



**Tax Expenditure in the Direct Tax of Bangladesh:  
Estimation and Review**  
**Financial Year 2020-21**

**National Board of Revenue, Bangladesh**

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### **Disclaimer**

This report has been prepared as a useful reference for the readers and stakeholders as well as for the policy makers for proper apprehension of the tax policy implications of tax expenditure. In case of any conflict, the original erstwhile Income Tax Ordinance, 1984 and the Income Tax Act, 2023 shall prevail.

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# PREFACE

Taxation remains vital to fund the public goods such as infrastructural development and for the growth of the economy. Taxation is the main source of government revenue, which is also important to shape the relationship between the state and the citizens. A robust tax system facilitates revenue growth, ensure equitable distribution of wealth and reduces income and wealth inequality in the society. Bangladesh government has adopted several economic policies where taxation and domestic resource mobilization has been considered as the most important driving force of the economy.

Tax revenue enables the government to meet both revenue and development expenditures. For ensuring self-reliance, healthy economic growth and sustainable development sufficient growth is *sine qua non* in tax revenue collection. Tax expenditure statistics and reports are integral part of tax policy and it is a challenge for every state to ensure trade-off between tax expenditure and tax revenue collection, since a substantial amount of much needed tax revenue is lost due to various tax expenditures allowed by the government. This is particularly true in case of developing and transition economies like Bangladesh. Against this backdrop, it is necessary to estimate the tax expenditure impact on the overall revenue collection. There should be a clear picture for the tax administration and the stakeholders also as to how much revenue is forgone because of the tax expenditure. The study also helps the tax administration in identifying the expenditures that are necessary for the sectoral support and the ones that are no more beneficial for the economy to be continued.

Against this background, it is for the first time that NBR has prepared its tax expenditure report. This report intends to estimate the fiscal cost of tax expenditure in the direct taxes for FY2020-21. It is expected that the report on tax expenditure will contribute significantly in budgetary and fiscal transparency. It is to be mentioned here that in the Budget Speech for the FY2023-24, for the first time, a concise statement regarding tax expenditure in the income tax of Bangladesh was furnished.

This tax expenditure report prepared by NBR conforms to the international best practice of fiscal governance. The methodology followed is at par the available methodologies in the field.

Having a complete inventory of the expenditure, this report is a great initiative which will enhance the policy strength and with a further policy thrust, the tax to GDP ratio will be enhanced to the expected level. This is indeed a great stride on the part of the direct tax wing of Bangladesh that marks the fundamental progression towards perfection and precision of the tax administration of Bangladesh.

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and

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## ACRONYMS

ATO	Australian Taxation Office
AY	Assessment Year
BGTB	Bangladesh Government Treasury Bills and Bonds
FI	Financial Institution
FY	Financial/Fiscal Year
GDP	Gross Domestic Product
GTED	The Global Tax Expenditures Database
IT	Information Technology
ITO	Income Tax Ordinance
LTCG	Long term capital gains
NBR	National Board of Revenue
NGO	Non-Government Organizations
PIT	Personal Income Tax
SDG	Sustainable Development Goals
SEZ	Special Economic Zone
SME	Small and Medium Enterprises
SRO	Statutory Regulatory Order
STCG	Short term capital gains
TE	Tax Expenditure

# EXECUTIVE SUMMARY

Bangladesh has witnessed remarkable growth in the past few decades and positioned itself in a stable macroeconomic state. For the infrastructure development and to defray other necessary expenses, the Government of Bangladesh largely relies on NBR revenue. The NBR revenue is divided into two categories, direct and indirect taxes. Indirect tax comprises mostly of Customs Duty and Value Added Tax. On the contrary, direct taxes largely comprise of personal and corporate income taxes. Around 33% of the NBR revenue is collected through direct taxes. However, the income tax statute allows some preferential treatments to certain categories of taxpayers, industries, and other sectors through the forms of rebates, concessionary rates, exclusions from total income, tax holiday, and the like to promote savings, exports, balanced regional development, creation of infrastructure facilities, scientific research and development, and co-operative sector, among others. This preferential treatment offered by the tax statute is commonly known as tax expenditure.

Tax expenditure reports are essential tools for policymakers and taxpayers to assess the impact of various tax incentives on government finances and the overall economy. They play a crucial role in promoting transparency, accountability, and informed decision-making in the field of taxation. With a view to improving transparency and accountability in tax revenue and government spending, an estimate of the revenue impact of the various tax expenditure measures in the direct taxes has been reported to the Parliament for the first time in the National Budget for FY2023-24 of Bangladesh. The Direct Tax Wing of the National Board of Revenue, aligning with international best practices, has estimated this "Tax Expenditure" based on field-level data. In the National Budget Speech for FY2023-24, the term "Direct Tax Expenditure" was defined as rebates, discounts, exemptions, reduced rates of taxation, and the exclusion of income from computing total taxable income.

This report presents an analysis of tax expenditures within the realm of direct taxes, *viz.*, corporate income tax and personal income tax for the FY 2020-21 (assessment year 2021-22). It intends to describe the several steps of tax expenditure estimation and to report the revenue impact of tax expenditures in the existing structure of the direct tax of Bangladesh.



The Benchmark has been defined after a careful and critical examination of the existing provisions in the tax law and the socio-cultural norms as well as the standard practice followed by other countries, based on the standard tax treatment. A detailed tax expenditure inventory for the direct tax has been prepared.

The revenue foregone method has been used to estimate tax expenditure in Bangladesh. The estimate implies that the expenditure amount could have been collected as tax revenue had there been no such expenditure measures, and, therefore, interpreted as the amount of revenue foregone, assuming that taxpayers' behavior and other things remaining the same. Tax system in Bangladesh is in the process of digitization. In the absence of digitized data, the tax return information has been collected for a sample of taxpayers, following stratified random sampling covering all over the country. The actual income tax return data for the income year 2020-21 (assessment year 2021-22) has been collected from the tax circle offices under administrative divisions of 30 taxes zones, as stratified based on geographic location, income source, level and other criteria. The sample consists of 21664 individuals, 381 firms and 1930 companies.

With the availability of data, this report uses the concepts of microsimulation and distributional modelling for estimating tax expenditure which estimates the revenue foregone for the FY2020-21, allowing for distributional adjustments. The estimation considers the differences in sector-specific factors as well as other geographic and taxes zone-specific factors. The tax expenditures have been estimated for the broad categories and for the major sectors, as far as the available data allowed for.

The estimation suggests that in the corporate income tax, about 40% of the estimated tax expenditure comes from a few businesses. The tax expenditure in Micro Finance is estimated Taka 15315 crore. The estimated tax expenditure is Taka 8380 crore for power and energy (private power generation companies), Taka 3438 crore for garments, textiles & accessories, Taka 1477 crore for IT/Software businesses and Taka 143 crore for the poultry and fisheries companies. The estimated tax expenditure is Taka 4612 crore for economic zones and Hi-Tech industries (this estimate excludes those companies in economic zones, which are included in the other respective sectors).

A weighted mean estimation reveals a total of Taka 40499 crore tax expenditures in the personal income tax. Personal income tax expenditures mainly result from individual taxpayers

amounting Taka 40388 crore, whereas the amount is Taka 110 crore for firms. Based on the available data, three exemption measures for the individual taxpayers are estimated separately. Furthermore, tax expenditure is estimated Taka 11287 crore for remittance, Taka 966 crore for share capital gain and Taka 2977 crore for poultry, fisheries income of individual taxpayers. Therefore, total estimated tax expenditure in poultry and fisheries business (for individuals and companies) is estimated Taka 3120 crore.

The estimation reveals a total of Taka 1,25,813 crore tax expenditure in the direct taxes for the FY2020-21. 68% of the direct tax expenditures belong to the CIT amounting to Taka 85315 crore, while CIT comprises 60% share of the total income tax collection. The estimated total tax expenditure for the direct tax amounts to 3.56% of FY2020-21 GDP in Bangladesh.

A revisit of the data identifies that 18 sectors account for 71% of the total estimated TE in the direct taxes, with 11 sectors covering 65% of the total TE. The remaining 29% TE belongs to the existing TE provisions in other sectors.

It is important to note that the estimated revenue foregone due to tax expenditure measures does not necessarily imply that the government has waived this amount of money. It is obvious that the incentive measures targeted to different sectors or groups has caused a considerable impact in the growth of the respective sectors that would otherwise not have occurred had there been no such incentives.

To improve the effectiveness, efficiency, fairness, and transparency of the tax system, this report also puts forth a few recommendations for further consideration, *viz.*, eliminate or sunset ineffective expenditures, limit or cap expenditures, refine eligibility criteria, review and adjust tax credit rates, enhance reporting and transparency, conduct periodic evaluations, create new tax incentives, evaluate distributional impact, assess revenue implications, seek stakeholder input.

Following the estimation, this report attempts further to undertake a comprehensive review and revisit of the existing TE measures in several sectors as identified by the TE report. It examines international best practices in the TE regimes of these sectors with a focus on relatively homogeneous and comparable countries in an attempt to explore the possible policy restructuring.

The report puts forth the following policy recommendation in several sectors:

➤ **Share Capital Gain:**

- A reduced slab rate for individual share capital gain, *in the short run*.
- Director shareholders' share capital gain tax rates may be increased.
- Capital gain above a certain limit may be subject to a higher rate.
- Individual share capital gain taxable at a regular rate, *in the long run*.
- Including a retention period for stock market investment in the condition for companies enjoying exemption or reduced rate facility.

➤ **Financial Inclusion and Access to Finance:**

- Under Income Tax Act, 2023, the service charge received by the NGO related with micro credit is tax exempted upon meeting certain criteria. This will likely to reduce TE.
- A reduced tax rates (5-15%) is of worth consideration.
- Alternatively, upto a certain threshold of income may be exempted, with the additional income being taxable.

➤ **Remittance:**

- With a view to achieving broader socio-economic development goals, the existing TE provisions in remittance are crucial.
- However, it is important to remain vigilant in case of any fraudulent activity or money laundering issue.

➤ **Power and Energy:**

- With a view to achieving broader socio-economic development goals, the existing TE provisions are crucial.
- However, the existing policy and its misuse by the companies should be strictly monitored.
- Gradual phasing out of the energy sector TE provisions may be considered in long run.
- The SROs should be revisited and unified.

➤ **Tax Amnesty:**

- The existing rates needs to be revisited and may be increased.

- **Economic Zones and Hi-tech:**
  - With a view to achieving the broader economic goals, maintaining the TE provisions is crucial.
  - However, strict monitoring is necessary to prevent any fraudulent practice and to achieve the specific goals.
  - Gradual phasing out of the TE regime for economic zone may be a long run goal.
- **Salary:**
  - Tax exemptions given to particular groups may be revisited.
- **Dividend:**
  - As a long-standing feature and following international practices, no policy intervention is suggested.
- **Agro Business (Poultry and fisheries, agriculture etc.):**
  - Unification and amalgamation of similar SROs is necessary.
  - Another tier with a higher rate may be considered.
  - Fraudulent practices should be monitored strictly.
- **Capital Gain from Asset Transfer:**
  - Capital gain from transfer of asset, etc. is taxed at 15% for other than natural individual taxpayers in 2023.
  - The withholding tax rates for the transfer has been increased in 2023. This will likely to reduce TE.
  - The withholding tax at a reduced rate from acquisition of asset as the final tax needs to be clarified for the upcoming years.
  - The applicability of inheritance tax may be considered in the medium/long run.
- **Interest on Savings Certificates:**
  - A limit on investment in saving certificate has been set at Taka 5 lakhs for having tax rebate. This will likely to reduce TE.
  - The final settlement of withholding tax tends to favor the higher income groups or the individuals with higher investment in saving certificate.
  - The final settlement of withholding tax should be revisited and a slab rate may be introduced instead.

➤ **Bond and Government Securities:**

- Specific policy guidelines on the tax implication of the new bonds.
- Overall, the existing TE provisions in several bonds need to be revisited and restructured.
- Field level implementation with effective monitoring to avoid any confusion.
- TDS with final tax on interest on several tax exempted bonds may be considered, *in medium or long run*.

➤ **Export Sector:**

- For CIT, the tax rate is reduced to 12% in place of 50% exempted income for export other than garments through in 2023. This will likely to increase TE.
- With a view to achieving the broader economic goals, maintaining the TE provisions is crucial.

➤ **Investment Rebate:**

- Tax rebate on investments for investment in primary share, but not for investment in secondary share.
- The existing list of investment subject to rebate needs to be revisited.

➤ **IT Sector:**

- Interpretation of IT enabled service and clarification of TE provisions should be propagated towards field level implementation with effective monitoring.
- A reduced tax rate (10%-15%), or, a ceiling on exempted income, or, a sunset clause may be of worth consideration.

➤ **Education:**

- Given relatively less share in the estimated TE and following international practices, no policy intervention is suggested.

➤ **Publicly Traded vs. Private Limited Companies:**

- Reducing the gap between the tax rates of publicly traded and private limited companies is of worth consideration.

➤ **Interest on Foreign Loan:**

- Bangladesh should only follow the DTC regime and the regime established by bilateral as well as multilateral instruments.

➤ **General Recommendations:**

- ✓ Unification and formal publication of SROs.
- ✓ Strict monitoring to prevent fraudulent practices.

This is the first time NBR has undertaken the initiative of estimating the tax expenditure in a structured way and reporting it. In this first year study, an effort has been made to review and analyze the existing tax expenditures in Bangladesh through defining the benchmark tax system, listing the expenditures inventory, estimating and reporting the tax expenditures and stepping to the room for further analysis in this area.

This tax expenditure report provides a foundation for informed decision-making, enabling the government to strike a balance between promoting economic growth, social goals, and fiscal responsibility within the framework of the tax system. Despite several limitations, this tax expenditure report remains essential tools for policymakers, providing valuable insights into the fiscal and economic impact of tax incentives and deductions. It is important for analysts and policymakers to recognize the associated caveats and use this tax expenditure report as part of a broader decision-making process that considers multiple sources of information and perspectives.

An immediate as well as a medium and long-term fiscal planning should be taken in line with the broader policy goals. A holistic view on TEs is therefore important in case of TE rationalization.

# INTRODUCTION

Taxation is an integral part of internal resource mobilization which plays a significant role in government's budgetary process through collecting the necessary revenue to meet several government expenditures. The total tax base and the tax rates are the two key factors that affect the amount of revenue produced. These two variables are affected by the tax law and the tax system itself, where tax expenditure plays a critical role. Tax expenditure reduces the amount of tax payable by the taxpayers, through affecting tax base and/or tax rates. As such, it involves a revenue sacrifice on the part of the government that could otherwise be added to the government exchequer.

