



Towards People-Centric Public Finance Management in Bangladesh



Presentation on
Digitalisation of the Bangladesh Tax System
The Next Frontier for Higher Resource Mobilisation

Presentation by

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Study on

**Digitalisation of the Bangladesh Tax System: The Next Frontier for Higher
Resource Mobilisation**

Carried out by

CPD in Collaboration with The European Union

as part of the Programme titled

Towards People-Centric Public Finance Management in Bangladesh

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Section 1: Background: Relevance of the Study

Section 1: Motivation: Relevance of the Study

- **Public Finance Management & Raising its Efficacy** have emerged as an urgent task for Bangladesh's policymakers.
- As part of the research programme titled **Towards People-Centric Public Financial Management (PFM) in Bangladesh**, supported by the European Union, CPD planned to undertake a number of studies which were expected to contribute towards a strengthened PFM in Bangladesh.
 - As part of the PFM Research Programme, CPD had earlier carried out a study titled *Taxation of the Digital Economy in Bangladesh* which has already been presented at a National dialogue. The present study, a sequel, focuses on the theme of **Digitalisation of the Taxation System in Bangladesh**.
- As part of the other stream of the PPM programme, two studies are being prepared: **Property Taxation** which has been completed and already presented at a National Dialogue, and Assessing the **Viability of Universal Basic Income in Bangladesh** which will be presented at a National Dialogue shortly.
- In the backdrop of the low levels of Domestic Resource Mobilisation (DRM) in Bangladesh, the present paper's point of departure is that digitalisation of the taxation system in Bangladesh could be the next defining frontier for greater DRM where policymakers should put priority policy emphasis.
 - The motivation of the present study, and this Dialogue, is to highlight (a) **the rationale for digitalisation** of the Bangladesh's taxation system in the current context, (b) **assess initiatives taken by the NBR** in this backdrop, (c) **review progress** of current digitalisation efforts and identify **challenges and bottlenecks**, what worked and what did not work and why, and (d) **suggest way forward**. The idea of the Dialogue is also to get inputs from high level policymakers and key stakeholders towards successful digitalisation of the Bangladesh taxation system.
 - While digitalisation may not be able to address all problems driving low DRM in Bangladesh, **it can go a long way in raising tax effort, tax outcome and revenue mobilisation**.

**Section 2: Why Issues of Digitalisation of Bangladesh's Taxation System
Have Emerged as an Urgency in the Present Context?**

Section 2: Why Issues of Digitalisation Demand Urgent Attention?

- The oft-cited indicator of **Bangladesh's low Tax-GDP and Revenue-GDP Ratios** has been attracting increasing attention in development circles, here in Bangladesh and also international developmental **discourse**. Why a country which has achieved such an impressive and consistent GDP growth over the past years, continues to generate such low levels of **domestic resource mobilization (DRM) remains a puzzle**.
- Bangladesh's Revenue-GDP ratio has indeed **somewhat come down in recent past years** – from 10.99% in FY 2010 to 10.36% in FY 2021 to 8.26% in FY 2023. The target for FY 2024, set at 9.9% is also unlikely to be achieved. At a time when GDP growth rates were robust, averaging more than 6.5% per annum revenue has not been able to post a rise in tandem. To recall, in the **7th Five-Year Plan (2015-2020)**, the target for domestic revenue mobilization was set at 16% of GDP, and the Public expenditure was set at 21.1% of GDP for the year 2020 (with *Budget Deficit* remaining equivalent to about 5.% of the GDP). Four years on, we are much far off those targets.
- Indeed, if the 7 FYP target of revenue mobilisation was achieved, the entire revenue and ADP for FY 2023-2024 could have been financed by domestic resources!

- **Greater DRM is important for Bangladesh for several reasons:** resource availability to underwrite increasing demands for public sector expenditure; a more equitable income distribution; less dependence on domestic and external borrowings; reducing debt servicing obligations on account of interest and principal payments which is eating away an increasing share of revenue earnings (about **a fifth** of revenue expenditure in FY 2023-24 went for servicing interest payments for domestic and foreign borrowings only). If the principal amount is added to this, the share will be much bigger.
- The low Revenue income in Bangladesh has given rise to a situation **whereby the entire development budget (ADP) is having to be financed by borrowed money, either domestic or external.**
- The low Revenue-GDP ratio and the need to keep the Budget Deficit under control (at $\leq 5\%$ of GDP) mean that the **Public Expenditure-GDP ratio** has also tended to remain low in Bangladesh compared to other developing and low-income countries.

Table 1: Resource Mobilisation Trends in Bangladesh (FY 2010-FY 2024) As Share of GDP

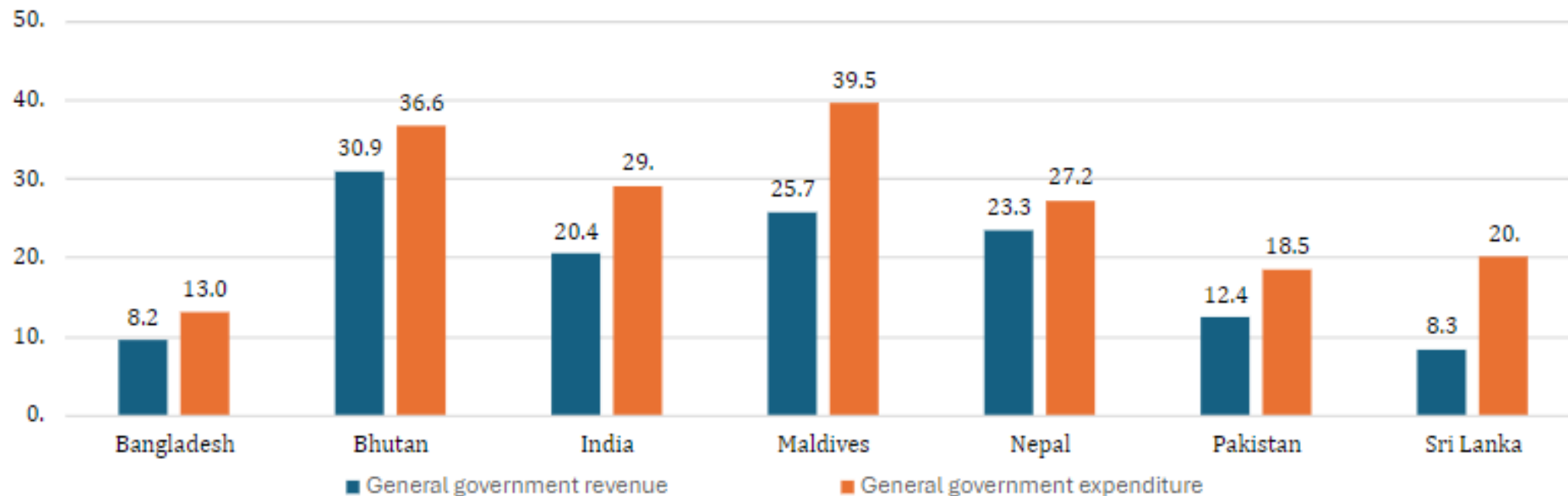
FY	2010	2019	2020	2021	2022	2023	2024*
Tax Revenue	9.05	8.91	7.94	8.51	7.54	7.38	8.99
<i>NBR Tax Revenue</i>	8.65	8.62	7.73	8.32	7.37	7.20	8.59
<i>Direct Tax</i>	2.35	2.65	2.70	2.75	2.42	2.41	3.06
<i>Indirect Tax</i>	6.30	5.97	5.03	5.57	4.95	4.79	5.53
<i>Non NBR Tax Revenue</i>	0.40	0.29	0.21	0.19	0.17	0.18	0.40
Non Tax Revenue	1.94	1.02	1.57	1.86	0.88	0.88	1.00
Total Revenue	10.99	9.93	9.51	10.36	8.43	8.26	9.99*

Source: Ministry of Finance, Budget in Brief (FY 2011- FY2024), Monthly Fiscal Report (December 2023), Bangladesh Economic Review (2023)

*Figure for 2024 is projected. However, actual figures are likely to be much lower than the projected value and share.

- A Falling Revenue-GDP Ratio in recent years

Fig 1: Revenue and Public Expenditure Ratios of South Asian Countries including Bangladesh-2021 (As Percent of GDP)



Source: International Monetary Fund, World Economic Outlook Database (April 2024)

- **Low DRM results in low levels of Public-Expenditure as a share of GDP.** This would imply that investment in critically important areas through public expenditure are to that extent constrained for example, for education, infrastructure, health, social safety net, and food security, among others.

- Low DRM means that there is hardly any surplus in the revenue budget. Consequently, this entire ADP has to be financed by domestic borrowings and external lendings.

Table 2: Bangladesh's ADP is fully financed from Borrowed Money

Resources for ADP				
				(crore Tk.)
Particular	BFY24	RBFY23	BFY23	AFY22
A. Total Revenue Receipt	500,000	433,000	433,000	334,641
B. Operating Recurrent Expenditure	436,247	390,085	373,242	307,725
C. Revenue Surplus (A-B)	63,753	42,915	59,758	26,916
D. Other public expenditures except ADP	54,552	35,420	51,027	19,369
<i>Of which, Foreign interest</i>	<i>12,376</i>	<i>9,322</i>	<i>7,200</i>	<i>4,554</i>
E. Revenue Surplus after all expenditures other than ADP (C-D)	9,201	7,495	8,731	7,547
*F. Foreign Debt Repayment (Principal amount)	24,700	18,150	17,000	13,302
*G. Revenue Surplus after all expenditures and foreign debt repayment other than ADP (E-F)	(15,499)	(10,655)	(8,269)	(5,755)
H. Net Domestic Borrowing	155,395	140,425	146,335	115,216
I. Total Foreign Borrowing for ADP	123,104	97,796	108,000	74,716
J. Total ADP financing (G+H+I)	263,000	227,566	246,066	184,177

*G and *F indicate that debt servicing for the principal amount is being paid from borrowed money.

Source: Rahman, Mahrab and Arpita (estimated 2024).

