the dependent variables were explained by the independent variables. From the Anova table in table – 3 we can conclude that the model is accepted as the p – value is less than .05. Now, if we give a closer look at the coefficients in table – 4 we'll find that not all independent variable are significant for this research. For example, gender has a significance value of 0.076 which is higher than .05 and as a result became insignificant. To see if any variation exists in male or female respondents, regression analysis was conducted separately and the result of coefficients is given in table – 5.

Table 4: Regression Analysis of Proposed Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.631 ^a	.398	.371	.378	1.683

Table 5: Significance Value of Regression Analysis

Model	Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	27.069	13	2.082	14.569	.000 ^a
	Residual	40.877	286	.143		
	Total	67.947	299			

Table 6 : Coefficients Values of the Entire Sample

Model	t	Sig.
(Constant)	10.114	0.00
Religion	-2.017	0.045
Gender	1.78	0.076
Age	-3.828	0.00
Marital Status	-4.36	0.00
Level of Education	-2.993	0.003
Employment Status	1.26	0.209
Income Level	-5.537	0.00
Number of Dependents	-0.812	0.417
Knowledge Regarding the Current Tax Policies	-3.193	0.002
Techniques Used to evade tax	-2.721	0.007
Ethical Arguments for tax evasion	-0.208	0.835
Reasons for Non Compliance	1.882	0.061
Reasons for Tax Payment	-0.26	0.795

Table 7: Coefficients Values Separating Male and Female Respondents

Model	Female		Male	
	t	Sig.	t	Sig.
(Constant)	7.030	.000	7.671	.000
Knowledge Regarding the Current Tax Policies	-2.687	.009	-1.695	.092
Reasons for Tax Payment	.713	.478	-.334	.739
Reasons for Non Compliance	-.483	.630	1.985	.048
Techniques Used to evade tax	-1.811	.074	-2.080	.039
Ethical Arguments for tax evasion	-1.551	.125	.961	.338
Religion	-2.220	.030	-1.302	.195
Age	-.396	.693	-4.142	.000
Marital Status	-2.995	.004	-2.503	.013
Level of Education	-1.259	.212	-3.388	.001
Employment Status	2.552	.013	.446	.656
Income Level	-3.244	.002	-3.146	.002
Number of Dependents	-.786	.435	-.318	.750

7. Findings

Result from the regression analysis proves the fact that the model is significant. A significance level of 0.00 from table – 4 indicates that the model is statistically fit and the identified independent variables have influence on tax evasion in Bangladesh. So, we can conclude that hypothesis -1 is accepted. After having a look at coefficients in table – 5, it was identified that almost all of the demographic variables except employment status have influence on tax evasion where knowledge and technique factors are the two intellectual factors that affects tax evasion tendency. So, we can say that demographic factors have more influence on tax evasion tendency among the selected respondents than intellectual factors. Next step was to check whether male and female tax payers are influenced by the same independent factors or not. Table – 6 provides enough evidence to draw possible

Hasan

conclusion on hypothesis – 2. It was found that among demographic factors only marital status (sign. 0.013 for male and sig 0.04 for female) and income level (sign. 0.02 for both) were common which influenced both male and female respondents in tax evasion practice. On the other hand, none of the intellectual factors were common among male and female respondents. So, we can conclude that null hypothesis is rejected for hypothesis – 2 and alternate hypothesis is accepted. Pearson correlation analysis in table – 2 tells us that there is a weak negative relationship (value -.130) existing among a person's willingness to become a tax payer and his knowledge regarding current tax policies in Bangladesh. It indicates that the more a person will know and understand about the tax system of our country, the possibility of him becoming a defaulter in tax payment will grow. As a result, hypothesis – 3 is accepted. Again, there is a weak negative relationship (value -.080) existing among a person's willingness to become a tax payer and techniques available in the country to evade tax. It indicates that if we can minimize the ways people are evading tax in our country then the number of honest tax payers will increase. As a result, hypothesis – 4 is accepted. A weak positive relationship (value .008) existing among a person's willingness to become a tax payer and ethics. It indicates a strong ethical belief will motivate more people in becoming a model tax payer. So, hypothesis – 5 is also accepted. Finally, hypothesis – 6 is also accepted as the correlation between becoming a tax payer and motivational factors are weak positive (value 0.165). It indicates that a person's willingness of tax payment will increase if he is positively motivated. Both government and peers can play a vital role in motivating an individual to become an honest tax payer and thus tax evasion practice will automatically be reduced in future.

8. Conclusion

Tax evasion is a serious crime that deprives a country from its available sources of revenue and as a consequence pushes its economy toward inflation. Corporate taxpayers are more involved in this crime than individual tax payers in Bangladesh as a result our inflation rate has been in double digit. The Government is trying to motivate tax payers paying the appropriate amount of tax, but unethical tax payers are always finding out the loopholes that exist in our current tax policy and continuing their tax evasion practice with pride. We should all understand the fact that our small sacrifice as tax payment can help our country grow stronger and our next generation will get a better life. I hope that this study will help everyone to realize how important tax revenue is for the economic development of a country and how we are affecting that development through our tax evasion tendency. In future, I would like to conduct such research on young individuals who are the prospective taxpayers of our country to see what their opinion is about tax evasion. Due to time constraint, this study was limited among the respondents of Dhaka city. So, it would be better to incorporate respondents from other divisions of the country to reach at a more uniform idea about the tax evasion tendency in Bangladesh.

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Hasan

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Hasan

Appendix

“Attitude toward Tax Payment among the Current and Prospective Tax Payers”

Demographic Information

Please Circle the appropriate answer:

1 Religion	Islam	Hindu	Christian	Others:		
2 Gender	Male	Female				
3 Age	Below 25	25-35	36-45	46-55	56-65	Above 65
4 Marital Status	Single	Married	Divorced	Separated	Widow	
5 Level of Education	No Formal Education	S.S.C	H.S.C	Undergraduate	Post Graduate	Others:
6 Employment Status	Unemployed	Full- Time Employed(Pri vate)	Full- Time Employed(Pu blic)	Self - Employed	Student	Retired
7 Income Level	Below 2,00,000	2,00,000 – 5,00,000	5,00,000 – 8,00,000	8,00,000 – 11,00,000	11,00,000 – 14,00,000	Above 14,00,000
8 Number of Dependents	1	2	3	4	5	Above 5

Hasan

Section – 3: Reasons for Non Compliance		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
		5	4	3	2	1
1	My Income is below the non assessable income limit.					
2	Tax Revenues Not Spent on Public Services.					
3	Tax rates are too high.					
4	Waste and corruption in government is high					
5	Harassment by Tax Collectors.					
6	The amount of tax I have to pay is unreasonable considering the benefits received					
7	The government does not provide enough information about how they use taxpayers' money					
8	Tax calculation is very complicated.					
9	I don't know why I have to pay tax					

Section – 4 Techniques used to evade tax		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
		5	4	3	2	1
1	Showing personal expenses as business Expenses.					
2	Showing inadmissible expenses as Allowable.					
3	Claiming excessive tax deduction, tax exemption and tax credits.					
4	Bribing the low morale tax officials.					
5	Hiding a large proportion of income.					

Hasan

Section – 5 Ethical Arguments for Tax Evasion		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
		5	4	3	2	1
1	Tax evasion is ethical if a significant portion of the money collected finds its way into the pockets of corrupt politicians or their families and associates.					
2	Tax evasion is ethical if the probability of getting caught is low.					
3	Tax evasion is ethical if tax rates are too high.					
4	Tax evasion is ethical if a large portion of the money collected is spent on projects that do not benefit me.					