Tax expenditures can be fundamentally differentiated from direct expenditures or entitlement programs. According to Greek TE report, "there is...significant differences between direct and tax expenditures...the former is subject to yearly debate and approval...through the budget process, the latter is debated and approved once it is implemented" (Redonda and Neubig, 2018). Tax expenditures are often interpreted as an implicit payments or indirect subsidy to the specific group of taxpayers. Those provisions in the Tax Law involves an opportunity cost and it is, therefore, important on the part of the government to estimate that cost for the sake of efficiency and accountability.

Tax expenditure refers to several incentive or preferential measures in the Tax Law such as exemptions, deductions, rebates, deferrals, special tax rates, credits and the like. These

incentives are designed to promote specific economic activities, support certain groups, or encourage behaviors that are aligned with public policy goals.

The concept and functionality of tax expenditure are different from that of raising revenue. For assessing the role of tax expenditure in policy making, it is important to define the objectives. Popular policy measures like tax incentives have different roles in high and low-income countries. In a high-income country, such incentives act as government spending which is translated as government financial aid through a reduction in the collection of tax revenue and is almost always subjected to budgetary control through the introduction of tax expenditure accounting. Whereas, in low-income countries, as a large portion of the population cannot afford to have taxable income, such tax incentives do not benefit the target population (Swift, 2006). Lack of integration of tax expenditures into budgetary procedure and lack of co-ordination with government expenditures and objectives hamper effective and efficient allocation of public resources. Tax expenditures can enhance perplexity of tax provisions and tax administration which can in turn allow for more tax evasion and avoidance. In most cases, there is not sufficient initiatives to eliminate outdated tax expenditures or to periodically review them in accordance with changing socio-economic needs.

Tax expenditure estimation quantifies the revenue forgone due to specific tax provisions and thus offers strategies and insights for the formulation of any fiscal policy. Of late, measuring tax expenditure and including the analysis in the government budgetary framework has gained utmost importance. Many countries in the world publish tax expenditure estimates regularly. Given its significant impact on Government revenue earning, a comprehensive analysis of the tax expenditure measures provided by the Tax Law is important. An estimation of the underlying revenue impact as well as evaluation of the tax expenditure measures targeted to government's particular policy objectives can ensure an efficient and transparent tax system.

With a view to improving transparency and accountability in tax revenue and government spending, an estimate of the revenue impact of the various tax expenditure measures has been reported to the Parliament for the first time in the National Budget for FY2023-24 of Bangladesh.

Bangladesh has witnessed remarkable growth in the past few decades and positioned itself in a stable macroeconomic state. For the infrastructure development and to defray other necessary



expenses, the Government of Bangladesh largely banks on NBR revenue. The NBR revenue is divided into two categories, direct and indirect taxes. Indirect tax comprises mostly of Customs Duty and Value Added Tax. On the other hand, direct taxes largely comprise of personal and corporate income taxes. Around 33% of the NBR revenue is collected through direct taxes. However, the legislation of Income Tax allows some preferential treatments to certain categories of taxpayers, industries and other sectors through the forms of rebates, concessionary rates, exclusions from total income, tax holiday and the like. The Direct Tax wing of the National Board of Revenue, aligning with international best practices, has estimated this "Tax Expenditure" based on field-level data.

In the National Budget Speech for FY2023-24, the term "Direct Tax Expenditure" has been defined as rebates, discounts, exemptions, reduced rates of taxation, and the exclusion of income from computing total taxable income. It is termed as “a form of tax subsidy”, which if collected as tax, would have augmented the total tax revenue. However, there is a clear distinction between the other government subsidy and the direct tax expenditure through the latter’s pivotal role in stimulating the economy, supporting industries, creating employment, and maintaining social balance (Budget, 2023).

This report presents an analysis of tax expenditures within the realm of Income Tax (Personal and Corporate) for the financial year 2020-2021 (assessment year 2021-2022). It intends to describe the several steps of tax expenditure estimation and to report the revenue impact of tax expenditures in the existing structure of the direct tax of Bangladesh. Once the benchmark is defined, this report proceeds to identify, measure and analyze tax expenditures in terms of their fiscal cost, efficiency, and effectiveness in achieving policy goals. The objectives of this Tax Expenditure Report are:

- *Estimation*: To quantify and assess the extent of tax expenditures in Direct taxes over the specified period.
- *Monitoring and Evaluation*: To establish a framework for continuous monitoring and evaluation of tax expenditures, ensuring alignment with fiscal goals.
- *Informed Policy Design*: To furnish valuable data and insights that can guide the formulation of well-informed tax policies and structures.
- *Transparency Enhancement*: To bolster transparency by making information on national tax expenditures readily accessible to stakeholders and the public.

Once TE estimation is conducted, TE evaluation is a key step for the rationalization of TE regimes. TE evaluations involve review of tax expenditures to assess their effectiveness, efficiency, and relevance to a government's policy objectives. This process allows policymakers to determine whether these provisions are achieving their intended goals and whether adjustments or eliminations are necessary.

The review of tax expenditures involves periodic assessments of the various tax incentives, deductions, exemptions, and other preferential provisions in the tax code. While a comprehensive TE evaluation can be challenging and resource intensive, even relatively simple qualitative and quantitative analyses can be an important element of evidence-based policymaking (Beer et. al, 2022). Thus, a review of tax expenditures may be made through budgetary process, committees and commissions, expert panels, public consultations, data analysis, or periodic reviews.

Rationalizing TE regimes is of pivotal importance in the context of Bangladesh as it increases fiscal space through mobilizing additional domestic resources as well as establishes a better alignment of TEs with national policy objectives and development strategies. This report attempts to undertake a comprehensive review and revisit of the existing TE measures in several sectors as identified by the TE report. It examines international best practices in the TE regimes of these sectors with a focus on relatively homogeneous and comparable countries in an attempt to explore the possible policy restructuring.

The report is organized as follows. Chapter 2 provides a brief review of literature shedding light on tax expenditure estimation in different countries and in Bangladesh. Chapter 3 describes the several steps of tax expenditure estimation in Bangladesh, *viz.*, defining the benchmark, providing detailed inventory, sampling and estimation methodology and the estimation results. Chapter 4 discusses some caveats of the estimation. Chapter 5 revisits the existing tax expenditure provisions alongwith the international practices and puts forth some policy suggestions. Chapter 6 concludes.

# LITERATURE REVIEW

## 2.1 International Evidence

Tax incentives have been explained differently by policy advisers. Where one group treats tax incentives as a spending item, another group tends to describe the term as a normative tax provision. The principal factor for estimating reliable tax expenditures is a reliable and detailed database.

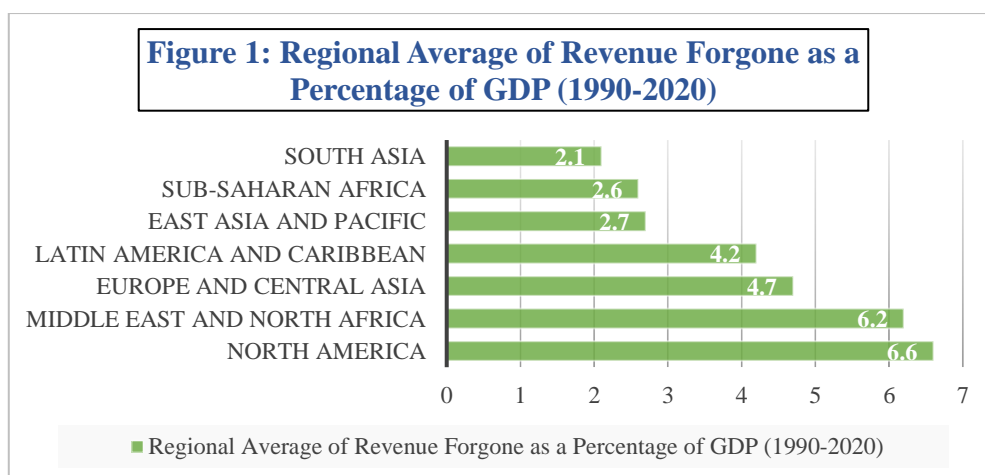
There are differences among countries in applying a definition of tax expenditure because of variations in the tax laws of the countries. For example, in Canada, “only the most fundamental structural elements of each tax system are considered part of the benchmark”. In the United States, tax expenditures are considered to be loss of revenue which are designed to grant tax relief, promote certain taxpayer behaviors or provide financial assistance to taxpayers with special needs. In France, tax expenditure has been defined as, “Any legislative or administrative measure may be called a tax expenditure if its application entails a loss of revenue from the State, and hence a lessening of taxpayers’ burden in comparison to that which would have resulted under the “norm”, that is the general principles of French tax law” (Swift, 2006). In the United Kingdom, tax expenditures are defined as alternatives to public expenditures in the form of tax relief. Tax provisions causing permanent loss in revenue collection are treated as tax expenditures in Argentina and Columbia (Kassim and Mansour, 2018). The variations in manner, time and methodology of tax expenditure reporting and the complexity of cross-

country comparisons of tax expenditure due to variation of country approaches has been analyzed by many studies (Kassim and Mansour, 2018).

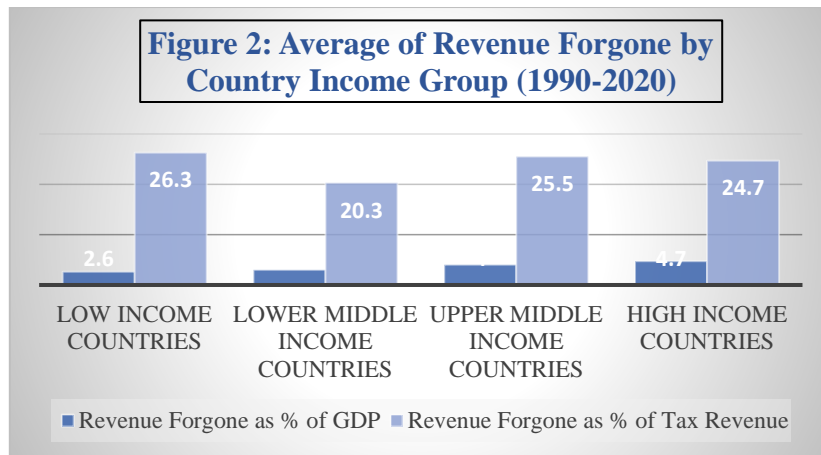
Some tax reliefs are designed to fulfil socio-economic objectives that are expected to be part of benchmark as these reliefs may have been part of tax provisions for a long time and removing such reliefs would be politically challenging. Again, these will vary from country to country. However, there is a risk of higher degree of discretion and many important expenditures that needed to be scrutinized remain outside tax expenditure reporting. Again, whether revenue forgone from government activity is to be excluded from tax expenditure, is contentious. Dealing with these ‘grey areas’ may not be easy; however, identification and consistent documentation of criteria can help in making decisions and establishing transparency (Granger, *et al.*, 2022).

Tax expenditures are used as instruments of public policy. There are examples of both developed and developing economies which show that excessive tax expenditures can destabilize fiscal balance and sustainability. According to US Treasury 2020, the federal government of the United States had to forego above USD 1.5 trillion in 2019 which was equivalent to 44% of tax collection and a bit more than 7% of GDP (Redonda, *et al.*, 2021).

In Bangladesh Income Tax Law, there are several tax expenditure measures. Consequently, the tax to GDP ratio has been historically and consistently low fluctuating between 7.0 to 9.0 percent on average. The amount of low tax collected due to high tax expenditures contributed to budget deficit and increased number of government debts.



Source: GTED Flagship Report (Haldenwang, *et al.*, 2021)



Source: GTED Flagship Report (Haldenwang, *et al.*, 2021)

The third international conference on financing for development emphasized the commitment by the member countries to improve neutrality, transparency, efficiency and effectiveness of the tax systems for better domestic revenue mobilization in pursuance of SDGs by the developing countries (Kassim and Mansour, 2018).

The quality of tax expenditure reporting is not very promising in developing countries because of a lack of a definitive benchmark tax system and data constraints leading to inadequate coverage of tax expenditures. Tax expenditure reporting can be started simply and then small improvements can be integrated to the existing model over time, so that institutional data structure can be strengthened through repetitions. This makes the reporting procedure more sustainable (Granger, *et al.*, 2022). Periodic publication of reports not only improves transparency of government expenditures but also helps to compare costs and benefits of tax expenditures.

Although in developed countries, tax expenditures reporting is part of general fiscal reporting for a long time, the developing countries started reporting on tax expenditures in early 2000s decade. (Redonda, *et al.*, 2021).

The principal constraints faced by developing countries are, absence of a definition of a “benchmark tax system” (50%), no legal requirement for annual publication of tax expenditures in 30% of the countries, poorly defined methodology and data and inadequate coverage of tax laws and other relevant laws (Kassim and Mansour, 2018; Mansour, 2019).

## **2.2 Tax Expenditure in Bangladesh: Background Study**

In the context of Bangladesh's fiscal strategies, the predominant objectives associated with tax expenditure measures are threefold: to expedite the process of industrialization, to boost exports and foreign direct investment to bring in foreign currency, and to safeguard social security and welfare of low- and modest-income groups (Mortaza and Begum, 2006). The first attempt of estimating the tax expenditure in Bangladesh was initiated by Mortaza and Begum (2006). Using the collected data from field offices, the tax expenditure for the financial year 2005 was calculated to be BDT 93.45 billion, of which the direct tax expenditure was estimated to be BDT 10.28 billion. The estimated total tax expenditure amounted to percent of the GDP, with percent in the direct tax and percent in the indirect tax. However, no specific methodology was used for such calculation. Dio (2015) attempted to measure tax expenditure on the basis of the analysis of sections 45, 46 and 46A of Income Tax Ordinance 1984. However, it was not a comprehensive study and considered tax holidays and exemptions only under certain heads of income.

A Tax Expenditure Review Committee was formed by NBR in 2021 to measure and analyze the prevailing tax expenditure in the income tax. In the absence of detailed microdata or sample data, the study was conducted using macro data (sectoral data from the national income accounts). The study conducted revenue foregone estimation using macrosimulation method and approximated tax expenditure for FY2018-19 using sector-wise tax benefit to GDP analysis. As an in-house report, it was not published officially.

Tax expenditure provisions are adjusted and undergo essential modifications every year, through the Finance Act, reflecting changes in socioeconomic dynamics and policy objectives.

# TAX EXPENDITURE ESTIMATION

## 3.1 Defining the Benchmark Tax System

The first step of estimating tax expenditures is to define the "benchmark" tax structure. Any deviation from the benchmark is considered as tax expenditure. Defining the benchmark tax system is crucial in tax expenditure analysis of Bangladesh because it establishes what is considered "normal" or "standard" in the tax code.