- It is sometimes argued that one of the reasons for Bangladesh's Revenue-GDP ratio remaining so low is because of the large amount of **tax expenditure** (tax incentives exemptions, waivers provided to various sectors.) While there is true, this does not tell the full story. Many developing countries with similar size of economy do have significantly higher revenue-GDP ratio in spite of a variety of tax incentives they offer. The objective of any tax expenditure is to help businesses and start-ups to grow and flourish. This then creates opportunities for higher earnings for the revenue authorities from direct and indirect taxation. All exemptions have **sun set clauses** and new incentives may be added for other sectors. India is an example, where tax expenditure has come down significantly (as a share of GDP) but Revenue-GDP ratio has gone up significantly in spite of this because the exempted sectors subsequently became new sources of taxation.
- **Revenue Received by NBR < Revenue Paid by Taxpayers**
- One issue which is often not given due importance is that Revenue Paid by Taxpayers to GDP ratio is significantly higher than the official Revenue-GDP that is reported by the tax authorities. Because, NBR does not receive the whole amount paid by the taxpayers.
- It is argued in the paper that **reducing human interface through digitalisation can bridge this gap.**

- **Raising Revenue-GDP Ratio has become even more urgent owing to a number of other emergent factors:**
- **There are targets that will need to be achieved as part of the IMF's 4.7 billion BoP support.**
- **NBR Targets under the IMF Loan:**
 - ❑ Raise revenue collection by 0.5 percent equivalent of the GDP annually over the support period.
 - ❑ Increase the number of registered taxpayers to 10 million by 2026
 - ❑ Install 300 thousand electronic fiscal devices over the next five years
 - ❑ Move towards a modern IT-based administration of VAT and income tax systems
 - ❑ Strengthen compliance risk management
- Bangladesh was not able to reach the revenue target agreed as part of the IMF programme for fiscal year FY 2022-23.

Table 3: IMF Tax Roadmap

(as % of GDP)

<u>Indicators</u>	Estimated		Projection			
	FY21	FY22	FY23	FY24	FY25	FY26
Total revenue and grants	9.4	8.7	8.8	9.3	9.7	10.3
Of which: Tax revenue	7.6	7.8	7.8	8.3	8.8	9.4

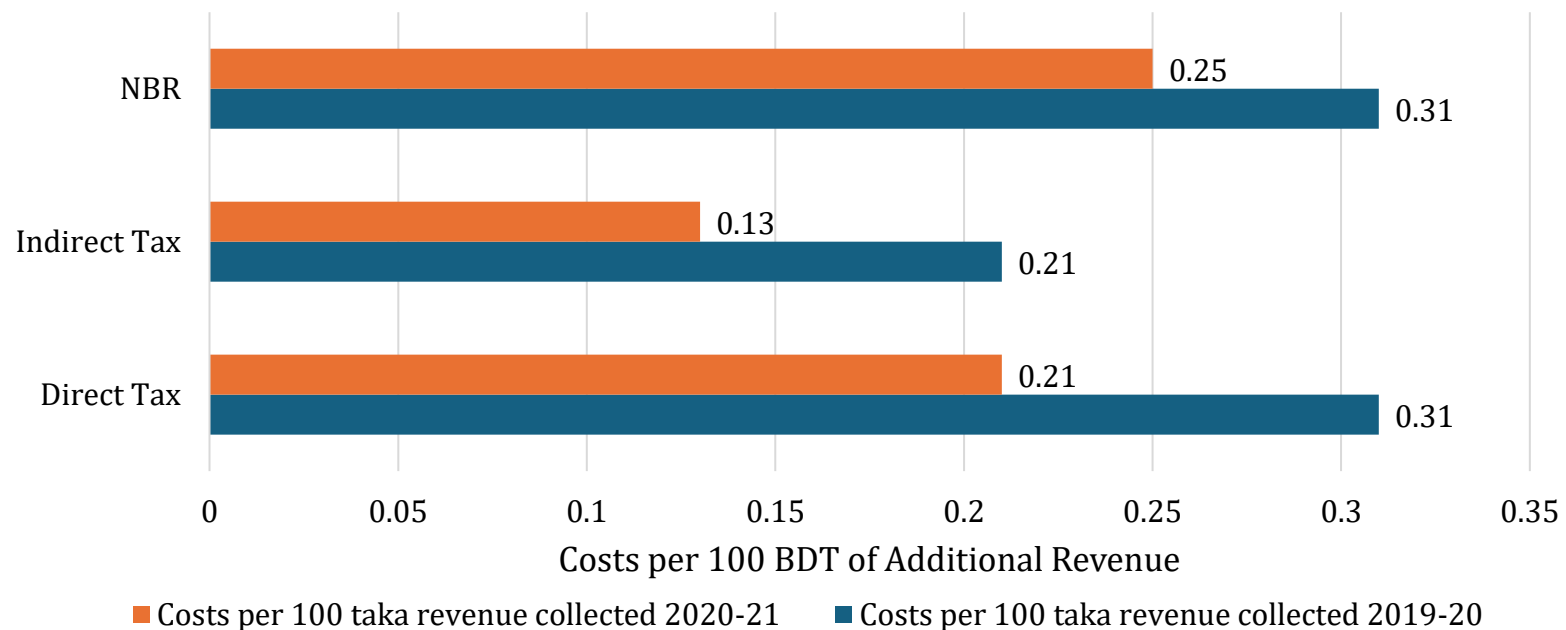
Source: IMF Country Report No. 23/66 (IMF, 2023)

- Bangladesh's Dual Graduation will also have revenue implications (the need for going for FTAs/ETCAs/CEPAs, consequent to **LDC Graduation** will likely lead to customs revenue losses). **Middle-Income Graduation** will lead to higher costs of external borrowings. Hence, the need for renewed efforts towards additional tax mobilization by raising tax efficiency and productivity through digitalization has emerged as an urgency.
- It is proposed that, one of the central strategies in this context could be to go for full digitalisation of the taxation system.

Why Investment in Tax Digitalisation is Good Value for Money

- It is interesting to note that the potential increase in tax collection by spending an additional unit of money, through various measures including digitalisation of the taxation system, **is the highest in Bangladesh among developing countries.**

Figure 2: Costs of Tax Collection in Bangladesh and Efficiency Gains

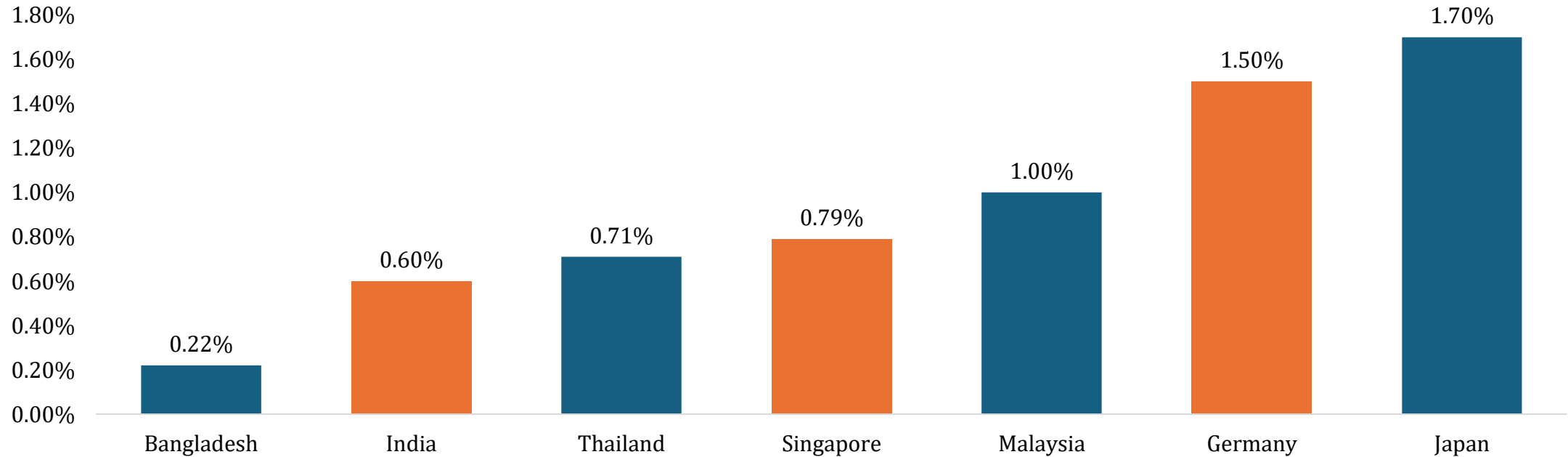


Costs per 100 BDT of Additional Revenue Generated

Source: Medium Term Macroeconomic Policy Statement: 2023-24 to 2025-26, MoF

- **Cross-Country Data Also Corroborates this : The Returns on Investment in NBR is Way Higher in Bangladesh**

Figure 3: Cross Country Comparison of Costs per 100-taka Tax Raised



Source: Medium Term Macroeconomic Policy Statement: 2023-24 to 2025-26, MoF

➤ How Digitalisation Can Help to Mobilise additional Revenue?

- Bangladesh has witnessed rapid GDP growth and rise in per capita income over the past several years. However, this has not been reflected in mobilisation of resources through taxation, including direct taxation.
- In Bangladesh, both **tax elasticity** (change in revenue to change in income) and **tax buoyancy** (reflecting efficiency and responsiveness of revenue mobilisation to growth in GDP/GNI) has been low. Digitalisation can help bridge the gap.
- Digitalisation can help detect **tax avoidance** (e.g. leveraging loopholes deductions, exemptions etc.) and reduce **tax evasion** (e.g. intentional deceptions of tax authorities to avoid paying taxes).
- The degree to which taxpayers engage in tax avoidance and tax evasion is influenced by several factors: their tolerance for risk and, the severity of penalties if violations are detected. This is, to a large extent, dependent on state of governance in a country' which is not a short-term issue. However, what is argued here is that through **technical solutions** we can enhance DRM, without being hostage to overall improvement in state of governance which is of course necessary for sustainability of any technical solutions.

Section 3: Why Investment Towards Digitalisation of the Taxation System is Good Value for Money?

Section 3: Why Investment Towards Digitalisation is Good Value for Money?

Potential Revenue Generation From Digitalisation

- The Table 4 outlines the estimated revenue impact of digitalisation of tax administration in Bangladesh over the period 2022 to 2027 based on some assumptions gleaned from survey of global literature. The table presents actual and projected GDP values in USD billion for each year. Two scenarios are developed to estimate the increase in revenue consequent to digitalisation: a more significant impact, estimated at originating from **100% coverage** and the other a **modest coverage of 25% e-filings**.