It is important to note that choosing benchmarks needs applying judgment. The tax system might differ from one jurisdiction to another or even change over time, necessitating new structural element assumptions that are essential to the benchmark. Two approaches can be adopted to define benchmark system for tax expenditure reporting, *viz.*, normative approach and legal approach. In a normative approach, a country's tax system is compared with an 'optimal' tax system. The legal or 'positive' approach almost always includes an element of subjectivity *e.g.*, a country's socioeconomic perspectives and priorities or 'national tax policy choices. Most countries adopt the latter one. Certain international conventions and agreements causing deviation from normal tax provision are accepted as part of benchmark tax system. (Kassim and Mansour, 2018; Geourjon *et al.* 2019; Granger, *et al.*, 2022).

For a comprehensive income tax, the benchmark should be based on the prevailing system of income tax with the existing statutory rate schedule. No tax relief is provided except for the

zero-tax income bracket. Under the PIT, only deductions for genuine business expenses are allowed. Deductions not directly related to business income, tax credits, lower tax rates are thus to be considered as tax expenditures. The benchmark should be based on the prevailing tax on profits with a single rate of tax and no tax relief other than for usual business expenses. However, if a higher corporate tax rates or rates applies on some sectors because of specific rents, this should be disregarded when identifying the highest rate for benchmarking (Heady and Mansour, 2019). Tax expenditures will be positive if the tax rate is below a defined benchmark rate and will be negative if enacted tax rate is higher than the benchmark.

Several tax expenditure measures exist in the direct tax system of Bangladesh provided through the Income Tax Ordinance 1984, Finance Act and several SROs. For this study, the benchmark has been defined after a careful and critical examination of the existing provisions in the tax law and the socio-cultural norms as well as the standard practice followed by other countries. based on the standard tax treatment. Two principles have been particularly considered in defining the benchmark, *viz.*,

- The standard tax treatment applicable to similar taxpayers or nature of activities.
- The longstanding features and structural components of the tax system. This may allow for special features that violates, to some extent, the uniform treatment of taxpayers. The progressive rate of tax in personal income tax is an example.

With the standard principles of benchmarking, the associated concepts in the context of the direct taxes are defined accordingly and are specified below.

### **3.1.1 Tax unit**

Tax unit is categorized into two broad categories:

- Personal Income Tax, hereinafter referred to as PIT, comprising individuals and firms.
- Corporate Income Tax, hereinafter referred to as CIT, comprising companies (Private limited and Public limited), as defined under the companies Act, 1913.



### 3.1.2 Tax base

Tax base covers income as defined in the Income Tax Ordinance, 1984, which also includes any deemed income. Thus, the tax base in the benchmark is identified as a comprehensive income covering all income earning activities. Under the different heads of income defined in the Income Tax Ordinance, 1984, the benchmark is defined as follows:

- *Salaries*: Income from salaries covers the income identified under Section 21 of ITO, 1984. The base is determined without allowing for tax exemption limits for perquisites, allowances, benefits, etc. as per ITO, 1984. Thus, these allowances are considered as tax expenditure.
- *Interest on securities*: Interest on securities covers the income identified under Section 22 of ITO, 1984. Expenses incurred for earning the income and the allowable deductions, as defined under Section 23 of ITO, 1984 are included in the benchmark.
- *Income from house property*: Income from house property covers the income identified under Section 24 of ITO, 1984. Expenses incurred for earning the income and the statutory maintenance allowances, as defined under Section 25 of ITO, 1984 are included in the benchmark.
- *Agricultural income*: Agricultural income covers the income identified under Section 26 of ITO, 1984. Expenses incurred for earning the income and/or the statutory cost deduction, as defined under Section 27 of ITO, 1984 are included in the benchmark.
- *Income from business or profession*: Income from business or profession covers the income identified under Section 28 of ITO, 1984. Expenses incurred for earning the income and the allowable deductions, as defined under Sections 29 of ITO, 1984 are included in the benchmark.
- *Capital gains*: Capital gains covers the income identified under Sections 31, 31A, 32 of ITO, 1984. Expenses incurred for earning the income and the allowable deductions, as defined under Sections 32A of ITO, 1984 are included in the benchmark. Following the standard practice, capital gains are taxable upon realization rather than on accrual basis.

- *Income from other sources:* Income from other sources covers the income identified under Section 33 of ITO, 1984. Expenses incurred for earning the income and the allowable deductions, as defined under Section 34 of ITO, 1984 are included in the benchmark.

➤ **Other notable features are:**

- Income is defined as nominal income, i.e., no adjustment for inflation is considered.
- Residents are taxed on worldwide income.
- Non-residents only assessable on income from Bangladesh sources at the highest rate.
- Both the cash-based and accrual-based accounting standard are recognized based on the taxpayers' declaration.
- Deductions for depreciation are included in the benchmark.
- Surcharge is considered within PIT benchmark as a structural feature.
- Minimum tax 5000 Taka is defined as benchmark.

### 3.1.3 Tax rates

➤ **Personal Income Tax (PIT):**

Considered as an integral and longstanding feature of the tax system, the progressive tax rate structure with a zero-rate threshold limit is recognized as benchmark.

For the Assessment Year 2021-22 the tax rate is presented in Table 1.

**Table 1: Personal Income Tax Rates: Assessment Year 2021-22**

Serial no	Amount (TK)	Rate
1.	Up to first income amount 3,00,000/-	0%
2.	Next up to income amount 1,00,000/-	5%
3.	Next up to income amount 3,00,000/-	10%
4.	Next up to income amount 4,00,000/-	15%
5.	Next up to income amount 5,00,000/-	20%
6.	Next rest of income amount	25%

## ➤ Corporate Income Tax:

There exist several corporate income tax rates in Bangladesh, different rates for different types of companies based on sectors. However, the non-listed companies in each sector enjoys a lower rate. The corporate income tax rates for the AY 2021-22 are presented in Table 2.

**Table 2: Corporate Income Tax Rates: Assessment Year 2021-22**

Bank/FI/Insurance		Merchant	Listed	Non-listed	Other	Other	Dividend
Listed Company	Non-listed company	Bank	Mobile Company	mobile/Tobacco company	listed company	non-listed company	
37.5%	40%	37.5%	40%	45%	22.5%	30%	20%

Following the structural and long-standing features, the benchmark CIT rates are defined as the rate for non-listed company in each sector. For the relevant AY2021-22, the benchmark CIT rates are:

- Bank/FI/Insurance/Merchant Bank: 40%
- Mobile company/Tobacco company: 45%
- Other company: 30%
- Benchmark rate for other heads of income (*e.g.*, dividend) other than business income is 30% for all sectors.

### 3.1.4 Tax period

Tax period in Bangladesh is financial year (July-June). This report corresponds to:

Financial year 2020-21 (July 01, 2020-June 30, 2021)

Assessment year 2021-22.

In some cases, if taxpayer's accounting period is different from the standard financial year (particularly for some companies), the accounting period is considered as the income year accordingly.

## 3.2 Inventory Listing

To effectively manage and evaluate the impact of tax expenditures, tax authorities create and maintain tax expenditure lists. These lists serve as comprehensive repositories of information about various tax expenditures, offering transparency, accountability, and a better understanding of how government resources are allocated through the tax code. This report delves into the concept of tax expenditure lists which is later mentioned as tax expenditure inventory.

A tax expenditure inventory is a catalog of all the tax incentives, deductions, credits, and exemptions that exist within a tax system. It provides a detailed account of each tax expenditure program, outlining its purpose, estimated cost, legislative authority, beneficiaries, and the intended policy goals.

Tax Expenditure inventory has certain significances. These are:

- *Transparency and Accountability:* Tax expenditure lists promote transparency in government actions by making tax incentives and their associated costs visible to the public and policymakers. This transparency encourages accountability and informed decision-making.
- *Budgetary Planning:* Tax expenditure lists assist in budgetary planning and decision-making by providing estimates of the revenue impact of these incentives. Governments can assess the fiscal implications and prioritize expenditures accordingly.
- *Evaluating Effectiveness:* By cataloging tax expenditures and their intended policy goals, tax authorities and policymakers can assess whether these incentives are achieving their intended outcomes. Evaluations help determine if modifications or terminations are necessary.
- *Distributional Analysis:* The beneficiary information in tax expenditure lists enables governments to analyze the distributional impact of these incentives. This helps identify whether certain groups or activities are disproportionately benefiting, which may inform future policy adjustments.

- *Policy Alignment:* Tax expenditure lists aid in aligning tax policies with broader policy goals. Governments can use the information to ensure that tax incentives are consistent with their objectives, whether they relate to economic growth, social welfare, or environmental sustainability.

The components of the inventory can be described as follows:

- *Tax Expenditure Title:* Each tax expenditure on the list is identified by its official title or name. This allows for easy reference and categorization.
- *Purpose and Policy Goals:* A crucial component of the list is the description of the tax expenditure's purpose and the policy objectives it aims to achieve. This clarifies the government's intentions in offering the incentive.
- *Legislative Authority:* Information on the legal and statutory basis for each tax expenditure is detailed in the list. This section explains the specific laws or regulations that authorize the tax incentives, ensuring transparency and accountability in the legislative process.
- *Beneficiaries:* The list provides insights into the individuals, businesses, or activities that benefit from each tax expenditure. This information helps assess the distributional impact of the incentives and whether they disproportionately favor certain groups.

The Income Tax Ordinance, 1984, provides, *inter-alia*, for tax preferences to promote savings by individuals, exports, balanced regional development, creation of infrastructure facilities, scientific research and development, co-operative sector, among others. The tax expenditure measures under the direct taxes are broadly measures of corporate income tax and personal income tax which are briefly discussed below.

### 3.2.1 Corporate Tax Expenditure Measures

Corporate tax framework in Bangladesh incorporates several tax expenditure measures to stimulate economic growth and investment. There exists tax exemption or reduced tax rates for certain types of companies or sectors. Tax holidays are granted to certain sectors or companies, providing exemptions at a gradually decreased rate from corporate income tax for a defined

period, fostering increased investment and job creation. Companies operating in certain sectors or geographic regions, like Special Economic Zones (SEZs) and High-Tech Parks, can benefit from tax holidays. Several kinds of expenses, for example, donation to several institutions, research and development (R&D), CSR activities, are subject to deductions or allowances for rebate.

### **3.2.2 Personal Income Tax Expenditure Measures**

The personal income tax system in Bangladesh features several tax expenditure measures aimed at providing relief and incentives for individuals. There exist higher tax-free thresholds for specific groups and exemption or reduced tax rates for certain types of income. The tax system of Bangladesh also encourages savings and investment through incentives for approved schemes providing investment rebate.

### **3.2.3 Negative Tax Expenditures**

The benchmark tax system, as is defined in this report, allows for a possibility of negative tax expenditures, for example,

- Companies/businesses enjoying exemption/reduced rate facilities and incorporating a loss.
- Minimum tax under Section 82C of ITO, 1984
- Turnover tax 0.6% for individuals, 2% for corporates
- Minimum tax in case of owners of motor cars
- Extra 5% tax if proper arrangements for disabled people are not made by school, college, university, or NGO.

The tax expenditure measures are not necessarily mutually exclusive for CIT and PIT. Some of the provisions are specific to a particular category, but there are many provisions that apply for both CIT and PIT. The TE inventory presented in the Appendix provides a detailed list of the existing tax expenditure measures in the Direct Taxes of Bangladesh for the respective AY2021-22, with due references.

## 3.3 Methodology

Tax expenditure accounting is a quantitative measure for estimating the size of tax expenditures and provides an idea about the associated revenue loss and the impact on budgetary balance. Although there are a number of alternative methods for calculating tax expenditures, the revenue forgone method has been recommended as the more appropriate one by OECD and most countries (Swift, 2006).

The revenue foregone method is used to estimate tax expenditures in Bangladesh. The estimate implies that the expenditure amount could have been collected as tax revenue had there been no such expenditure measures, and, therefore, interpreted as the amount of revenue foregone, assuming that taxpayers' behavior and other things remaining the same. Therefore, the revenue foregone is the difference between the tax that would have been payable as per regular applicable tax rates, and the actual tax paid/payable due to the relevant expenditure measure.

The estimation of tax expenditures under revenue foregone method measures the potential revenue gain that would have been realized had there been no such tax expenditure measures. The underlying assumption is that the tax base would not be affected in the absence of such measures, i.e., taxpayers' behavior would not change in the absence of the tax expenditure measures.

### 3.3.1 Sampling method

Tax system in Bangladesh is in the process of digitization. In the absence of digitized data, the tax return information has been collected for a sample of taxpayers. The sampling procedure follows stratified random sampling covering all over the country. The actual income tax return data for the income year 2020-21 (assessment year 2021-22) has been collected from the tax circle offices under administrative divisions of 30 tax zones, as stratified based on geographic location, income source, level and other criteria. The tax return data for a total of 27084 individuals, 703 firms and 2431 companies have been sent on random basis by the circle offices, according to the questionnaire provided. After necessary cleaning for inconsistent data, the final sample consists of 21664 individuals, 381 firms and 1930 companies.

### 3.3.2 Estimation modelling

The availability of data is an important determinant in modelling tax expenditure estimates. In the absence of a comprehensive digitalized data base, it is not possible to estimate the tax expenditure for each measure.

With the availability of data, this report uses the concepts of microsimulation and distributional modelling for estimating tax expenditure. “Microsimulation modelling can be adopted with sample data, allowing for examining taxpayer records. The value of the tax expenditure is the difference between the tax paid on those transactions under the concession and the tax that would have been collected under the benchmark. Again, distributional modelling involves using discrete aggregate data to calculate the impact of tax concessions on particular segments of the economy. This is an appropriate approach for measuring concessions that vary according to the characteristics of the taxpayer. Data sources suitable for distributional modelling include survey data and data derived from administrative databases. Microsimulation modelling can also be used to derive key information, such as average effective tax rates, which can be used in other models that employ aggregate or distributional modelling. This is appropriate for situations where detailed datasets are not available for all items” (ATO, 2012).

The tax expenditure estimates the revenue foregone using the sample data for the FY2020-21, allowing for distributional adjustments. The estimates allow for necessary adjustment capturing the variation in the income level, sectoral, geographic or other criteria. It may be noted that the sample covers information of taxpayers belonging to different income strata including negative (loss) and zero income values as well. The estimation is done separately for the taxes zones<sup>1</sup>. An aggregate estimate as well as exemption entailing to a few sectors are estimated.

#### ➤ Estimation method: CIT

The sample data provides information on the amount of exempted/reduced income and the tax paid thereof under different sectors/types of businesses. The data also provides income of some

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<sup>1</sup> Alternative estimation methods, *e.g.*, using total sample instead of sectoral/zonal separate estimates are also conducted for both PIT and CIT. The overall results remain robust with close estimation values.



companies subject to no exemption or reduced rate on random basis. The value of the tax expenditure for each sample company is calculated as the difference between the tax that would have been collected under the benchmark and the tax paid on the exempted/reduced rate income. The estimation takes into account the differences in sector-specific factors as well as other geographic and taxes zone-specific factors. In order to control for those effects, estimates are made separately for each sector in each zone and the population estimates are calculated based on the number of returns submitted. Based on the availability of data, the tax expenditures are estimated for the sectors, *viz.*, IT or software, Garments, textiles or accessories, Power and energy, Poultry and fisheries, Micro Finance, Economic zones and Hi-Tech industries. The rest of the companies are categorized as others. The total CIT expenditure is estimated by aggregating the expenditures of all sectors.

➤ **Estimation method: PIT**

The sample data provides information on the income under different heads of individual taxpayers and the tax paid thereof. The value of the tax expenditure for each individual/firm in the sample is calculated as the difference between the tax that would have been collected under the benchmark and the tax paid. The estimations are done separately for individuals and firms. It might be of concern that the income distribution of the sample may be different from that of the population. Therefore, the weighted sample mean is estimated using appropriate weight based on the distribution of income groups in the individual and firm level taxpayers. As in the CIT, the estimation controls for the differences in other geographic and taxes zone-specific factors effects through separate estimate for each zone. The total PIT expenditure is estimated as the aggregate of expenditure in all zones. Based on the availability of data, the tax expenditure is also estimated for three items of PIT expenditure, *viz.*, poultry and fisheries, share capital gain, and remittance.

## 3.4 Estimation Results

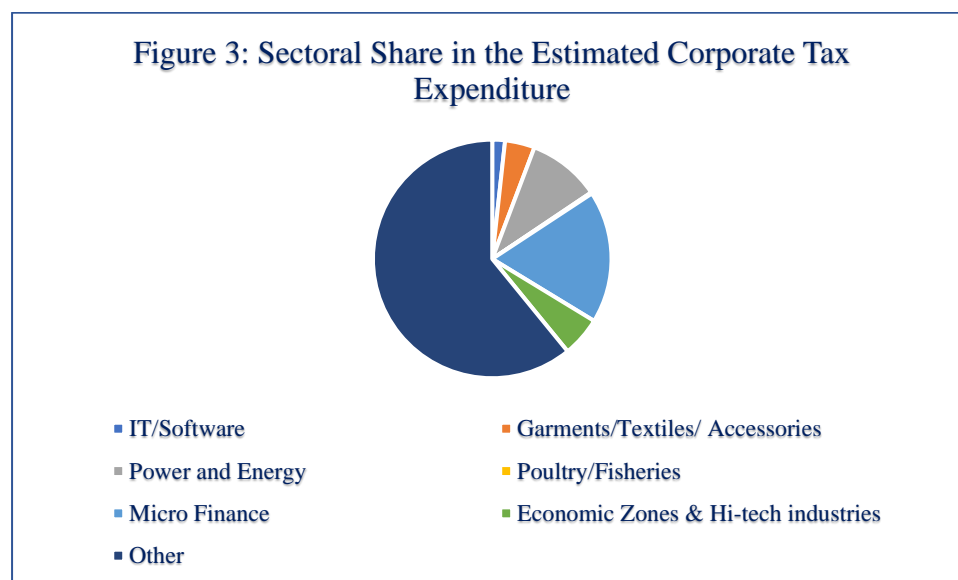
### 3.4.1 Corporate Income Tax (CIT)

Table 3 and Figure 3 represent the estimated corporate tax expenditure (in terms of revenue loss) and the sectoral share thereof for the FY 2020-21.

In the corporate income tax, about 40% of the estimated tax expenditure comes from a few businesses. Tax expenditure for Micro Finance is estimated Taka 15315 crore. Estimated tax expenditure amount is Taka 8380 crore for power and energy (private power generation companies), Taka 3438 crore for garments, textiles, accessories, Taka 1477 crore for IT/Software businesses and Taka 143 crore for the poultry and fisheries companies. Estimated tax expenditure is Taka 4612 crore for economic zones and Hi-Tech industries (this estimate excludes those companies in economic zones, which are included in the other respective sectors).

**Table 3: Corporate Tax Expenditure: Sectoral Estimate**

<i>Sector</i>	<i>Estimated Tax Expenditure (in crore Taka)</i>
<i>IT/Software</i>	<i>1477.03</i>
<i>Garments/Textiles/ Accessories</i>	<i>3437.96</i>
<i>Power and Energy</i>	<i>8380.34</i>
<i>Poultry/Fisheries</i>	<i>143.48</i>
<i>Micro Finance</i>	<i>15315.55</i>
<i>Economic Zones and Hi-Tech Industries</i>	<i>4611.68</i>

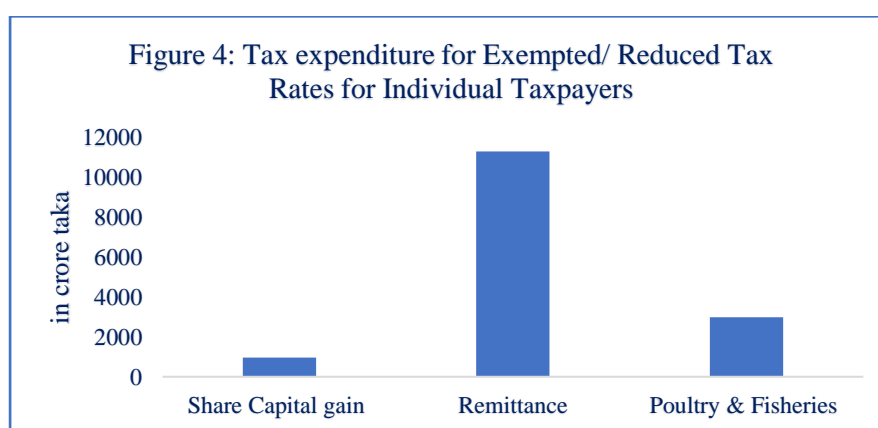


### 3.4.2 Personal Income Tax

The weighted mean estimation yields a total of Taka 40499 crore in the personal income tax. Personal income tax expenditures mainly result from individual taxpayers amounting Taka 40388 crore, whereas the amount is Taka 110 crore for firms. An estimate of tax expenditure due to tax exemption facility for remittance, for share capital gain and reduced rate tax for poultry, fisheries income of individual taxpayers is estimated separately and is presented in Table 4 and Figure 4. The tax expenditures due to tax exemption facility is estimated Taka 11287 crore for remittance, Taka 966 crore for share capital gain and Taka 2985 crore due to reduced rate tax for poultry, fisheries income in personal income tax. Therefore, total estimated tax expenditure in poultry and fisheries business (for individuals, firms and companies) is Taka 3129 crore.

**Table 4: Personal Tax Expenditure: Sectoral Estimate**

<i>Business/Income</i>	<i>Estimated Tax Expenditure (in crore Taka)</i>
<i>Poultry/Fisheries</i>	2985.35
<i>Share Capital gain</i>	965.90
<i>Remittance</i>	11287.40

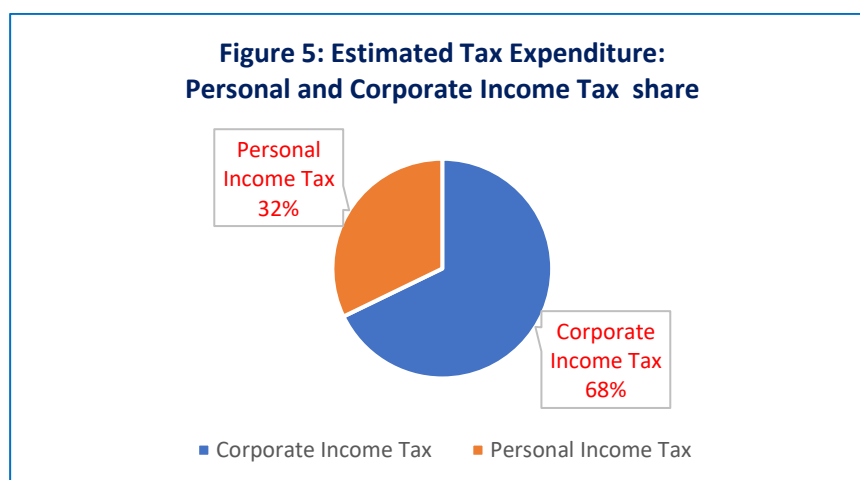


### 3.4.3 Total Tax Expenditures in the Direct Taxes

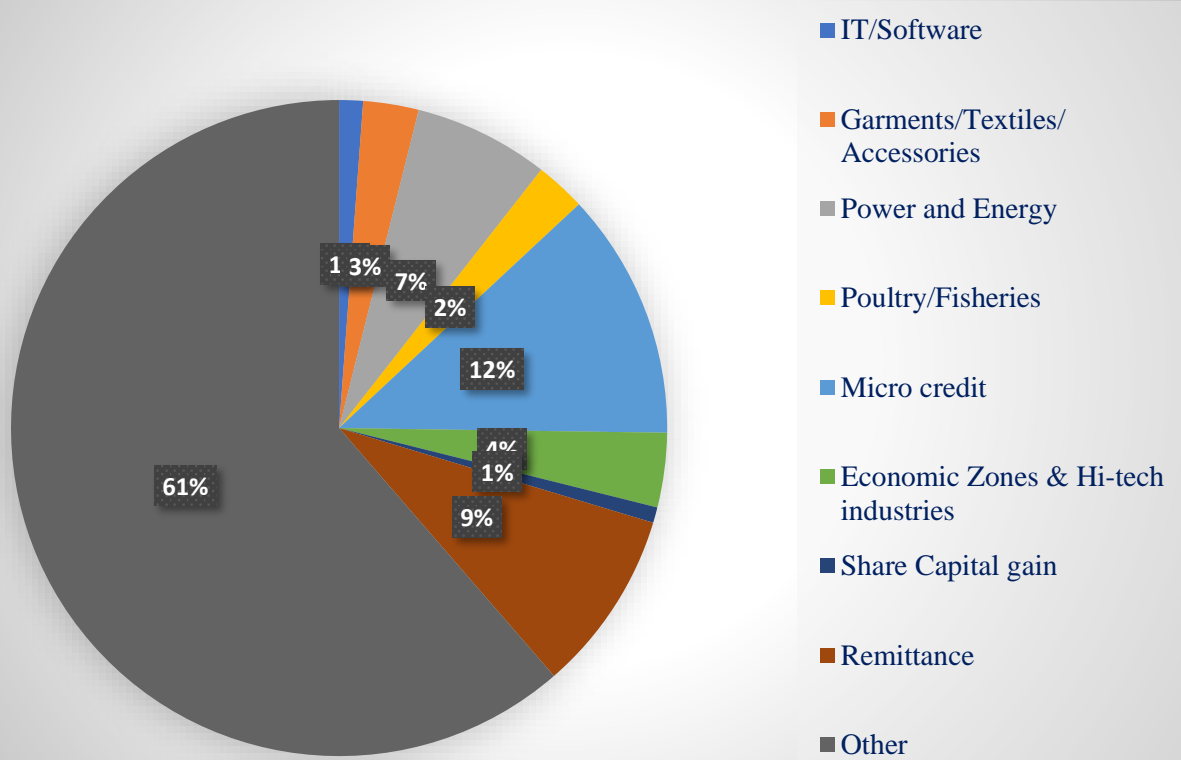
Therefore, the estimated total revenue foregone in the direct tax of Bangladesh is as shown in Table 5. The estimation reveals a total of Taka 1,25,813 crore tax expenditure in direct tax for the FY 2020-21. 68% of the direct tax expenditures belong to the CIT amounting to Taka 85315 crore, while CIT comprises 60% share of the total income tax collection. The estimated total tax expenditure for the direct tax amounts to 3.56% of FY2020-21 GDP in Bangladesh. This indicates a huge tax expenditure, with the share of direct taxes to GDP being 2.41% in FY2020-21.

**Table 5: Estimated Tax Expenditure (Revenue Foregone) for Direct taxes in Bangladesh  
Financial Year 2020-21**

<i>Business/Income</i>	<i>Estimated Tax Expenditure (in crore Taka)</i>	<i>% of Direct Tax Collection</i>	<i>% of GDP</i>
<i>Corporate income tax</i>	85314.82	100.11	2.41
<i>Personal income tax</i>	40498.66	47.52	1.15
<b>Total</b>	<b>125813.48</b>	<b>147.63</b>	<b>3.56</b>



**Figure 6: Sectoral/ Share in the Estimated Total Tax Expenditure**



## 3.5 Estimation Results: A Revisit

A further scrutiny and revisit of the data has been undertaken which yielded a greater sectoral breakdown of the estimated TE, as is shown in Tables 6-8 and Figure 7.

**Table 6: Sectoral Share: PIT**

<b>Sector</b>	<b>Estimated Tax Expenditure (in crore Taka)</b>
Remittance	11287
Tax amnesty	4791
Salary	4356
Poultry/Fisheries	2985
Asset capital gain	2767
Sanchaypatra	1670
Investment Rebate	1480
Share Capital gain	966
Other	10197
<b>Total estimated TE: PIT</b>	<b>40499</b>

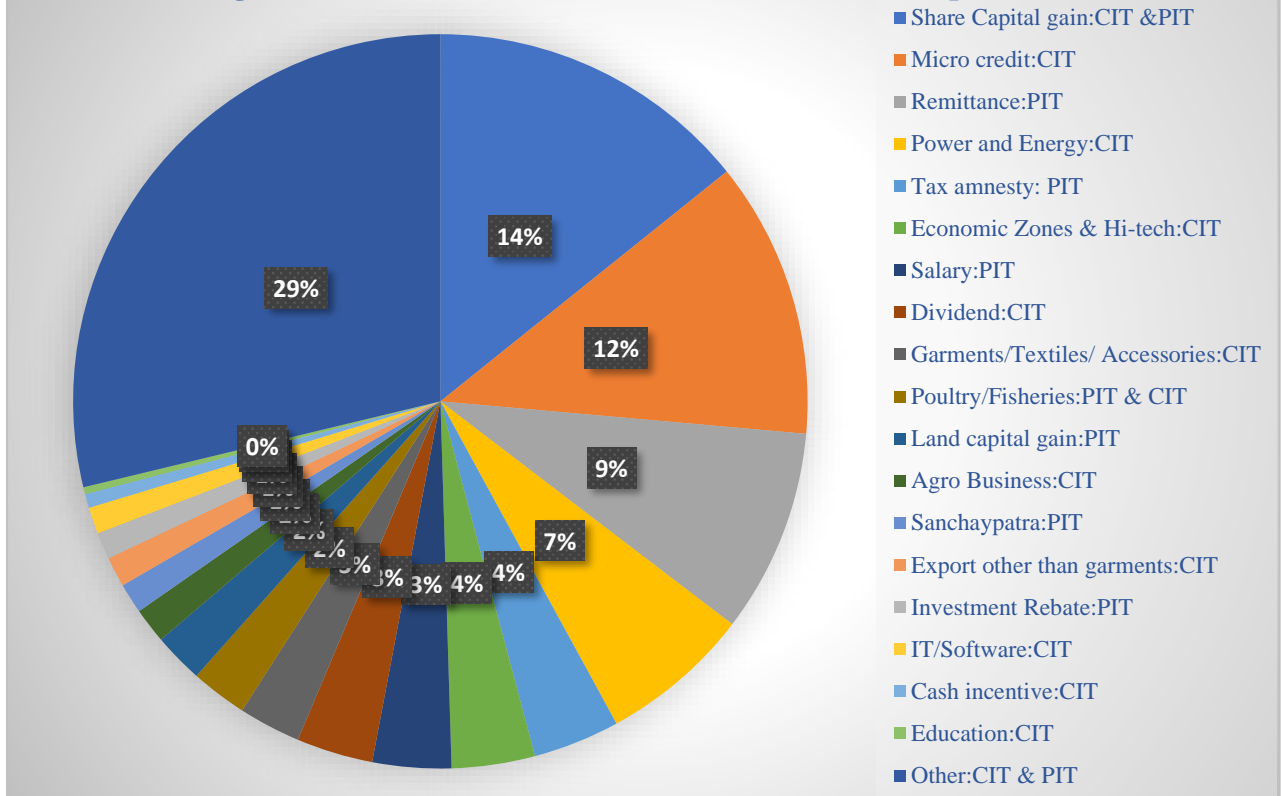
**Table 7: Sectoral Share: CIT**

<b>Sector</b>	<b>Estimated Tax Expenditure (in crore Taka)</b>
Share Capital gain	16945
Micro credit	15316
Power and Energy	8380
Economic Zones & Hi-tech	4612
Dividend	4236
Garments/Textiles/ Accessories	3438
Agro Business	1957
Export other than garments	1664
IT/Software	1477
Cash incentive	771
Education	388
Poultry/fisheries	144
Other	25987
<b>Total estimated TE: CIT</b>	<b>85315</b>