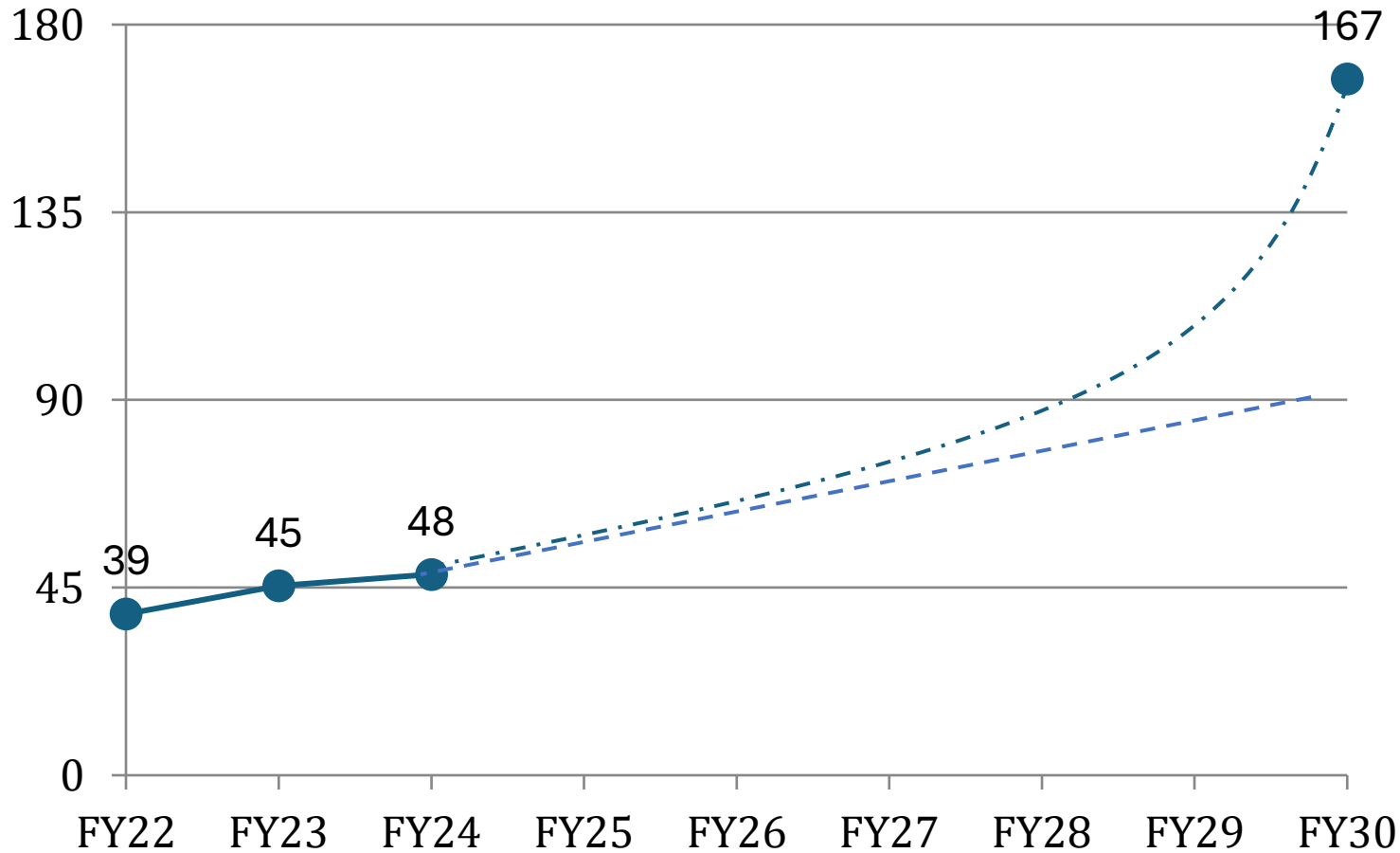
Table 4: Projections about Additional Tax Collection Subject to e-filing

	Estimated Values ¹ [Billion USD]			
	Year 1	Year 2	Year 3	Year 4
Nominal GDP	481.4	538.5	603.9	652.2
Increase in revenue due to transition from no e-filing to mandatory e-filing in the country (5% of GDP) [Est.]	24.1	26.9	30.2	32.6
Increase in revenue due to transition to 25% of all taxes being filed online (1.2% of GDP) [Est.]	5.8	6.5	7.2	7.8

Source: Estimated based on various global sources.

Digitalisation and Potential Outcomes

Figure 4: Potentials of Revenue Mobilisation through Digitalisation (FY2024 – FY2030) (Billion USD)



➤ Through sustained digitalisation of the taxation system, Bangladesh could gradually enhance revenue-GDP ratio to 16% by FY2030.

Source: Estimated by authors for FY 24 to FY 30 based on literature survey

- **Our estimates indicate that digitalization can help Bangladesh increase DRM significantly compared to the business as usual scenario.**

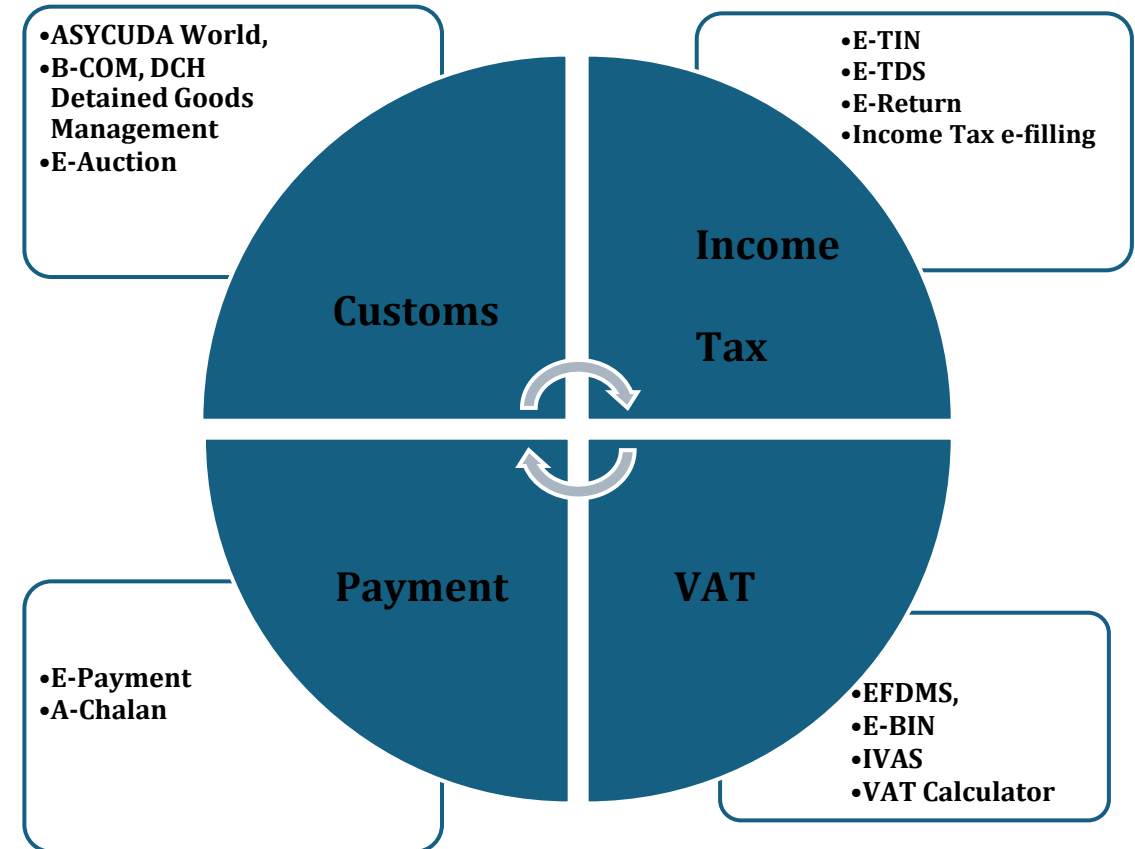
- Digitalisation is just not a technical solution. It is also verification and analytics.
- Information constraints exacerbate opportunities for tax avoidance and evasion, but digitalisation can help address these constraints by improving verification of taxpayers' true economic outcomes. Digitalisation ***allows fiscal authorities to link information across tax systems***, enhancing the detection of *tax evasion* and *tax avoidance*, thus strengthening tax enforcement.
- Implementation of more sophisticated tax systems through digitalisation, such as conditioning tax liabilities on various factors such as ***income earned over different periods or asset holdings enables detection of tax avoidance.***

Section 4: Bangladesh's Efforts at Digitalisation of Taxation

Section 4: Digitalisation Efforts in Bangladesh

- Over the past years, **The GoB, Ministry of Finance and the NBR have taken a number of initiatives towards higher revenue mobilisation where digitalisation of the taxation system has featured prominently.**
- However, all these efforts need to be juxtaposed against the Metrics of Results: Tax-GDP Ratio, Revenue- GDP ratio. It is here that the outcomes have remained less than satisfactory.

Figure 5: Digitalisation of Revenue Management



Source: Authors's visualisation from NBR

A Timeline of NBR's Modernisation Efforts

- **The Tax Modernisation Plan (2011- 2016)** by the NBR was developed to address key constraints to revenue mobilization. The Plan outlined nine strategic areas of tax policy and the required administrative reforms: (i) tax policy reform; (ii) business process reform; (iii) automation of tax processes; (iv) redefining the status and regulatory power of NBR; (v) restructuring NBR according to function and size; (vi) strategic communication and outreach; (vii) enforcement improvement program; (viii) human resource program; and (ix) infrastructure development program.
- The Ministry of Finance has attempted modernisation of the taxation system in Bangladesh through the **PFM Action Plan (2018-2023)** and *the more recent PFM Reform Action Plan (2024-2028)*.
- Objective of the of Revenue Strategies as part of the PFM Reform Action Plan for 2024-2028 was to focus on **enhancing the effectiveness of revenue administration and increasing tax collection through improved tax administration.** Achievements of the objectives will critically hinge on digitalisation of the taxation system.

Key goals in the PFM Reform Action Plan 2024-2028 pertaining to the digitalisation of the taxation system:

- Goal 3: Develop and implement Revenue Strategies for effective revenue administration
- Sub-activities:
 - Prepare and implement a medium and long-term Revenue Strategy **(MLTRS)** and update NBR Modernization Plan.
 - **Strengthen revenue risk management capacity of NBR.**
 - **Strengthen NBR capacity to estimate tax potential, tax base analysis, tax expenditure, and revenue forecasting.**
 - Strengthen the capacity of data gathering, statistics and reporting.
- Goal 4: Increase tax collection through improved tax administration
- Sub-activities:
 - Ensure harmonization and taxpayer data sharing across various wings of the NBR
 - Develop and implement an internal audit manual; Promote awareness among NBR staff of the existing legislation protecting whistleblowers; Organize peer-to-peer learning Strengthen NBR staff capacity in tax administration
 - **Introduce registration and filing of online VAT returns**
 - **Launch on-line payment system for VAT, Income tax and Customs together with an interface with iBAS++.**

Government's Tax Modernisation Plan

➤ Budget For FY 2023-2024

- The Budget 2023-2024 noted that the tax-GDP ratio will need to be raised significantly to help underwrite the public investment towards Bangladesh's graduation to a developed country.
- It was noted that implementation of various measures mentioned in the budget for FY 2021-22 led to a **25 percent increase in submitted income tax returns in FY 2022-23**. However, despite progress, the number of returns stood at about 3.2 million, which was, below the potential number.
- The Budget stated that an increase in tax return submissions and taxpayers holding TIN is expected through **Tax Return Preparer (TRP) and e-return platform**.