**Table 8: Sectoral Share: Total TE**

Sector	Estimated Tax Expenditure (in crore Taka)	%
<b>Share Capital gain: CIT &amp; PIT</b>	<b>17911</b>	<b>13.47</b>
<b>Micro credit: CIT</b>	<b>15316</b>	<b>12.17</b>
<b>Remittance: PIT</b>	<b>11287</b>	<b>8.97</b>
<b>Power and Energy: CIT</b>	<b>8380</b>	<b>6.66</b>
<b>Tax amnesty: PIT</b>	<b>4791</b>	<b>3.81</b>
<b>Economic Zones &amp; Hi-tech: CIT</b>	<b>4612</b>	<b>3.67</b>
<b>Salary: PIT</b>	<b>4356</b>	<b>3.46</b>
<b>Dividend: CIT</b>	<b>4236</b>	<b>3.37</b>
<b>Garments/Textiles/Accessories: CIT</b>	<b>3438</b>	<b>2.73</b>
<b>Poultry/Fisheries: PIT &amp; CIT</b>	<b>3129</b>	<b>2.49</b>
<b>Asset capital gain: PIT</b>	<b>2767</b>	<b>2.20</b>
Agro Business: CIT	1957	1.56
Savings certificates: PIT	1670	1.33
Export other than garments: CIT	1664	1.32
Investment Rebate: PIT	1480	1.18
IT/Software: CIT	1477	1.17
Cash incentive: CIT	771	0.61
Education: CIT	388	0.31
Other: CIT & PIT	36184	28.76
<b>Total Estimated TE</b>	<b>125814</b>	<b>100.00</b>

**Figure 7: Sectoral Share in the Estimated Total Tax Expenditure**



Thus, a deeper scrutiny of the data identifies the following:

- 18 sectors accounting for 71% of the total estimated TE in the direct taxes, with 11 sectors covering 65% of the total TE.
- The remaining 29% TE belongs to the existing TE provisions in other sectors.
- Other sectors mainly include TE provisions in the following, among others:
  - CIT: Reduced tax rates, *e.g.*, publicly traded company and autonomous bodies, SME, several funds, capital gain, tax holiday, interest on foreign loan, several SROs;
  - PIT: Business income with reduced tax rates (export, garments, SME, etc.); exempted income (IT, software, freelancing, etc.); higher threshold for specific groups; signing money; agriculture/agro business; dividend/mutual fund; several SROs.



# INTERPRETING THE ESTIMATION: SOME CAVEATS

Tax expenditure reports serve as valuable tools for assessing the impact of various tax incentives and deductions on government revenue and the economy. However, like any analytical tool, this tax expenditure report has limitations that should be considered when interpreting their findings. The following caveats are worth noting.

- The revenue foregone method adopted in this report relies on the basic assumption that does not consider changes in taxpayers' behavior when a particular measure is eliminated.
- This methodology does not capture the potential impact of a particular incentive on the overall level of economic activity. The estimation is based on the *ceteris paribus* assumption, and as such, the elimination of a particular measure would not necessarily increase the revenue in the exact same proportion.
- There are multiple provisions interacting with one another and isolating the impact of a single provision is obviously a challenging task.
- The tax expenditure estimates are based on economic conditions at a specific point in time. Economic changes, such as recessions or booms, and/or the potential government policy changes can significantly affect the value and impact of tax expenditures.
- Accurate estimation of tax expenditures requires a comprehensive database. In the absence of a comprehensive digitized system, this estimation is based on sample data. Also, given the availability of data, the estimation is done for a few sectors. The estimation of tax expenditure related to each incentive measure has not been possible.

due to the lack of a well-organized institutional set-up and a comprehensive database or a complete online return system. With a greater sectoral breakdown, and preferably, with a separate estimate for each incentive measure would yield a more precise estimate. The tax expenditure delineated in this report is therefore an estimate based on the available data.

Above all, it is important to note that the estimated revenue foregone due to tax expenditure measures does not necessarily imply that the government has waived this amount of money. The various incentive measures in the tax policy are in line with specific socio-economic goals. It is obvious that the incentive measures targeted to different sectors or groups have caused a considerable impact on the growth of the respective sectors that would otherwise not have occurred had there been no such incentives.

# EXISTING TE PROVISIONS: SECTORAL REVISIT

With the broader sectoral TE estimation and a further revisit, Initially, a further scrutiny can be made focusing on the sectors that comprise relatively large share of revenue forgone. A sectoral analysis is provided below along with international practice in comparable/ homogeneous countries and probable/possible policy recommendations.

## 5.1 Share Capital Gain

- ✓ The largest source of TE arises from share capital gain, covering 13.47% share in the estimated TE (Table 8).

### Existing provisions:

- The share capital gain from public limited companies for individuals is fully tax exempted.
- The share capital gain from public limited companies for director shareholders is subject to tax at a reduced rate (5% or 10%).

### Country Experiences:

#### India:

- Long term capital gains tax (LTCG) from shares and equity-oriented mutual funds is subject to 10% tax (plus surcharge and cess) if they surpass Rs. 1 lakh in a fiscal year.

LTCG applies to profits from the sale of shares or equity-oriented mutual funds held for over a year.

- Short term capital gains tax (STCG) rate is 15%.
- Assets held for over a year are considered as long-term assets.

#### **Indonesia:**

- The proceeds from sales of shares listed on the Indonesian stock exchange are subject to a final withholding tax of 0.1% of the gross sales consideration.

#### **Issues:**

- Anecdotal evidence suggests that to avail of the exemption facility, ill practice such as manipulation of the account statements with inflated capital gain, insider information, etc. are undertaken.
- Some assesseees continue to declare huge capital gain from shares and enjoy exemption facility, which is against the principle of social equity and is not compatible with the underlying objective of this TE provision.

#### **Policy Recommendations:**

- ✓ Individual share capital gain from public limited companies may be made taxable with **a reduced slab rate** such as for income from fisheries, *in the short run*.
- ✓ **Director shareholders' share capital gain tax rates may be increased.**
- ✓ Capital gain **above a certain limit** may be subject to a higher rate.
  - Rather than taxing the share capital gain for individuals at a regular rate, a slab rate would be more effective to accommodate/habituate taxpayers to pay tax.
- ✓ Individual share capital gain from public limited companies may be made taxable **at a regular rate**, *in the long run*.
- ✓ With a view to strengthening capital market, **a retention period for stock market investment** may be included in the condition for companies enjoying exemption or reduced rate facility.

## **5.2 Financial Inclusion and Access to Finance**

Microfinance institutions provide financial services, including small loans and savings accounts, to individuals who typically do not have access to traditional banking.

- ✓ The second largest source of TE arises from Microfinance, covering 12.17% share in the estimated TE (Table 8).

### **Existing provisions:**

- Any service charge arising from microcredit activities of private organizations registered with NGO bureau or Microcredit Regulatory Authority will be deducted from total income subject to conditions such as the microcredits must be revolving, the service charge is not used to acquire any asset other than microcredit revolving and is not used as capital of any other business.

### **Country Experiences:**

#### **India:**

- NGOs need to meet certain qualifications for availing such exemption such as, the main objective must be charitable or religious purpose.
- Donors can claim income tax deduction for donations made to NGOs.
- For anonymous donations, *i.e.*, donations where donee does not maintain record of identity/any particulars of the donor, donation exceeding higher of 5% of total donations received by trust or Rs 1,00,000, is taxed at 30% rate.

#### **Vietnam:**

- A 3% tax break is allowed for microfinance institutions, 17% instead of 20%.
- Newly established microfinance institutions in areas with particularly difficult socio-economic conditions, a tax rate of 10% will apply for the first 15 years since the enterprise has revenue; after the end of 15 years, the tax rate will apply to 20%.

### **Recent policy changes:**

- Under Income Tax Act, 2023 the service charge received by the NGO related with micro credit is tax exempted upon meeting certain criteria.
  - This will likely to reduce TE.

### **Policy recommendations:**

- ✓ **A reduced tax rates (5-15%)** is of worth consideration.
- ✓ Alternatively, upto a certain threshold of income may be exempted, with the additional income being taxable.

## 5.3 Remittance

- ✓ Remittance occupies the third largest source of TE, covering 8.97% share in the estimated TE (Table 8).

### Existing provisions:

According to para 17 of part 1 of sixth schedule of Income Tax Act 2023, Any income earned in abroad by an individual assessee being a Bangladeshi citizen and brought any such income into Bangladesh as per existing laws applicable in respect of foreign remittance is tax exempted.

### Country Experiences:

#### India:

Tax Implications on Inward Remittances to India:

- Remittances received as income, maybe for services rendered or as a consultancy fee, are taxable at regular rate.
- If an NRI is repatriating his/her savings from a foreign country to India, the principal amount is not taxable. However, the interest earned on this amount in India will be taxable.
- No Double Taxation if an NRI has already paid tax in the country of his/her residence.
- Remittance as a gift from a relative is exempt from tax. However, if the gift amount exceeds ₹50,000 and is not from a relative, the entire amount becomes taxable.
- Money received as an inheritance or from a will is not taxable.

### Policy recommendations:

- ✓ With a view to achieving broader socio-economic development goals, the existing TE provisions in remittance are crucial.
- ✓ However, it is important to remain vigilant in case of any fraudulent activity or money laundering issue.

## 5.4 Power and Energy

- ✓ Power and energy sector occupies the fourth largest source of TE, covering 6.66% share in the estimated TE (Table 8).

Energy security refers to the uninterrupted availability of energy resources at affordable prices. It is a critical aspect of a nation's overall security and economic well-being. Achieving energy security involves ensuring a reliable and resilient supply of energy to meet the demands of a country's economy, society, and national security. For this to happen, we need diversified energy sources, robust and resilient energy infrastructure, strategic reserves, international co-operation as well as government policy support.

#### **Existing provisions:**

- Energy sectors in Bangladesh have been given tax exemption with a sunset clause.
- There are several SROs providing tax exemption varying from 10 to 15 years to power generation companies running under "Private sector Power Generation Policy of Bangladesh". will get
- Foreign employees of these companies will enjoy full tax exemption on their income for 3 years.

#### **Issues:**

- Anecdotal evidence suggests that many power-generation companies avail tax holiday and at the end of its tax holiday it liquidates its operation only to establish the whole new company in a new name to again avail this tax holiday.
- Also, captive power generation companies who are not eligible for enjoying tax exemption are illegally claiming that those companies are tax exempted.
- Several SROs are existent simultaneously, sometimes causing confusions and misinterpretations.

#### **Country Experiences:**

##### **India:**

- A concessional tax rate of 15 percent for new manufacturing/power-generating companies, set up after 1 October 2019 and power generation commenced on or before 31 March 2024.
- For solar power generating companies, a tax waiver on 100% of profits for 10 assessment years (from initial assessment year) during first 15 years of its operational life. The same is valid for the plants commissioned till 31st March, 2017.

## **Vietnam:**

- Tax rate for the renewable energy sector is 10% for a period of 15 years.
- A socialization project in the field of environment protection can enjoy the incentive CIT rate of 10% for the whole lifetime of the project and exemption for four years and 50% reduction from five to nine in the subsequent years depending on the area where the project is implemented.
- In addition, if a renewable energy project investment is in an encouraged location, the following tax incentives apply:
  - 17% tax rate for 10 years; tax-exempt for two years and the subsequent four years a 50% reduction will be applied for the new investment projects located in difficult socioeconomic areas;
  - 10% tax rate for 15 years; tax-exempt for four years and the subsequent nine years a 50% reduction will be applied for the new investment projects located in extremely difficult socioeconomic areas.

## **Policy recommendations:**

- ✓ With a view to achieving broader socio-economic development goals, the **existing TE provisions** in power and energy sector are crucial.
- ✓ However, the existing policy and its misuse by the companies should be **strictly monitored**.
- ✓ **Gradual phasing out** of the energy sector TE provisions may be considered in long run.
- ✓ The SROs should be revisited and **unified**.

## **5.5 Tax Amnesty**

Tax amnesty is a government scheme that allows the defaulting taxpayers to declare to the tax authority any omissions or errors in calculating tax liability in the past and disclose any inaccurate, incorrect or incomplete information from past years.

### **Existing provisions:**

- Several tax amnesty provisions including undisclosed investment in flat, building, etc. with specific conditions.



### **Country Experiences:**

Many countries including comparable or homogeneous ones have introduced tax amnesty programs.

### **Policy recommendations:**

- ✓ The existing **rates** needs to be **revisited and may be increased**.

## **5.6 Economic Zones and Hi-tech Industries**

### **Existing provisions:**

There are several SROs providing tax exemption, reduced rate facilities:

- ✓ Industrial undertaking of EPZ have 25%-100% tax exemption on income upto 5th year for Dhaka and Chittagong division and upto 7th year for other divisions
- Any Income derived in Exclusive Economic Zone:  
For first 10 years@100%, Next 1 year @70%, Next 1 year @30%/50%
- Foreign technical employee in economic zone who has technical know-how income, 50% of the income is exempted;
- Company operating in Hitech Park, first 7 years 100%, next 3 years 70% exempted
- Declared dividend exempted from tax for 10 years.

### **Country Experiences:**

#### **India:**

Incentives for setting up a business in an Indian Special Economic Zone (SEZ):

- Duty free import and domestic procurement of goods for the development, operation, and maintenance of your company/SEZ unit
- 100% Income Tax exemption on export income for SEZ units under Section 10AA of the Income Tax Act for first 5 years, 50% for the next 5 years thereafter (for Units will become effective from 01.04.2020)
- Income tax exemption on income derived from the business of development of the SEZ in a block of 10 years in 15 years under Section 80-IAB of the Income Tax Act. (Sunset Clause for Developers has become effective from 01.04.2017)
- Exemption from Minimum Alternate Tax (MAT)

## **Vietnam:**

- Companies established in economic zones enjoy 2-4 years of tax exemption, 4 to 9 years of 50 percent reduction in tax.
- Companies established in economic zones in extremely disadvantaged areas enjoy 10 percent preferential tax rate for the lifetime of the project, or 4 years of tax exemption, 9 years of 50 percent reduction in tax.

## **Issues:**

Anecdotal evidence suggests that fraudulent practices such as establishing old factories in economic zones, capital transfer/winding up at the end of exemption period are undertaken with a view to enjoy the facility.

## **Policy recommendations:**

- ✓ With a view to achieving the broader economic goals, maintaining the TE provisions in economic zones and hi-tech sector is crucial.
- ✓ However, **strict monitoring** is necessary **to prevent any fraudulent practice** and to achieve the specific goals.
- ✓ **Gradual phasing out** of the TE regime for economic zone may be a **long run goal**.

## **5.7 Salary**

- ✓ Salary constitutes 3.46% share in the estimated TE (Table 8).

## **Existing provisions:**

- Taka 4,50,000 or one-third of gross salary, whichever is lower, is excluded from salary income.
- There exist the following general tax expenditures on account of salary taxation, such as-
  - Particular perquisites if received on account of medical illness
  - Any allowance received and spent wholly and exclusively for the purpose of employment.
  - Several SROs provide exemptions to salary allowances for specific groups, such as Ministers, Advisors, and Members of the Planning Commission; Judges of Supreme

Court; Consultants enjoying the status of deputy minister; Members of the Parliament; Government Employees, etc.

- Furthermore, there are at least 57 SROs that grant tax exemptions to the employees of various organizations.

### **Country Experiences:**

#### **India:**

- All salaried individuals are eligible for a standard deduction of Rs. 50,000.

### **Recent policy changes:**

- Income Tax Act, 2023 limits exclusions from salary income for non-government salary to Taka 4,50,000 or one-third of gross salary, whichever is lower. The previous provisions were exclusions for several allowances.

### **Policy recommendations:**

- Tax exemptions given to particular groups may be revisited.

## **5.8 Dividend**

### **Existing provisions:**

CIT rate for dividend is 20%.

### **Country Experiences:**

#### **India:**

- Domestic company receives a dividend from another domestic company:
  - Intercorporate dividend shall be reduced from the total income of the company receiving the dividend if the same is further distributed to shareholders one month prior to the due date of filing of return.
- Domestic company receives a dividend from a foreign company:
  - Dividend received by a domestic company from a foreign company, in which such domestic company has 26% or more equity shareholding, is taxable at a rate of 15% plus Surcharge and Health and Education Cess. Such tax shall be computed on a gross basis without allowing a deduction for any expenditure.

- Dividend received by a domestic company from a foreign company, in which equity shareholding of such domestic company is less than 26%, is taxable at the normal tax rate. The domestic company can claim a deduction for any expense incurred by it for the purposes of earning such dividend income.

#### **Indonesia:**

- Reduced tax rate of 10% for residents and 20% for non-residents.

#### **Policy recommendations:**

- ✓ As a long-standing feature and following international practices, **no policy intervention** is suggested.

### **5.9 Agro Business (Poultry and fisheries, agriculture etc.)**

- ✓ 2.49% share in the estimated TE arises from poultry and fisheries income (Table 8).

#### **Existing provisions:**

- The reduced rate of income tax from poultry, hatchery and fisheries income in Bangladesh as below:

<b>Amount of Income</b>	<b>Tax Rate</b>
Upto 1 <sup>st</sup> 10 Lakh Taka	0%
Next 10 Lakh Taka	5%
Next 10 Lakh Taka	10%
Remaining Income	15%

- There exists several SROs for several types of agricultural income.
- For any individual, 2 Lakh taka from “Agriculture income” is exempted if s/he is a farmer by profession and in that income year, no other type of income is generated except agricultural income and interest income (not exceeding 20,000/- taka).

#### **Country Experiences:**

##### **India:**

- Agricultural income is exempted from tax under the Income-tax Act, 1961.
- Income from allied agricultural activities like poultry farming, wool rearing, livestock, poultry, and aquaculture etc. are not considered as agricultural income.

- However, the state government can levy tax on agricultural income if the amount exceeds Rs.5,000 per year.

#### **Vietnam:**

- The tax rate 15% for income from farming, livestock and processing enterprises in the agricultural and fishery sectors.

#### **Recent policy changes:**

- An Amalgamation of two similar SROs was made in 2022.
  - This will likely to reduce TE.

#### **Policy recommendations:**

- ✓ **Unification and amalgamation** of similar SROs is necessary.
- ✓ **Another tier with a higher rate** may be considered.
- ✓ Fraudulent practices should be **monitored** strictly.

## **5.10 Capital Gain from Transfer of Asset**

- ✓ Capital gain from asset transfer (individual only) accounts for 2.20% share in the estimated TE (Table 8).

#### **Existing provisions:**

- The withholding tax at a reduced rate from transfer or acquisition of asset is the final tax for natural individual taxpayers.
- 15% tax rate on capital gain from transfer or acquisition of asset for other than natural individual taxpayers.

#### **Country Experiences:**

##### **India:**

- Selling land assets within 24 months will result in short term capital gain which are taxed at regular progressive rate.
- Income from capital gains when the assets are sold after being held for at least 24 months are called long term capital gains which are taxed at 20%.

**Indonesia:**

- Gains on disposal of buildings or land are taxed at 2.5% which is the final tax of the transaction value or the government-determined value, whichever is higher.

**Recent policy changes:**

- Capital gain from transfer of asset, etc. is taxed at 15% for other than natural individual taxpayers.
- The withholding tax rates for the transfer has been increased in 2023.
  - This will likely to reduce TE.

**Policy recommendations:**

- ✓ The withholding tax at a reduced rate from acquisition of asset is the final tax for natural individual taxpayers only for AY2023-2024. The issue needs to be clarified for the upcoming years.
- ✓ The applicability of inheritance tax may be considered in the medium/long run.

## 5.11 Interest on Savings Certificates

**Existing provisions:**

- The withholding tax at a reduced rate 10% from interest on savings certificates is the final tax for natural individual taxpayers.
- Investment of up to Taka 5 lakhs in savings certificate is eligible for tax rebate.

**Country Experiences:****India:**

- During the initial four years, the interest accrued on National savings certificate is reinvested, making it eligible for a tax credit within the overall annual limit of Rs. 1.5 lakh. However, the interest earned in the fifth year is not reinvested and is consequently taxed at the investor's applicable slab rate.

**Recent policy changes:**

- A limit on investment in saving certificate has been set at Taka 5 lakhs for tax rebate.
  - This will likely to reduce TE.

**Policy recommendations:**

- ✓ The distributional effects of TE provisions, *i.e.*, whether they create uneven benefit to specific income groups or industries, is of worth consideration. The final settlement of withholding tax tends to favor the higher income groups or the individuals with higher investment in saving certificate.
- ✓ The final settlement of withholding tax should be revisited and a **slab rate** may be introduced instead.

## 5.12 Bond and Government Securities

**Existing provisions:**

Capital market and bond market has many new bonds issued and many new bonds are in the pipeline for issuance.

- Tax exemption exists only on the income derived from zero coupon bonds issued by any bank, insurance or financial institution or other institution upon prior approval from Bangladesh Bank or Bangladesh Securities and Exchange Commission.
- Also, income derived from Wage Earners Development Bond, US Dollar investment bond, Euro premium bond, Euro investment bond, Pound sterling investment bond or pound sterling premium bond are tax exempted.
- Bangladesh Government Treasury Bonds (BGTB) are not tax exempted.

**Country Experiences:****India:**

- Interest income derived from bonds are taxed at regular rate except for tax-free bonds.
- Capital gain arising from bonds sale is taxable. The tax rate varies from 10%-20% depending on the retention period of bond.

**Policy recommendations:**

- ✓ For tight monetary policy, Central Bank is planning to issue special bonds to begin clearing arrears to fertilizer importers and independent power producers (IPPs). NBR needs to provide specific policy guideline on the tax implication of these bonds through budgetary exercise in the upcoming FY2024-25 budget.
- ✓ Overall, the existing TE provisions in several bonds need to be revisited and restructured.

- ✓ The applicability of tax on different types of bonds should be propagated towards field level implementation with effective monitoring to avoid any confusion.
- ✓ **TDS with final tax** on interest on the bonds mentioned above (Wage Earners Development Bond, US Dollar investment bond, Euro premium bond, Euro investment bond, Pound sterling investment bond or pound sterling premium bond, etc.) may be considered in **medium or long run**.

## 5.13 Export Sector

### Existing provisions:

- The reduced rates of income tax on export income are as follows:
  - 50% exempted income for Individual, Firm and Hindu Undivided Family;
  - 12% tax rate for other than Individual, Firm and Hindu Undivided Family
  - 10% tax rate for the income earned by other than Individual, Firm and Hindu Undivided Family engaged in producing goods in Leadership in Energy and Environmental Design (LEED) Certified factories.
- Tax rate is 10% for export cash incentive and is the final tax.

### Country Experiences:

#### India:

- Tax Deduction on exports profits for units set up in EPZs (Export Processing Zone), STP (Software Technology Park), EHTPs (Electronic Hardware Technology Park), FTZ (Free Trade Zones) and SEZs (Special Economic Zones).
- Export profit from a new undertaking, satisfying prescribed conditions and set up in an SEZ, is eligible for tax exemption of 100% for the first five years, from the year in which manufacturing commences, followed by a partial tax exemption of 50% for the next five years. A further tax exemption of 50% of the export profit for five years is also available after that, subject to an equal amount of profit being retained and transferred to a special reserve in the books of account. The said exemption is available on commencement of eligible business between 1 April 2006 and 31 March 2020, with an extension to 30 June 2020.



### Recent policy changes:

- For CIT, the tax rate is reduced to 12% in place of 50% exempted income for export other than garments through SRO No. 210/Law/Income Tax-05/2023, Dated 26th June, 2023.
  - This will likely to increase TE.

### Policy recommendations:

- ✓ With a view to achieving the broader economic goals, maintaining the TE provisions in economic zones and hi-tech sector is crucial.

## 5.14 Investment Rebate

### Existing provisions:

- Rebate at the rate of 15% is applicable for several investments as specified in 6<sup>th</sup> Schedule Part 3 of Income Tax Act, 2023.
- Tax rebate is allowed on investments in both primary and secondary shares.

### Country Experiences:

#### India:

- Tax deduction can be claimed on up to a limit of Rs 1.5 lakhs in a financial year on various investments and expenses like provident fund, savings schemes etc. Deduction of up to Rs 10,000 is allowed on interest earned from savings account.

### Policy recommendations:

- ✓ Tax rebate on investments may be continued **only for investment in primary share**, but not for investment in secondary share.
- ✓ The existing list of investment subject to rebate needs to be **revisited**.

## 5.15 IT Sector

### Existing provisions:

- Excluded from total income, *i.e.*, exempted from tax.

## Country Experiences:

### India:

- The export of computer software excluded from total income for a period of ten years.
- Ten-year tax holiday for R&D companies engaged in scientific industrial research.
- A weighted deduction of 150% has been offered for scientific research and development expenditure.

### Vietnam:

- Income from software production is subject to reduced tax rate of 10% over a 15-year period and tax exemption for 4 years with a 50% tax deduction for the following 9 years, upon fulfilling the specific conditions.

## Policy recommendations:

- ✓ Interpretation of IT enabled service and **clarification** of TE provisions in IT sector should be propagated towards field level implementation with effective monitoring to avoid any confusion.
- ✓ The terms such as E-learning, freelancing, software customization, and the like, which may lead to confusions and mis-interpretation, need be clarified in the law.
- ✓ A **reduced tax rate** (10%-15%), or, a **ceiling** on exempted income, or, a **sunset clause** may be of worth consideration.

## 5.16 Education

- ✓ Education sector accounts for only 0.31% share in the estimated TE (Table 8).

### Existing provisions:

- Corporate tax rate for the Private Universities, Private Medical Colleges, Private Dental Colleges, Private Engineering Colleges or the private colleges who are providing education only for information technology is reduced to 15%.
- Any income, not being under the head “Income from financial assets”, received by any educational institution is excluded from total income, if it –
  - (i) is enlisted for Monthly Pay Order (MPO) of the Government;
  - (ii) follows the curriculum approved by the Government;
  - (iii) is governed by a body formed as per Government rules or regulations.

- Salary and allowances of all foreign faculty members, teaching, research or library staff members, administrators, officers, experts, technicians, visiting personnel of Asian University of Women are tax exempted.
- Technical education and Training providing organization will get tax exemption of 10 years.  
Aga Khan Fund for Economic Development (AKFED) and companies under AKFED are tax exempted.
- Exclusion of income donated to any fund established by or under the provisions of Trust of Prime Minister's Education Assistance Act, 2012, subject to a maximum amount of donation.
- Donation to a philanthropic or educational institution which is approved by the Government for this purpose will get the benefit of tax rebate.

### **Country Experiences:**

#### **India:**

- The income of any university or other educational institutions shall be exempt from tax under this provision on fulfilment of the following conditions:
  - It is existing solely for educational purposes.
  - It is not existing for purpose of profit and its annual receipt do not exceed Rs. 5 crores.

#### **Vietnam:**

- Enterprises operating in the fields of education – training, vocational training, healthcare, culture, sports and environment are subject to a tax rate of 10%.

### **Policy recommendations:**

- ✓ Given relatively less share in the estimated TE and following international practices, **no policy intervention** is suggested.

## **5.17 Publicly Traded vs. Private Limited Companies**

### **Existing provisions:**

- A reduced tax rate for publicly traded companies, *i.e.*, 22.5% or 25%.

## **Country Experiences:**

### **India:**

- There is no difference in tax rates for listed or non-listed companies.
- The corporate tax rate for domestic companies varies from 15% (new manufacturing companies) to 30% and 40% for foreign companies. Surcharge of 7%-12% and a further health and education cess on tax and surcharge are payable, subject to total taxable income or conditions laid down. Surcharge rates for foreign companies are 2%-3%.