Bangladesh Perspective Plan-Vision 2041

- The 'Perspective Plan of Bangladesh 2021-2041' has targeted to raise the revenue-GDP ratio to 19.55 percent by 2031 and 24.0 percent by 2041. Also, the goal is to increase the proportion of **direct taxes to over 50% of total tax revenue** by 2041.
- Strategies include broadening the tax base, modernizing VAT and income tax administration through computerization, and greater reliance on accounts-based audits, strengthening the professional and technical capacity of the revenue administration by **utilizing digital technology** and **online filing**, enhancing monitoring of potential taxpayers, dealing with tax evasion, and improving taxpayer services to increase compliance, and deepening organizational and other reforms of revenue collecting agencies, including the introduction of non-intrusive inspections, electronic fiscal devices, and **bond management automation**.

NBR's Efforts at Digitalisation of the Taxation System

▪ Specific Plans Undertaken by NBR in Areas of Digitalisation

- **2008 Reforms in Revenue Administration (RIRA) in 2008:** Funded by DFID, this project was implemented in two phases to assist the National Board of Revenue (NBR) to strengthen its capacity to administer legislation, particularly as regards **direct tax and VAT**.
- **Project Goals and Outcomes:** The project aimed to introduce sustainable administrative measures to increase both direct and indirect tax revenue. Maxwell Stamp Ltd helped achieve four key outputs: (i) piloting modern and automated tax practices in the Large Taxpayers Unit (LTU), (ii) establishing an Inspection and Internal Audit function, (iii) improving the management of information systems, and (iv) increasing professionalism in tax administration.
- **[2008-2009] Management Information System of Taxation (MIST):** Developed to provide a single-window system for secure electronic document and information exchange among stakeholders in the taxation chain. This initiative aimed to reduce assessment times, improve data sharing, and enhance fiscal management.
- **Challenges and Criticisms:** The project faced several problems such as technical and design flaws, particularly the insistence on replicating physical tax notices digitally, misallocation funds of (e.g. unnecessary international trips).

▪ **Specific Plans Undertaken by NBR Regarding Digitalisation (contd.)**

- **Tax Administration Capacity and Taxpayer Services (TACTS):** A five-year project launched following RIRA, aimed at enhancing income tax revenue collection by improving tax compliance and broadening the tax base.
- **Strategic Development Plan (SDP):** Launched in 2005 to increase the Tax-GDP ratio, modernize tax administration, simplify procedures, and promote transparency and accountability.
- **Modernization and Automation Project (MAP):** Launched in mid-2005 to strengthen institutional capacity and improve the efficiency of tax collection through extensive modernization and automation efforts.
- **Comprehensive Modernization Plan (CMP):** Launched in 2011, the plan encompassed all components of NBR reform efforts under one plan with the hope of achieving the intended goals over the next five years. NBR attempted to review and modernize both tax policy and tax administration and as such nine strategic areas were selected for reforms within five years. These were: i) Tax policy reforms; ii) Integrated revenue management program-business process reform; iii) Integrated revenue management program-automation of the tax processes; iv) Redefining the status and regulatory power of NBR; v) Restructuring NBR according to function and size; vi) Strategic communication and taxpayer outreach, education and assistance; vii) Enforcement improvement program; viii) Human resources and institutional development program; and ix) Infrastructure development program

- **Specific Plans Undertaken by NBR Regarding the Digitalisation (contd.)**

- **[2011-2018] Strengthening Governance Management Project (SGMP):** Financed by the Government of Bangladesh and the Asian Development Bank (ADB), the SGMP aims to introduce online tax filing, digitalize tax returns, establish taxpayer information and service centers, increase connectivity, and introduce database management.
- **The project was geared to the following outputs:**
 - ✓ **Online Tax Returns:** Increase the facility for online submission across all income tax offices, with a target of 75% of large taxpayers filing online and making gender-disaggregated data publicly available.
 - ✓ **Digitized Land Records Management**
 - ✓ **Improved Information Access** at Specialized Information and Service Centers
- The **BITAX modules** included online submission of annual income tax returns, digitization of manually submitted returns, electronic assessment of returns, and online processing of tax clearance certificates, along with other business functions, such as registration, audits, appeals, tax holidays, and scrutiny processes.

▪ **Specific Plans Undertaken by NBR Regarding the Digitalisation (contd.)**

- **[2014-2020] VAT Improvement Program (VIP)**: Assisted by the World Bank, the VAT online Programme (VOP) aimed to enhance VAT administration in Bangladesh, significantly accelerating the automation of VAT processes.
- **Project Components:**
 - **Operational Modernization**: Focused on enabling high levels of voluntary compliance within the VAT system.
 - **Integrated VAT Management**: Developed distinct applications for different tax types and adopted a commercial, off-the-shelf VAT administration system.
 - **Institutional Strengthening and Capacity Building**: Reorganized the VAT system functionally and provided training on (Integrated VAT Administration System) *iVAS business processes*.
 - **Program Management**: Included coordination, administration, change management, taxpayer communication, and education.

- **Specific Plans Undertaken by NBR Regarding the Digitalisation (contd.)**

- **The Bangladesh Revenue Mobilization Program for Results: VAT Improvement Program**

(VIP) 2015-2021

- The VIP had the following program development objectives:
 - improve revenue mobilization; and
 - improve transparency in the VAT administration.
- The adoption of an automated Integrated VAT Administration System (IVAS) was expected to raise online tax filings and returns, as well as e-payments, for all taxpayers
- **IVAS was also developed by FPT IS.**

- **The program was comprised of the following four components:**

1: Operational modernization of the VAT Wing within the National Board of Revenue

- registration, return processing, tax payments, taxpayer accounting and tax refunds;
- tax audits;
- collection and enforcement;
- tax appeals; and
- taxpayer services

2: Introduction of an Integrated VAT management

- Develop individual software for income tax, VAT, and customs.
- On March 4th, 2013, NBR opted for a web-based COTS VAT system.
- VAT and Income Tax to share a common database using the new TIN.
- System accessible to all VAT offices and related centers.
- Tender required use of “Oracle”, advised by World Bank, IMF, and IFC.

3: Institutional strengthening and capacity building

- Support the reorganization of the VAT Wing along functional lines and provide training for staff.
- Enable NBR VAT Wing staff to use the new integrated VAT system and adapt to new business processes.
- Equip staff to handle changes in law, rules, and organizational structure due to new administrative processes and information technology introduced by the Program.

4: Program management

- **Part 1:** Focused on managing the implementation of the program, providing expert advice on program management, IT, procurement, financial management, and disbursement.
- **Part 2:** Aimed at supporting change management and implementing a comprehensive taxpayer communication and education program to build support for the reform both internally and externally.

The Fruits of Digitalisation

- **Automation Impact:** The introduction of the Integrated VAT Administration System (IVAS) was aimed at equalizing access to tax filing and returns for all taxpayer sizes and improved transparency in VAT administration.
- **Currently, the iVAS encompasses 16 comprehensive modules,** including Tax Type, **Registration**, Case Management, **Return Processing, Revenue Management, Revenue Accounting**, Taxpayer Current Account, Refund, Non-Filing, Debt Management, Objection and Dispute Management, Taxpayer Enquiry, Document Certification, Audit and Risk Management. These modules collectively cover a wide range of VAT management aspects, from basic registration to complex dispute resolutions.

Customs Automation

- **Government has taken steps to increase taxpayer registration by linking TIN to receiving of 38 government services.**
- **ASYCUDA (Automated System for Customs Data)**
 - Developed by the UNCTAD, the ASYCUDA (Automated System for Customs Data) is a computerized Customs Management System. Bangladesh Customs uses the **latest version, ASYCUDA World**, which integrates various customs management solutions to streamline business procedures.
 - Features of ASYCUDA World: The system includes modules for **electronic Customs Declarations, Automated Document Processing, Risk Management, Inventory Control**, Transit Management, Tariff Classification, Valuation, and Statistical Reporting.
 - Bangladesh Customs began digitalising with ASYCUDA 2.6 in 1993, upgraded to ASYCUDA++ in 2003 in Dhaka, Chittagong, and Benapole, and migrated to ASYCUDA World in 2013. Subsequent upgrades in 2016 and 2021 have enhanced the system's capabilities.
 - Current Operation: **ASYCUDA World is now operational 24/7**, consolidating real-time data into a centralised system to meet user demands and leverage updated technology.

- **National Single Window (NSW)**: Launched in 2019 by the National Board of Revenue of Bangladesh, the NSW project aims to streamline and simplify import-export procedures with projected completion by 2025. The project focuses on providing various certificates and no-objection certificates (NOCs) essential for import-export activities *through a unified digital platform*.
- To date, 39 organizations have signed Memorandums of Understanding with the National Board of Revenue to ensure robust interconnection *for seamless data exchange*, aimed at speeding up the trade process and facilitating speedy goods release, to boost trade operational efficiency.

Specific Component Descriptions of the Digitalisation of the Taxation System

- **Electronic Fiscal Device Management System (EFDMS)**
 - This is a dual-based software system designed to enhance transaction management and accountability in retail and wholesale sectors. The system consists of two main components: the Electronic Fiscal Device (EFD) and the Sales Data Controller (SDC) machines.
 - EFDs are installed in businesses that do not have a software or Point of Sales (POS) system.
 - SDCs are integrated with existing POS systems.
 - **Both EFDs and SDCs are directly connected to the NBR's server and software, ensuring real-time data transmission of transaction details.**
- EFDs are mandatory for 24 types of services.

Specific Component Descriptions of the Digitalisation of the Taxation System

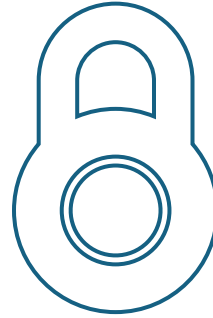
Figure 6: The EFDMS System



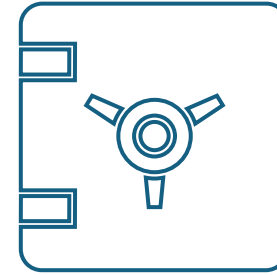
- **1. Sales receipt (challan) is issued**



- **2. Transaction data sent to NBR's server in real time.**



- **3. Unique security code generated**



- **4. Code printed on challan with VAT details**

➤ After previous attempts to enforce the use of electronic cash registers failed due to the absence of electronic servers to monitor transactions, NBR decided to set up the EFDs and Sales Data Controllers (SDCs) in 2017.

➤ The use of the EFDs started on a pilot basis only from **August 2020 and are mandatory for 24 types of shops and service providers.**

Specific Components Tax Digitalisation

➤ Electronic payment/E-payment:

- *Traders can use E-payment for customs duties and taxpayers can pay Income Tax via E-payment or A-challan.* VAT and supplementary tariffs also support electronic payment methods.
- *The E-payment system is integrated with various banks which are connected to the iVAS,* facilitating online tax payments.
- In 2023, E-payment has been made mandatory for all types of taxes. Initially, the NBR-Sonali Bank e-payment portal was introduced in 2012 mainly for payment of income tax. Although the portal included the option for payment of other taxes, it failed to attract taxpayers due to various limitations, including the absence of option for large payments and direct payments from bank accounts.

Specific Component Descriptions of the Digitalisation of the Taxation System

➤ Electronic tax deducted at source (e-TDS):

- **e-TDS, launched in 2020**, aims to automatically resolve tax disputes and facilitate reimbursements for advance paid income tax. It integrates with the e-return system for seamless data exchange on tax deductions across various sectors.
- **The system allows agencies to deduct tax at source, prepare chalans online, and deposit funds directly into the state treasury with just a few clicks.**
- It supports a variety of modern payment methods, including mobile payments, internet banking, and transactions via debit and credit cards, thus promoting greater compliance and enhancing the overall ease of tax administration.
- Currently, over 300 thousand authorized representatives provide TDS solutions to taxpayers. **TDS contributed to approximately 60% of all income tax receipts from July 2020 to June 2021.** Also, the e-TDS technology is **expected to manage 50% of the source tax settlement by 2025.**

➤ **Document Verification System (DVS):**

- **The document verification system based on a central database will keep audit reports of all companies registered with the Registrar of Joint Stock Companies and Firms.** Income tax officials will match the audit reports with the income tax returns of those companies.
- The DVS initiative by the *Institute of Chartered Accountants of Bangladesh (ICAB)* allows revenue authorities and other regulators such as Bangladesh Bank, Financial Reporting Council (FRC), Bangladesh Securities and Exchange Commission (BSEC), and Insurance Development & Regulatory Authority (IDRA) **to authenticate Financial Statements.**
- The number of audit reports signed by accountants by securing codes from the **DVS rose to more than 38 thousand** in 2021-22.

➤ **E-filing (E-returns):**

- **In September 2021, NBR introduced e-filing to streamline verification of taxpayer information online, retaining detailed accounts of income, expenses, assets, and transactions in a permanent database. This internal approach was in response to BITAX's shortcomings.**
- **Approximately 207 thousand tax returns were submitted through the new e-filing system in FY 23.**
- **EU PFM Programme Support: Technical Assistance Experts provided training and advisory services in taxpayer audit, risk management, litigation, and digital transformation to enhance tax administration effectiveness.**

Section 5: A Critical Assessment of Digitalisation Initiatives in Bangladesh

Section 5: A Critical Assessment of Digitalisation Initiatives in Bangladesh and Global Front Runners

- While there is no denying that NBR and many Ministry of Finance have taken many needed initiatives towards digitalisation of the taxation system, there is a long way to go.
- **In presenting the Budget for FY 2015**, the then Finance Minister reported that while VAT was collected from 4 lac points, NBR receives VAT only from **24 thousand points (6%)**. The situation has improved significantly over the recent past years thanks to a number of steps taken by the NBR.
- Though there is a long way to go- according to the World Bank, there is potential to triple VAT collection if policy gaps are bridged and compliance issues are addressed effectively through digitalisation. (WB development update 2024).
- Our own estimates presented in the preceding section showed that the potential gap between current and potential tax collection is significant.

Section 5: A Critical Assessment of Digitalisation Initiatives in Bangladesh and Global Front Runners

➤ Bangladesh Integrated Tax Administration System (BITAX)

- The ADB Project Completion Report rated the project as overall successful: relevant, effective, likely sustainable although less than efficient. However, many stakeholders and Implementation Monitoring and Evaluation Division **(IMED) disagreed with the analysis.**

- Limited Acceptability of Online Tax Return System.**

- Concerns Over Data Security:** The system, developed by FPT Information System Corporation, allowed access from Vietnam via VPN, posing significant security threats to national data. Repeated requests to FPT for creating secure, screenshot-based technical documents for BITAX management were ignored, leaving NBR dependent on FPT and compromising control over national tax data.

Half-way effort will not take us very far.

- The manual system makes it difficult to share data among the three wings of the NBR: VAT, Customs and Income Tax. With the current practice of manual operation and record keeping, tax administration find it exceedingly difficult to handle the work, particularly if the number of **taxpayers increases to 10 million as planned by the NBR.**
- The problems are aggravated due to **lack of interaction and coordination and a high degree of administrative fragmentation.** While many countries have moved towards greater integration of tax administration, **Bangladesh's administrative structure had remained unchanged, with separate Direct tax, VAT, and Customs Wings. Efforts to merge the cadre services have failed in the past.** Lack of integration and data sharing among the three wings and the administrative coordination results in a high degree to inefficiency in NBR's operation.

Section 5: A Critical Assessment of Digitalisation Initiatives in Bangladesh

- **Failure to Handover System:** FPT Information System Corporation, financed by the ADB, developed the BITAX system but did not hand it over to the National Board of Revenue (NBR) after the project completion in 2018. The service agreement with FPT ended in November 2019. NBR did form a team to take over the BITAX system but faced non-cooperation from FPT.
- **Premature Payment and Reduced Accountability:** The total bill for the BITAX project was paid in May 2019 before the system was handed over, understanding FPT's accountability to complete the handover before the project was over.
- Other issues included: Lack of real-time online tax payment and tax at source payments and, **unfriendly user interface.**

Section 5: A Critical Assessment of Digitalisation Initiatives in Bangladesh

➤ VAT Improvement Programme:

- The **World Bank's VIP significantly accelerated the automation of VAT administration** in Bangladesh, notably exceeding its goal of target value **(by 25 times)**.
- The VIP successfully reduced **VAT refund processing times from 120 to 90 days**, surpassing its target of 102 days.
- Over the program period, **VAT revenues increased annually by 15.1%**, reaching BDT 1.15 trillion in FY 2020–2021, which was above the projected target of BDT 914 billion.
- NBR has developed 16 modules of the Integrated VAT Administration System (IVAS), of which 13 have become operational. The NBR is yet to make policy decisions on **3 partially completed modules which are** not yet 'live' (**audit, risk management, and objection and litigation**). This undermines the effectiveness of the system.
- Sixty percent of large taxpayers **are now submitting online returns and using e-payments through 11 commercial banks**. The coverage is expected to rise when more banks are connected to the national payment gateway.

Section 5: A Critical Assessment of Digitalisation Initiatives in Bangladesh

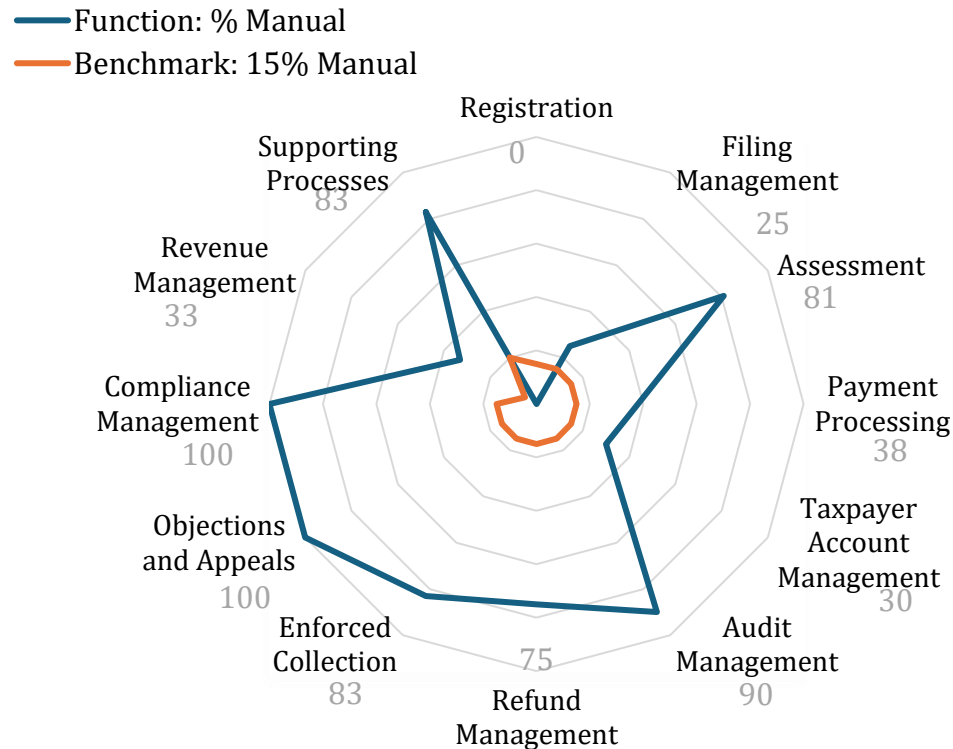
➤ VAT Division:

- **The Integrated VAT Administration System (iVAS) currently offers only 43% of the benchmark features,** primarily in basic tax system components like registration, return filing, and payment, with critical functionalities such as **data analytics, risk management, and workflow management still unavailable,** limiting its use to automating basic tax processes without supporting automated taxpayer compliance monitoring or NBR enforcement activities.
- Significant gaps in the iVAS functionality mean it operates more **like a basic bookkeeping system, providing minimal support to NBR staff** for monitoring taxpayer compliance and does not alert them to non-compliant behavior or help manage activities to ensure compliance. Moreover, iVAS lacks a risk management component, crucial for modern tax administrations to focus on potential non-compliance and efficiently allocate limited resources.
- Although **iVAS has the technical potential to expand significantly beyond its current capabilities,** the mere deployment of new functionalities is inadequate without corresponding changes in internal procedures, which should shift focus from routine operations to proactive compliance and enforcement activities based on well-identified risks.

Section 5: A Critical Assessment of Digitalisation Initiatives in Bangladesh

➤ VAT Division: (continued)

Fig: 7: Amount of Manual Effort to Complete Function (Balance by ICT System)



- **NBR's users of the iVAS system perceive it as only assisting them with 38% of their workload.** The analysis of the perceived activity performed by iVAS is represented by the blue line in Figure 2. In an advanced implementation of a tax administration software solution it would be undertaking 85% of the workload (alternatively stated as manual processing requiring 15% of the task). This analysis reinforces the conclusions of the iVAS functionality analysis that iVAS information is being supplemented with significant manual processing to meet NBR's operational requirements. This limits NBR's staff time for required enforcement, compliance and managements monitoring activities (WB, 2023).

➤ **Source: Technical Assistance Report, World Bank (2023)**

Section 5: A Critical Assessment of Digitalisation Initiatives in Bangladesh

➤ EFDMS:

- The current plan is to install 60 thousand EFD/ SDCs in the first phase of implementation. If successful, 300 thousand machines will be installed over a five-year period. To date, only 9,270 EFD/SDC machines have been installed.
- **Selection of unsuitable firms for EFD installation**, such as the consortium involving China-based SZZT and Synesis IT, led to significant delays and inefficiencies, compounded by the COVID-19 pandemic. Financial constraints further stalled progress.
- There has been notable reluctance among traders to adopt EFDs, primarily to evade taxes, which has been a significant barrier to widespread adoption. In response, the NBR revised its strategy to a Public-Private Partnership model, i.e., **revenue sharing model**. **It has signed an agreement with Genex Infosys** to expedite the installation process with a revised target of installing 30 thousand EFDs and Sales Data Controllers by the end of the current year and aiming for 60 thousand installations annually over the next five years.
- Currently, only 7.5 thousand companies are listed as having installed EFD/SDC, with experts advocating for a comprehensive, **area-wide deployment to ensure** fairness and effectiveness in tax collection. The disparity in EFD adoption has created an uneven competitive landscape where businesses not collecting VAT can undercut those that do, thus disincentivizing compliance.