### **Indonesia:**

- Companies that are listed on the stock exchange that offer the minimum requirement of 40% of total share capital are subjected to a 3 percent tax cut from the standard rate.

### **Policy recommendations:**

- ✓ **Reducing the gap** between the tax rates of publicly traded and private limited companies is of worth consideration for the sake of greater domestic resource mobilization.

## **5.18 Interest on Foreign Loan**

### **Existing provisions:**

- Service charge paid on account of external debts by the government of Bangladesh are mostly tax exempted under bilateral or multilateral agreements entered by the government of Bangladesh.
- A total of 0.9 billion dollars have been paid as service charge on account of interest payment to non-residents in FY2020-21.
- A conservative approach of tax expenditure from this sector might be estimated at the rate of 5% of total interest paid and the figure stands at 5% of 0.9 billion dollars or Tk. 495 crore given the rate of dollar at tk. 110.

## **Country Experiences:**

Transboundary interest payments are taxed everywhere in the world. Nearly every country has a withholding tax regime on transboundary interest payment and this regime couples with provisions of Double Taxation Conventions. The following is the brief global view of interest taxation-

Serial No.	Name of the Country	Rate of Withholding Tax
1.	Australia	10
2.	Bahrain	0
4.	Belgium	30
5.	Brazil	15
6.	Canada	25
7.	Egypt	20
8.	France	0
9.	India	20
10.	Japan	20
11.	Netherlands	0
12.	Norway	15
13.	Singapore	15
14.	Sri Lanka	5
15.	United States	30

Most of the Countries that have DTCs with other countries have tax rates on interest ranging from 0-10%. The DTCs that Bangladesh has entered have tax rates ranging from 0-15%.

#### **Recent policy changes:**

The interest on foreign loan is exempted under a recent SRO until December 2024.

#### **Policy recommendations:**

- ✓ Bangladesh should only follow the DTC regime and the regime established by bilateral as well as multilateral instruments.

## **5.19 General Recommendations**

### **➤ Unification and formal publication of SROs**

In many sectors, the SROs have been formulated on a need-based system. For example, power sector currently enjoys 6 SROs in Bangladesh regarding direct tax exemption maintaining some specific criteria. Same sector specific SROs should be brought under one single umbrella. Also, there should be one formal publication of SRO from NBR.

### **➤ Strict monitoring to prevent fraudulent practices**

Anecdotal evidence suggests that fraudulent practices is quite common among taxpayers and related parties with a view to enjoy the TE facility in several sectors. Strict monitoring is necessary to prevent any fraudulent practice and to achieve the specific goals.

## CONCLUDING REMARKS

Tax expenditure reports play a vital role in the realm of fiscal policy and government finance. These reports provide transparency, accountability, and valuable insights into the impact of tax incentives, deductions, credits, and exemptions on government revenue and the overall economy. Tax expenditures can have multiple policy objectives, such as encouraging investment, supporting social programs, or promoting economic growth. Evaluating their effectiveness in achieving these goals can be challenging, as success criteria may vary.

This is the first time NBR has undertaken the initiative of estimating the tax expenditure in a structured way and reporting it. In this first year study, an effort has been made to review and analyze the existing tax expenditure in Bangladesh through defining the benchmark tax system, listing the expenditure inventory, estimating the tax expenditure and stepping to the room for further analysis in this area. The tax expenditures have been estimated for the broad categories and for the major sectors, as far as the available data allowed for.

To improve the effectiveness, efficiency, fairness, and transparency of the tax system, the following are worth consideration for:

- *Eliminate or Sunset Ineffective Expenditures*: It is important to identify the tax expenditures that are not achieving their intended policy goals or are no longer relevant. Elimination or a sunset provision of such expenditure measures can free up government revenue and simplify the tax code. For example, NBR has already taken initiative to

erase tax free criteria of the service charge receipt by any private NGO if the receipt is not revolving as microcredit through Income Tax Act 2023.

- *Limit or Cap Expenditures:* There should be proposed limits or caps on tax expenditures to prevent abuse or excessive benefits. This can ensure that high-income individuals or corporations do not disproportionately benefit from certain provisions. For example, NBR has capped the investment in saving certificate to 5 lakhs for having tax rebate.
- *Refine Eligibility Criteria:* Eligibility criteria for tax expenditures to better target them toward specific groups or activities. This can help ensure that the benefits are directed to those who need them most.
- *Review and Adjust Tax Credit Rates:* Tax credit rates should be adjusted to make them more effective or equitable. For example, increasing or decreasing the rate of a tax credit to better align with policy goals which has been done this year by Finance Act, 2023.
- *Enhance Reporting and Transparency:* A guideline should be followed for reporting requirements and transparency measures related to tax expenditures. This can include enhancing the disclosure of data on the beneficiaries of tax expenditures and their economic impact.
- *Conduct Periodic Evaluations:* Establishment of a regular review process for tax expenditures, such as requiring periodic evaluations to assess their impact and continued relevance is very much necessary. Tax expenditure reporting should be done strictly once in a year for NBR. There should be legal provisions in the Finance Act for tax expenditure periodic evaluations.
- *Create New Tax Incentives:* Introduction of new tax incentives or deductions to address emerging policy priorities or economic challenges is crucial for the revenue administration of NBR. For building smart Bangladesh 4 pillars are necessary: Smart Citizens, Smart Government, Smart Economy, and Smart Society. This requires new incentives for job creation, innovation and overall economic growth.

- *Evaluate Distributional Impact:* It is important to consider the distributional effects of tax expenditures and recommend adjustments to ensure that they do not unduly favor specific income groups or industries. For example, through a recent SRO, NBR has made tax deducted at source of saving certificate final tax liability for all individual taxpayers. It should be revisited as this will only favor the higher income groups or the individuals with higher investment in saving certificate.
- *Assess Revenue Implications:* NBR has to analyze the budgetary impact of the recommendations, including estimates of revenue gains or losses associated with each proposal. The tax expenditure estimation should be included in the budget document and reported to the Parliament every year.
- *Seek Stakeholder Input:* Engagement with relevant stakeholders, such as industry associations, advocacy groups, and tax experts, to gather input and feedback on the recommendations is very much crucial for effective tax incentives designing.

Tax expenditure report enables policymakers to enhance transparency, assess policy effectiveness, promote accountability, improve decision-making, examine distributional impact, consider trade-offs, and encourage public debates. While tax expenditure reports are invaluable tools for fiscal governance, it is crucial to acknowledge their limitations, including subjectivity in estimation, data challenges, changing economic conditions, and the potential for political influence. They are most effective when used in conjunction with other forms of analysis and when considered within a broader policy context.

This tax expenditure report provides a foundation for informed decision-making, enabling governments to strike a balance between promoting economic growth, social goals, and fiscal responsibility within the framework of their tax systems. Despite several limitations, this tax expenditure report remains essential tools for policymakers, providing valuable insights into the fiscal and economic impact of tax incentives and deductions. It is important for analysts and policymakers to recognize these limitations and use this tax expenditure report as part of a broader decision-making process that considers multiple sources of information and perspectives.



With the start of the process of incorporating tax expenditure analysis in the FY2023-24 budget, a sample-based estimate of tax expenditure is provided due to data limitations and other capacity constraints. NBR aims to strengthen its capacity and data management system for a comprehensive and systematic estimation, reporting and evaluation of the tax expenditure in order to ensure better fiscal management. Moreover, periodic revaluations are required to ascertain the relevance of the tax expenditures sector wise to ensure these do not result in significant revenue loss without corresponding benefits.

This tax expenditure report is, of no doubt, a big step forward towards a more specific estimation procedure in the upcoming years, with a further institutional capacity building together with a comprehensive database and a completed computerization of the administrative systems of NBR.

The implications of tax expenditures are multifaceted and warrant thorough examination. While tax incentives may stimulate economic activity, encourage savings, and enhance competitiveness, they can also exacerbate income disparities, distort market behavior, and undermine revenue adequacy. Assessing the trade-offs between short-term stimulus and long-term fiscal sustainability is crucial in designing and reforming taxation policies.

This report is prepared following the TE estimation in Bangladesh direct taxes and the analysis and policy recommendations are provided based on the discussions with NBR officials, representatives from international and civil society organizations, researchers as well as the anecdotal evidence. As the TE regime is concerned, there remains the counteracting as well as mutually-supportive goals of increasing domestic resource mobilization vis-à-vis boosting socio-economic development. A holistic view on TEs is therefore important in case of TE rationalization. An immediate as well as a medium and long-term fiscal planning should be taken in line with the broader policy goals. Balancing revenue needs with equity concerns, efficiency considerations, and growth imperatives requires a nuanced approach to tax policy formulation and reform.

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## APPENDIX

### TAX EXPENDITURES INVENTORY: DIRECT TAXES OF BANGLADESH

Title	Category	Description	Type	Objective	Legislative reference
Initial exemption for third gender, women and senior citizens (over 65 years)	PIT	The initial exemption is increased for third gender, women and senior citizens aged 65 years or above to Taka 350,000.	Tax free limit	Social welfare	Finance Act
Initial exemption for physically challenged persons	PIT	The initial exemption is increased for physically challenged persons to Taka 450,000.	Exemption	Social welfare	Finance Act
Initial exemption for war wounded freedom fighters	PIT	The initial exemption is increased for gazetted war-wounded freedom fighters is Taka 475,000.	Exemption	Social welfare	Finance Act
Initial exemption for parents of physically challenged persons	PIT	Initial exemption is Taka 50,000 for a parent/legal guardian of a physically challenged person. Only one exemption increase is permitted where both parents are taxpayers.	Exemption	Social welfare	Finance Act
Rebate for owners of small or cottage industry	PIT	If an individual is the owner of a small or cottage industry situated in a less or least developed area, is engaged in manufacturing products and derives income from such industries then they are entitled to a rebate on income derived. Rate varies between 5-10% depending on change in production levels.	Rebate	Protect small & cottage Industry	Finance Act
Additional tax if proper arrangements not made for disable people	CIT	An additional tax of 5% is levied on schools, colleges, universities and NGOs if disabled persons are not provided with proper arrangements for movement.	Tax rate	Social welfare	Finance Act
Rebates or waivers associated with employing physically challenged or third gender persons	CIT	A rebate of 5% or a waiver of 75% of salary to physically challenged or third gender employees, whichever is lower, will be allowed for	Rebate	Social welfare	Finance Act

		employing 10% of total employees or more than 100 persons from physically challenged or third gender persons.			
Reduced rates of tax	CIT	Various rates that differ from the benchmark rates of 20%, 30% and 45% exist depending on corporate structure and activities undertaken.	Concessional rate	Industry assistance	Finance Act
Charge of tax on retained earnings, reserves, surplus	CIT	If in an income year the total amount transferred to retained earnings or any fund, reserve or surplus, called by whatever name, by a registered company and listed on any stock exchange exceeds 70% of the net income after tax, tax shall be payable at the rate of 10% on the total amount so transferred in that income year.	Reduced rate	Motivation for stock market	Section 16G of the Income Tax Ordinance 1984
Special Tax Treatment in respect of investment in new industrial undertaking	PIT	Source of income will not be questioned if invested in new industrial undertaking between 1/7/21 and 30/6/22. The tax rate that applies is 10%.	Reduced rate	Compliance	Section 19AAAAA A of the Income Tax Ordinance 1984
Special tax treatment in respect of investment in building, apartments	PIT/ CIT	Area based tax rate below normal rate.	Reduced rate	Compliance	Section 19BBBBB of the Income Tax Ordinance 1984
Special tax treatment in respect of investment in the purchase of bonds under Bangladesh Infrastructure Finance Fund	CIT/ PIT	No questions will be raised as to source of funds invested by any person in the purchase of bonds issued under Bangladesh infrastructure Finance Fund during period 1/7/10 and 30/6/12.	Reduced rate	Compliance	Section 19C of the Income Tax Ordinance 1984

Special tax treatment in respect of investment in Economic Zones and Hi-Tech Parks	CIT	No questions will be raised as to the source of any sum invested in any economic zone declared under section 5 of or any hi-tech park declared under section 22 of for setting up industrial undertaking engaged in producing goods and services within the period 1/7/19 to 30/6/24. The tax rate that applies is 10%.	Reduced rate	Compliance	Section 19DD of the Income Tax Ordinance 1984
Tax rebate on investments	PIT	A rebate of 15% applies to certain investments including life insurance premiums, contribution to approved provident funds, pension scheme deposits, certain national institutions and charitable funds and any sum invested in Bangladesh Government Treasury Bonds, stocks and shares of listed companies, mutual funds and debentures listed on any exchange in Bangladesh.	Rebate	Industry assistance	Section-44 of Income Tax Ordinance 1984 & Sixth schedule Part-B
Exemption from tax of newly established industrial undertakings set up between the period of July, 2011 and June 2019 in certain cases	CIT	Income profits and gains from an industrial undertaking are exempt from tax where set up between qualifying dates. Rates and duration of tax exemptions vary depending on location.	Exemption	Industry assistance	46B of the Income Tax Ordinance 1984
Exemption from tax of newly established industrial undertakings set up between the period of July, 2019 and June 2024 in certain cases	CIT	Income profits and gains from an industrial undertaking are exempt from tax where set up between qualifying dates. Rates and duration of tax exemptions vary depending on location.	Exemption	Industry assistance	Section 46BB of the Income Tax Ordinance 1984
Exemption from tax of newly established physical infrastructure facility set up between the period July 2011 and June 2019 in certain cases	CIT	Income profits and gain under section 28 from physical infrastructure facility set up in Bangladesh between July 2011 and June 2019 shall be exempted from tax payable for 10 years from commencement of	Exemption	Industry assistance	Section 46C of the Income Tax Ordinance 1984

		commercial operations. The rate varies based on years since commencement.			
Exemption from tax of newly established physical infrastructure facility set up between the period July 2019 and June 2024 in certain cases	CIT	Income profits and gain under section 28 from physical infrastructure facility set up in Bangladesh between July 2019 and June 2024 shall be exempted from tax payable for 10 years from commencement of commercial operations. The rate varies based on years since commencement.	Exemption	Industry assistance	Section 46CC of the Income Tax Ordinance 1984
Exemption from tax for income from investments or deposits of an approved superannuation or pension fund	CIT	Exemption from tax for income from investments or deposits of an approved superannuation or pension fund.	Exemption	Retirement incomes	First Schedule Part-A para 5(1)
Special rate of capital gains tax	PIT/ CIT	Capital gains tax is payable at a rate of 15% on capital income by companies. Entities other than companies who dispose of assets held for more than 5 years pay tax at 15% or their applicable marginal rate whichever is lower.	Exemption	Assistance of business and land	Second Schedule para 2
Concessional tax on dividends received by companies	CIT	Tax payable on dividend income in the case of a company is 20%.	Reduced rate	Industry assistance	Second Schedule para-4
Exemption for income derived from house property held for religious or charitable purpose		Any income derived from house property held under trust or other legal obligation wholly for religious or charitable purposes is excluded from income.	Exemption	Social welfare	Sixth Schedule Part- A para-1
Exemption for income of Provident Funds	CIT	Any income accruing to or derived by a provident fund is exempt from tax.	Exemption	Social welfare	Sixth Schedule Part A para-4