Section 5: A Critical Assessment of Digitalisation Initiatives in Bangladesh

➤ Direct Taxes:

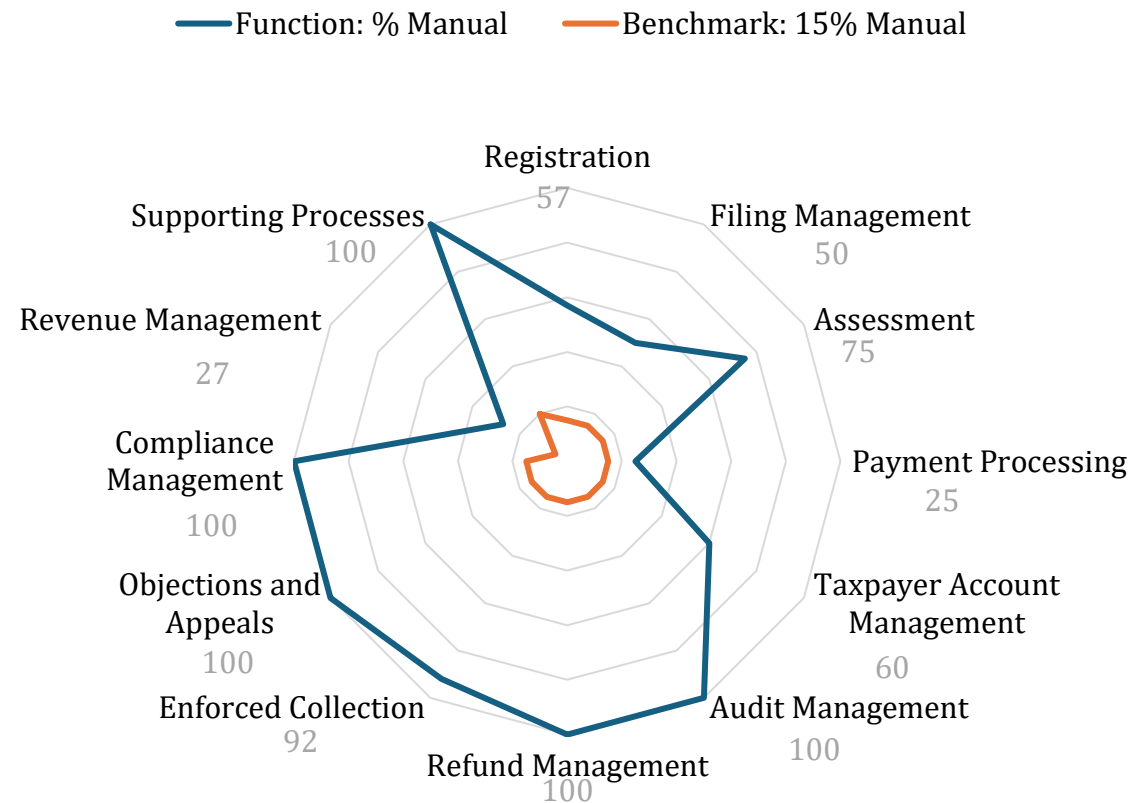
- **Limited Feature Set in Direct Tax Solutions:**

Currently, the **Direct Tax solutions only provide 12% of the features** set by the benchmark, focusing mainly on core tax system components such as registration, return filing, and payment, without advanced functionalities such as data analytics, risk management, and workflow management.

- **Minimal Impact on Workload Reduction:**

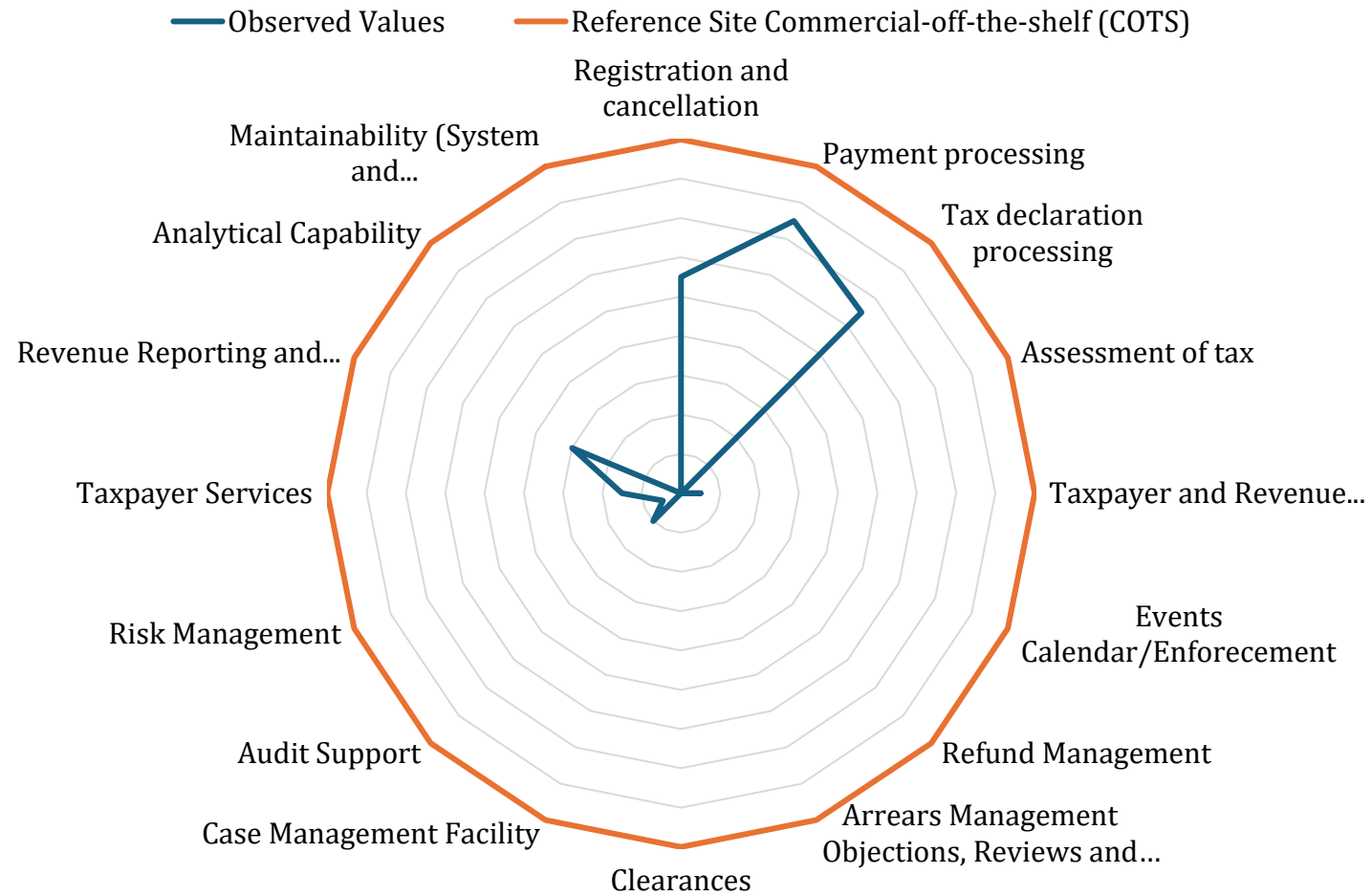
NBR's users perceive that the Direct Tax **solutions assist with only 27% of their workload**, highlighting that the system primarily offers basic bookkeeping functions, thus limiting the staff's ability to engage effectively in enforcement, compliance, and management monitoring activities.

Fig: 8: Amount of Manual Effort to Complete Function (balance by ICT system)



➤ **Source: Technical Assistance Report, World Bank (2023)**

Fig: 9: Direct Tax ICT Application Functionality to Benchmark



Source: World Bank

- The **blue boundary** represents how much of the function **is available in the currently deployed systems** (i.e. the closer to the edge of the circle the better). The **red boundary** represents the expected functionality provided by a full featured tax administration commercially available product.

Section 5: A Critical Assessment of Digitalisation Initiatives in Bangladesh

➤ Customs Wing:

- **Bangladesh's revenue from customs duty is higher than in many comparable countries.** While customs duty typically declines with higher national income, **Bangladesh collects about 1.8 times more** customs revenue than expected when compared to other middle-income countries, even after accounting for factors beyond per capita income. This indicates that Bangladesh's customs revenue significantly exceeds predictions based on typical economic models.
- In NBR context, Customs wing is the most highly automated sector, with advanced support from the Custom ICT team for the ASYCUDA system, equipped to handle and proactively defend against security issues as noted in the World Bank's Technical Assistance Report 2023.
- The latest version, **ASYCUDA World**, includes features such as **electronic Customs Declarations, Automated Document Processing, Risk Management, Inventory Control**, Transit Management, Tariff Classification, Valuation, and Statistical Reporting, providing an integrated Customs management solution designed to streamline business procedures.

Section 6: The Way Forward: Recommendations

Section 6: The Way Forward: Recommendations

- The NBR has recently Prepared a Plan in view of SMART Bangladesh
 - If NBR means business, it should implement the plan in a time-bound manner, with assigned responsibilities

Table 5: NBR Work Plan Towards SMART Bangladesh

NBR Plan to Implement SMART Bangladesh	Which Current Problem will be addressed	Expected results if the initiative is successfully implemented	Targeted Outcomes	Targeted Timelines
<ul style="list-style-type: none"> • Establish interoperable system connecting all NBR systems with other third parties (BB, Scheduled Banks, BEZA, BIDA, BEZA Service providers, Land Ministry etc.). 	<ul style="list-style-type: none"> • Service recipients will have access to technology-driven services. • Tax evasion will be addressed. 	<ul style="list-style-type: none"> • Technology-driven monitoring evaluation and control of income tax, VAT, customers and exercise duties- related activities. 	<ul style="list-style-type: none"> • All information related to revenue collection will be available online. 	<ul style="list-style-type: none"> • Timelines for implementing Interoperability: <ul style="list-style-type: none"> ➤ 2025: 25% ➤ 2031: 50% ➤ 2041: 100%
<ul style="list-style-type: none"> • Putting in place tax return preparer (TRP) • Systems modernisation. 	<ul style="list-style-type: none"> • Opportunities of greater tax mobilisation at individual and institutional levels. 	<ul style="list-style-type: none"> • Revenue collection net and coverage to be expanded. 	<ul style="list-style-type: none"> • To ensure availability of reliable information on taxable income at individual and institutional levels. 	<ul style="list-style-type: none"> • Timelines for revenue collection: <ul style="list-style-type: none"> ➤ 2025: 25% ➤ 2031: 50% ➤ 2041: 100%
<ul style="list-style-type: none"> • Gradually move to a cashless payment system through e-payment of customers, VAT and tax (Finance Division's A-Challan, BB's RTGS and other payment systems) 	<ul style="list-style-type: none"> • Raise revenue earnings by promoting e-payment by taxpayers. 	<ul style="list-style-type: none"> • Technological upgradation of resource management, and through this enhancement of revenue income and reduction of tax evasion. 	<ul style="list-style-type: none"> • Government exchequer will receive 100% tax via online and in real time. 	<ul style="list-style-type: none"> • Timelines for revenue collection: <ul style="list-style-type: none"> ➤ 2025: 25% ➤ 2031: 75% ➤ 2041: 100%

Source: NBR (2024)

- NBR has designed a number of Plans in the past; however, these were hardly fully implemented and which are reflected in the declining revenue-GDP-ratio.
- There has to be a difference this time.

Section 6: Way Forward

- The Plan has 3 key components
 - **Embed technology-driven solutions** in all NBR activities (allocation, assessment, monitoring)
 - **Human capacity building** of all NBR personnel including those working at field level.
 - Preparation of smart content and **360° dissemination strategy** by creating awareness and behavioural change of taxpayers.

- **If and when this plan is fully implemented, Bangladesh's move towards Digitalisation of the Taxation System will have reached a significant milestone.**

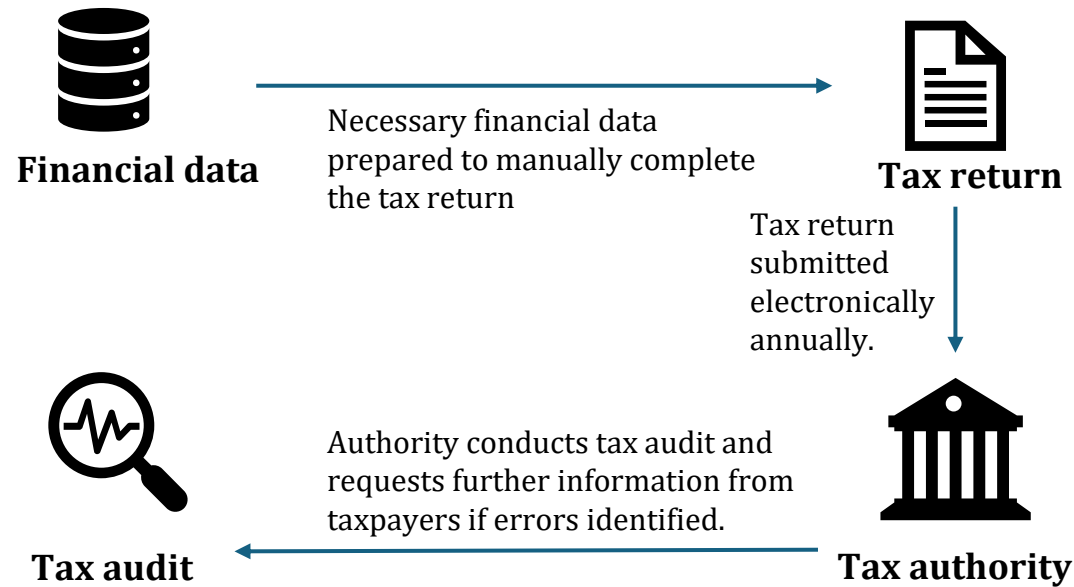
- **A political buy-in will be necessary** to implement the Plan, aligned with the time lines mentioned in the Plan. The political buy-in will be required to support all three areas of the needed investment: (a) investment in building the necessary digital infrastructure; (b) Human resource building; (c) Resist inertia and ensure accountability in implementation with time-bound deliverables.

- **The upcoming FY 2024-25 Budget could be an appropriate opportunity to make a departure in this context.**

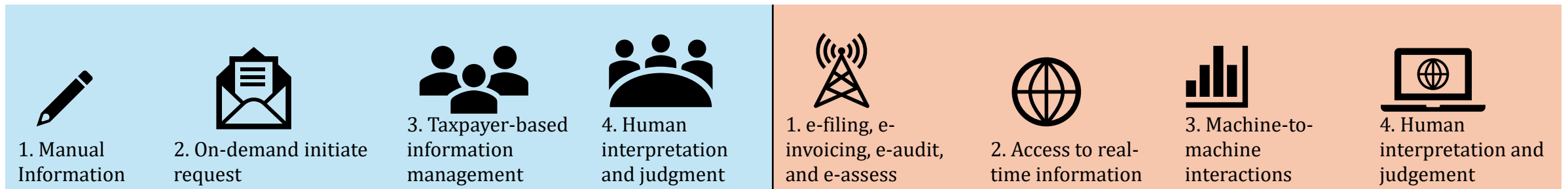
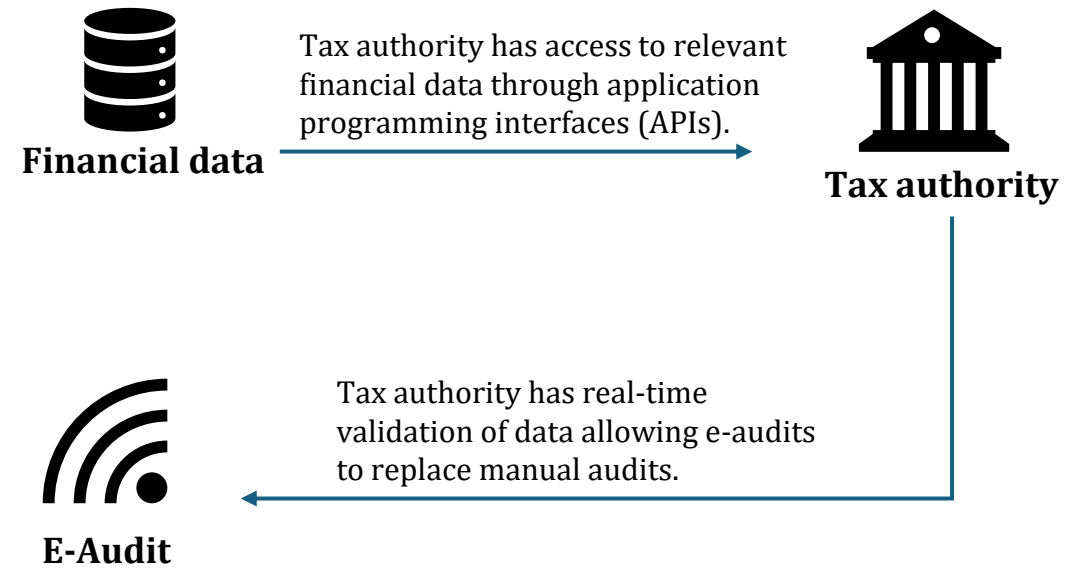
- Comprehensiveness of digital solution (e.g. VAT not having three key components), interoperability of systems (e.g. systems integration); cooperation with cross-border relevant agencies; data analytics and transmission of red lights (e.g.. Tax avoidance).

Figure 8: Comparison of Tax Administration 1.0 Compliance vs. Tax Administration 3.0 Administration

▪ **Traditional tax compliance processes**



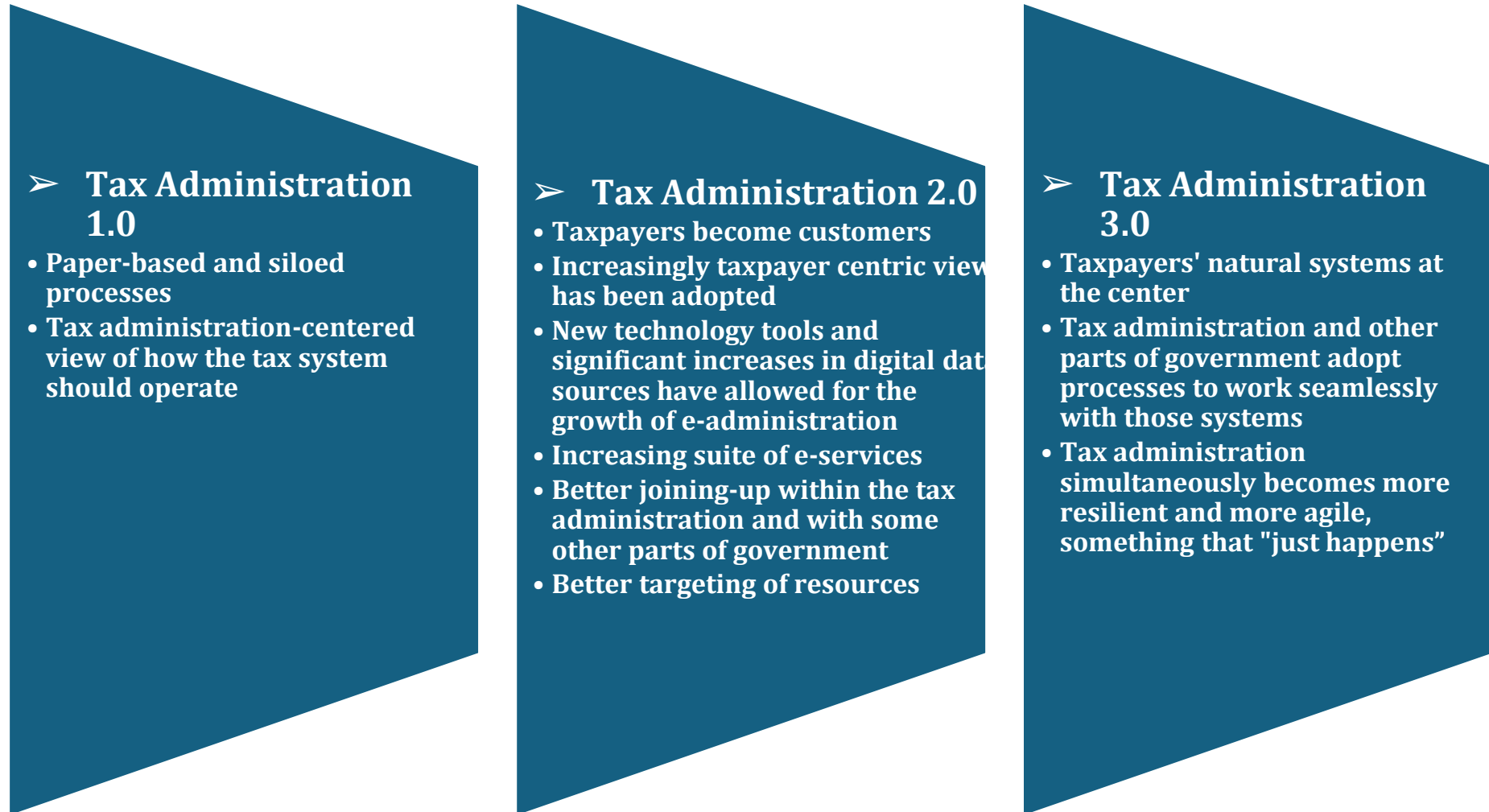
▪ **Future digital tax ecosystem**



Source: ADB Report (2022)

- **The Phases of Digital Transition: Bangladesh will need to make the transition from Phase 1 to Phase 3 of digitalisation.**
 - **3 waves of Digital Transition**
 - ***First wave: Digital Transition:*** Shift from paper-based to digital storage of tax information. Tax returns could be e-filed, auditing automated, and data quality improved Bangladesh is still in the first stage.
 - ***Second wave: Consolidation and Efficiency:*** Integration of advanced technologies- tax administration begins using basic analytics and data warehousing e.g. prefilled tax returns and interface with personalised dashboards such as pension/social security.
 - ***Third wave: Optimisation and Autonomy:*** Focus shifts to allowing systems to self-optimize using technologies such as machine learning and deep neural networks. Direct Control of tax authorities on specific process is reduced progressively. Decisions are data-driven and automated.
 - **Not all countries go through these stages sequentially. Some countries which have started modernisation in more recent times are skipping some stages. Even within a particular country, various areas of taxation can be at different stages of taxation. Cross-country experience indicates that some of the relatively less developed countries have been able to overtake their more advanced peers (e.g. Kenya which has introduced widespread use of mobile phones for purposes of taxation). As far as digitalisation is concerned, **Technological Leapfrogging** is a possibility and an option that ought to be pursued.**

Figure 9: Stages of Digitalisation

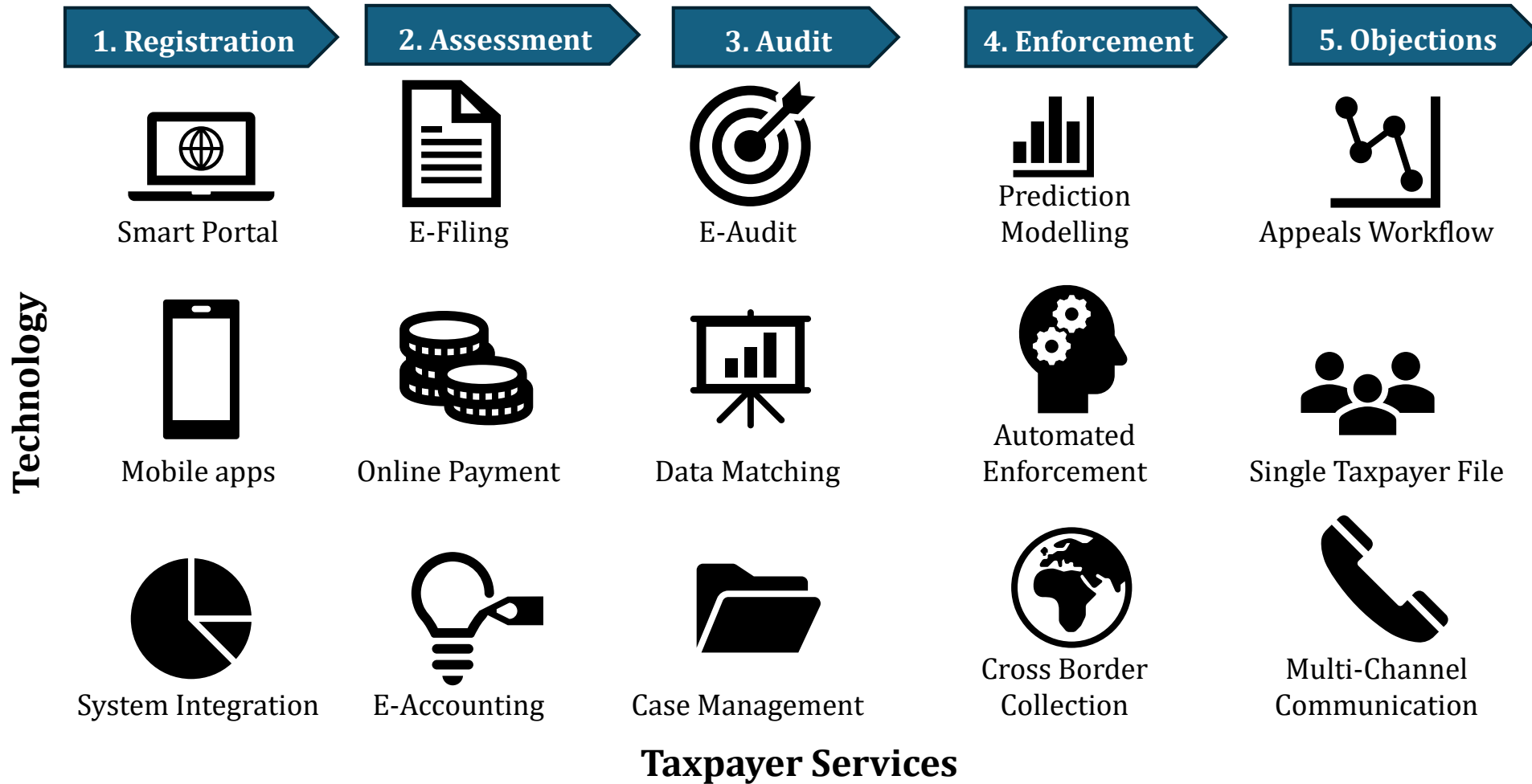


Source: ADB Report (2022)

- The OECD Forum on Tax Administration (FTA) has conceptualized tax administration's digital transformation journey by sketching the starting point, in-between stages, and aspirational endpoints:

▪ **Comparison with Best Case Scenario**

Figure 10: Technology Associated with Tax Administration Cycle End –to end tax administration cycle



Source: Christopher Sanger (2020); Ernst & Young Global

- **Common Features of Advanced Digitalised System**

- Data driven (e.g. big data flows are handled by using data analytics, AI etc.)
- Technology supported (e.g. big data is processed efficiently with integrated technology).
- Expanded Digital Taxpayer Services (e.g. intergovernmental service integration)
- Specialised Services (e.g. LTU and global compliance requirements).
- Embedded Flexibility
- Future-Proofed (digital solutions remain viable and evolve with future demands)

- **Expected Outcomes and Impacts**

- Enhanced Transparency and Trust
- Reduced Compliance Burden
- Lower Tax Evasion and Tax Avoidance.
- Higher revenue mobilisation

Section 6: The Way Forward: Recommendations

- **Implement the entire spectrum of digitalisation:** Over the years, NBR, with partnership with various partners have been able to put in place some of the basic IT and digital infrastructure. However, the experience is that if the entire spectrum of digital-human-institutional architecture does not work in tandem, these will not deliver the expected outcomes in terms of greater DRM.
- **Ensure interoperability of systems:** To improve the effectiveness of iVAS, additional data from transactions and third-party information sources, including Direct Taxes and external economic activity indicators such as energy use and banking information, are essential to enhance data analytics for identifying revenue risks.
- **Establish a cadre of VAT ICT staff trained in SAP programming is** needed to empower NBR to continue localizing and expanding iVAS functionalities, *reducing reliance on external vendors*.
- **Ensure Database Software Consistency:** Coordination among various initiatives has emerged as a major problem. **Implementation of the Direct Taxes solution lacks a clear plan**, particularly in areas such as database software consistency. While developing independent modules using outsourced resources and later integrating them into a unified tax administration system is feasible, this approach requires substantial preparatory work to establish the architecture and module requirements. **Use of different database softwares across existing solutions** indicates a lack of adequate oversight, complicating the integration of these systems due to varied database software, programming languages, and user interfaces. It is thus critically important to develop an explicit and detailed plan to guide the integration process effectively.

Section 6: Recommendations

- ***Ransomware attacks*** are increasingly affecting organizations of all sizes, including NBR, whose ICT resources, with assistance from the Bangladesh Computer Council and other government security bodies, conduct regular "Penetration Testing" on their public interfaces and internal systems. Given the expanded access to NBR's systems by external developers and taxpayers via web services, the likelihood of a "supply chain attack"—where a compromised supplier allows attackers into NBR's network—or socially engineered attacks is rising. Consequently, it is necessary to build in-house capacity or engage an appointment team skilled in conducting "grey box" penetration testing to assess both the public and internal aspects of NBR's network security.

Section 6: Recommendations

- Achieving efficient and broad-based automation will be crucial. An automated system that is easy to use for taxpayers and able to fill the loopholes in the system is a crucial step toward preventing *tax avoidance and corruption*. The automated system should be able to identify individuals and businesses who are: i) registered in the system but are not submitting returns and ii) who are registered, submitting returns, but are not paying their due share of taxes. In terms of income tax, activities such as filing of returns, processing of returns, assessment of total income, computation of taxes, and payment of taxes, need to be automated and linked to the taxpayers' national identity numbers (NID). Ideally, tax authorities should be able to fetch and verify the information of each taxpayer with minimum effort.
- **Enhance Capacity Building:** Government should prioritize development of tax, technology, and data management skills within tax administrations. This involves training personnel to manage and utilize digital systems effectively, particularly in the areas of big data management, risk assessment, and taxpayer services. Implementing targeted training programs and possibly partnering with international organizations for expertise and resources could be crucial.
- Expedite building the National Single Window
- ***Expedite installation of EFD*** in a way that eliminates the discrepancies between those who have installed those who haven't.
- Get ready for phase out of WTO **1998 moratorium on e-commerce taxation** and prepare the customs to capture.
- The incentives provided for the 28-ITES are coming to an end. NBR should be ready to bring those (or at least some) under the digital tax net.

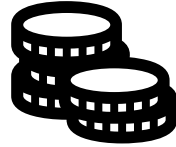
Figure 11: Tax Payment in Kenya using M-Pesa



1. Log on to itax.kra.go.ke



2. Fill in the required details



3. Generate payment registration number through the normal payment registration option



4. Select mobile money payment option & enter mobile number to be used to make the payment



5. A prompt is received on the mobile phone requiring confirmation of payment details



6. Payment is completed & confirmation messages received

Source: OECD

- **Kenya's** adoption of mobile money has been remarkably successful, after the introduction of M-Pesa in 2007. In efforts to enhance taxpayer services, the Kenya Revenue Authority (KRA) integrated mobile money payments through **M-Pesa** in 2013. The service, named '**Lipa Ushuru na Mpesa**' (**Pay taxes via Mpesa**), provides a straightforward and efficient tax payment method using mobile phones.

➤ Bangladesh may think of introducing a system such as **Adhar in India. Adhar is a 12-digit unique number** which is required to open Bank account, getting government subsidies, and accessing many other services (e.g. air travel). It is mandatory to submit the Adhar number while submitting tax (along with the PAN for tax purposes). This allows the tax authorities to reconcile expenditure incurred with the information in the income tax form submitted by the taxpayer. This help tax authorities to address tax avoidance and tax evasion. **This way tax authorities can verify tax payable through expenditure information and detect tax evasion.** Our NID could serve as the pertinent number in this regard.

Thank you