Exemption of income from Workers Profit Participation Fund	PIT	Income derived by workers participation funds are exempt from income tax.	Exemption	Social welfare	Sixth Schedule Part-A para 4(2)
Exemptions for some special allowances, benefits and perquisite	PIT	Any special allowance, benefits or perquisite specifically granted to meet expenses wholly and necessarily incurred in the performance of the duties of an office or employment of profit.	Exemption	Social welfare	Sixth Schedule Part A para- 5
Exemption for recognized provident fund, approved superannuation fund, pension fund and approved gratuity fund	PIT	Full tax exemption on income received by the trustees on behalf of recognized provident fund, approved superannuation fund, pension fund and approved gratuity fund	Exemption	Social welfare	Sixth schedule Part-A para-6
Exemption for pension income	PIT	Any pension due to or received by an assessee from the Government or an approved pension fund is exempt from income tax.	Exemption	Social welfare	Sixth Schedule Part A para-8
Exemption for dividend income from listed companies up to 50,000 taka	PIT	Dividend income received by an individual assessee from companies listed with either/both exchanges in Bangladesh are exempted from tax up to Taka 50,000.	Exemption	Industry assistance	Sixth Schedule Part-A para 11A
Exemption for gratuity income	PIT	Any income up to two crore fifty lakh received by an assessee as gratuity from the Government or an approved gratuity fund is exempt from income tax.	Exemption	Social welfare	Sixth Schedule Part-A para 20
Exemption of tax on payment made by Provident Fund, Approved superannuation Fund	PIT	Any payment made by a Provident Fund, a recognized Provident Fund or an approved superannuation fund is exempted from tax.	Exemption	Social welfare	Sixth Schedule part-A para-21
Exemption for income from a mutual fund or a unit fund	PIT	An exemption from income tax is provided for mutual funds or a unit fund up to taka twenty-five thousand	Exemption	Social welfare	Sixth Schedule Part-A para- 22A



Exemption for certain interest income on Government issued securities	CIT/ PIT	Any interest classifiable under the head "Interest on securities" receivable by an assessee on any security of the Government which is issued with the condition that interest thereon shall not be liable to tax is provided an exemption.	Exemption	Motivation for investment & savings	Sixth Schedule Part-A para- 24
Exemption of certain bond income	PIT	Any income received by an assessee from Wage earners development bond, US dollar premium bond, US dollar investment bond, Euro premium bond, Euro investment bond, Pound sterling investment bond or Pound sterling premium bond is exempt.	Exemption	Assistance of foreign remittance	Sixth Schedule Part-A para 24A
Exemption for certain interest income in a recognized provident fund	PIT	An exemption is provided for any sum representing interest credited on the accumulated balance of an employee in a recognized provident fund, in so far as it does not exceed one-third of the salary of the employee for the year concerned and in so far as it is allowed at a rate not exceeding such rate as the Board may, by notification in the Official Gazette, fix in this behalf	Exemption	Social welfare	Sixth Schedule Part-A para- 25
Exemption for certain retirement benefits	PIT	An exemption is provided for any amount received by an employee of a government organization, a local authority, or an autonomous or semi-autonomous body including the units or enterprises controlled by it, at the time of his voluntary retirement in accordance with any scheme approved by the Government in this behalf	Exemption	Retirement incomes.	Sixth Schedule Part-A para 26
Exemption for indigenous	PIT	Income of individuals who are indigenous hill-man of any of the hill	Exemption	Social welfare	Sixth Schedule

individuals of the hills districts		districts of Rangamati, Bandarban and Khagrachari which is derived solely from economic activities undertaken within the said hill districts is exempt.			Part-A para 27
Exemption on export income	CIT	An amount equal to fifty percent of the income of an assessee, other than a company not registered in Bangladesh is exempted.	Exemption	Export promotion	Sixth Schedule Part-A para 28
Exemption for individuals who derive only agricultural income	PIT	An individual having only agricultural income not exceeding taka two lakh are exempted.	Exemption	Agricultural assistance	Sixth Schedule Part-A para 29
Exemption for interest on pensioner saving certificates	PIT	Any sum or aggregate of sums received as interest from pensioners' savings certificates where the total accumulated investment at the end of the relevant income year in such certificate does not exceed taka five lakh is exempt.	Exemption	Social welfare	Sixth Schedule Part-A para 32A
Exemption of income from production of specified ICT products or activities	CIT	Income derived in relation to certain ICT related activities such as software development, digital content, web site development, data analytics, IT support, call center service and cloud services is exempt from income tax until 30 June 2024.	Exemption	ICT Industry assistance	Sixth Schedule Part-A para-33
Exemption of income from production of handicrafts	CIT	Any income derived from the export of handicrafts is exempt from income tax until 30 June 2024.	Exemption	Industry assistance	Sixth Schedule Part-A para- 35
Exemption for private Agricultural Colleges and Universities	CIT	The income of any private Agricultural College or private Agricultural University derived from agricultural education is exempt from tax.	Exemption	Education	Sixth Schedule Part-A para 37
Exemption for certain building income	CIT/ PIT	An exemption is provided for income derived from any building situated in any area of Bangladesh, not less than 5 stories and	Exemption	Industry assistance	Sixth Schedule Part-A para-38

		having at least 10 flats constructed between 1/7/2009 and 30/6/2014 for ten years from the date of completion of construction of the building, except for buildings situated in any area of City Corporation, Cantonment Board, Tongi Upazila, Narayanganj Paurashava, Gazipur Paurashava and any Paurashava under Dhaka district.			
Exemption of income derived from any SME (<5m taka turnover)	CIT	An exemption is provided for income derived by an SME engaged in the production of goods have an annual turnover less than 5 million taka, or 7 million taka where owned by women.	Exemption	Industry assistance	Sixth schedule Part-A para-39
Exemption for income from Zero Coupon Bonds	CIT	An exemption is provided for income derived from zero coupon bonds received by a person other than a Bank, Insurance or Financial Institution subject to certain conditions about issuing entity.	Exemption		Sixth Schedule Part-A para-40
Tax exemptions for income of Cinema Halls and Cineplex	CIT	An exemption from income tax is provided for income derived from the operation of cinema hall or cineplex with rates varying according to years of operation and location.	Exemption	Industry assistance	Sixth Schedule Part-A para-44
Exemption of income from production of rice bran oil	CIT	An exemption is provided for income derived from an industrial undertaking engaged in the production of rice bran oil. Rates vary according to years of operation and location.	Exemption	Industry assistance	Sixth Schedule Part-A para-45
Deductions for donations to various institutions	CIT	An exemption is provided in relation to income of an assessee donated to various charitable institutions. Limits apply in some instances.	Deduction	Social welfare	Sixth Schedule Part-A para- 47, 49, 50, 51,

Partial exemption for certain agricultural products	CIT/ PIT	An exemption of 50% of income derived from the production of corn/maize or sugar beet.	Exemption	Agricultural assistance	Sixth Schedule Part-A para 46
Exemption for income from other sources received by educational institutions	CIT	An exemption is provided for income not being interest or dividends classifiable as income from other sources received by educational institutions subject to conditions.	Exemption	Education assistance	Sixth Schedule Part-A para-52
Exemption for income from other sources received by public universities or professional institute	CIT	An exemption is provided for income not being interest or dividends classifiable under the head "income from other sources" received by any public university or any professional institute established under any law and run by professional body of Chartered Accountants or Cost and Management Accountants or Chartered Secretaries.	Exemption	Education	Sixth Schedule Part-A para- 53
Exemption for income for alternative investment funds	CIT	An exemption is provided for income earned by an alternative investment fund recognized by the Bangladesh Securities and Exchange Commission.	Exemption	Industry assistance	Sixth Schedule Part-A para-54
Exemption from income tax for the Bangladesh Securities and Exchange Commission	CIT	An exemption is provided on any income earned by the Bangladesh Securities and Exchange Commission for assessment years commencing July 2017 to June 2022.	Exemption	Industry assistance	Sixth Schedule Part-A para- 55
Exemption from income tax for certain payments from government	PIT	An exemption is provided for various honorariums, allowances or any welfare allowances received by any person from the Government.	Exemption	Social welfare	Sixth Schedule Part-A para-56
Exemption for rewards	PIT	An exemption is provided for any reward received by any person from the Government.	Exemption	Public administration	Sixth Schedule Part-A para-57
Exemption for aged care and child care operations	CIT	An exemption is provided for any income derived from the operation of an	Exemption	Social welfare	Sixth Schedule

		elderly care home or a day care home for children.			Part-A para- 58
Exemption for institutions providing education and training to persons with a disability	CIT	An exemption is provided to an educational or training institution run exclusively for persons with a disability.	Exemption	Social welfare	Sixth Schedule Part-A para-59
Deposit Pension Scheme (DPS)	PIT	Government Approved DPS	Exemption	Investment	89/Law/income tax/2003
Renewable Energy	CIT	Exempted for first 5 years	Exemption	Energy & Environment	228/Law/income tax/2009
Private University	CIT	Private Medical/Engineering/Dental/University Tax Rate 15%.	Concessional Rate	Education	268/Law/income tax/2010
Rebate for CSR activities	CIT	Company will get 10% rebate on its expense for CSR activities.	Rebate	Social welfare	229/law/income tax/2011
Tax exemptions for export processing zones	CIT	Industrial undertaking of EPZ based on Dhaka and Chittagong division will have 25%-100% tax exemption on income up to 5th year. whereas industrial undertaking of EPZ based on divisions other than Dhaka and Chittagong division will have 25%-100% tax exemption on income up to 7th year.	Exemption	Industry assistance	219/Law/Income tax/2012
Investment in EPZ	CIT	Dhaka & Chittagong (Except Bandarban, Rangamati & Khagrachari First 2 years @100% Next 2 year @ 50% Next 1 Year @25%  Other Area First 3 year @100% Next 2 year @ 50% Next 1 Year @25%	Exemption	Investment	219/Law/Income tax/2012
Shipbuilding Company	CIT	Income from Export Business: Publicly Traded@5% Non-publicly Traded@10%	Exemption & Concessional Rate	Investment	132/Law/Income tax/2013

Incentives for private sector power generation	CIT/ PIT	Power generation company running under "Private sector Power Generation Policy of Bangladesh" will get full tax exemption on its income varying from 10 to 15 years and the foreign employees of this company will enjoy full tax exemption on their income for 3 years.	Exemption	Power Sector Development	211,212,213/ Law/income tax/2013
Private Power Generation	CIT	Exempted for first 15 years from power generation income, Foreign employees' income exempted for three years Foreign loan interest, technical know-how, royalty, capital gain on share transfer	Exemption	Energy	213/Law/income tax/2013
Reduced rates for certain autonomous bodies	CIT	A 25% tax rate is provided to various local bodies	Concessional rate	Public administration	158/Law/Income tax/2014
Reduced rates of tax on capital gains on shares of listed companies	CIT/ PIT	A reduced rate of tax applies to capital gains from transfer of stocks and shares of public limited companies listed on stock exchanges. This does not apply to Government securities. Rates vary from 5%-10%.	Concessional rate	Industry assistance	196/Law/Income tax/2015
Capital Gain from Trade in Capital Market	PIT/ CIT	Individual -Tax free, Firm & Company@10%, Bank & NBF, Stock broker, Stock dealer, Shareholder Director@ 5%, Shareholder Director with Condition of holding share of more than 10% of the paid-up capital @5%	Exemption & Concessional Rate	Investment	196/Law/income tax/2015
Developer in Economic Zone	CIT	Any Income derived in Exclusive Economic Zone: For first 10 years@100%, Next 1 year @70%, Next 1 year @30%	Exemption	Investment	227/Law/income tax/2015
Developer in Hi Tech Park	CIT	Any Income derived in Exclusive Economic Zone: For first 10 years@100%,	Exemption	Investment	229/Law/income tax/2015

		Next 1 year @70%, Next 1 year @50%			
Poultry, Fisheries & Hatchery Income	PIT/ CIT	up to 20 lac@0% next 10 lac@ 5% rest of the amount @10%	Concessional Rate	Agriculture	254,255/Law/ Income tax/2015
Employee in economic Zone	PIT	Foreign technical employee in economic Zone who has technical know-how income, 50% of the income is exempted	Exemption	Investment	298/Law/in come tax/2015
Investment in Economic Zone	CIT	Income from the following is exempted for 10 years: Dividend, Capital Gain on Share Transfer, Royalties, Technical know-how, Technical Assistance fee	Exemption	Investment	299/Law/in come tax/2015
Employee in Hitech Park	PIT	Foreign employee in economic Zone who has technical know-how income, 50% of the income is exempted	Exemption	Investment	300/Law/in come tax/2015
Investment in Hitech Park	CIT	Income from the following is exempted for 10 years: Dividend, Capital Gain on Share Transfer (fully exempted) Royalties, Technical know-how, Technical Assistance fee (50% exempted)	Exemption	Investment	301/Law/in come tax/2015
Developer in Hitech Park	CIT	Declared dividend exempted from income for 10 years	Exemption	Investment	302/Law/in come tax/2015
Developer in Hitech Park		Dividend Income Tax free for 10 years	Exemption	Investment	302/Law/in come tax/2015
Financial Instrument (Income from Sukuk)	CIT	Fully exempted from income	Exemption	Investment	317/Law/in come tax/2015
Seed, Feed, milk, animal Husbandry	CIT	Tax Rate first 10 lac @10%, next 20lac 20% balance @15%	Concessional Rate	Agriculture	461/Law/in come tax/2015
Tax exemptions for Public Private Partnerships	CIT	Public-Private partnership project will be fully exempted from tax on its income for ten years from the date of its commercial commencement	Exemption	Industry assistance	208/Law/In come tax/2017

Government Employee Salary	PIT	Lump grant and all allowances fully exempted	Exemption	Public administration	211/Law/income tax/2017
Hi Tech Park	CIT	Company operating in Hitech Park, first 7 years 100%, next 3 year 70% Exempted	Exemption	Investment	352/Law/income tax/2018
Sanchaypatra (Savings certificate) Investment	PIT	Accumulated Investment below 500,000 is taxed at 5%	Concessional Rate	Investment	264/Law/income tax/2019
Jute Industry	PIT/ CIT	Company Tax Rate 10% & Individual highest 10%	Concessional Rate	Jute Industry	314/Law/income tax/2019
Private Power Generation	CIT	Coal based Power Plant: First 5 year @100%, next 3 years @50%, next 2 years@25% Exempted	Exemption	Energy	4/Law/income tax/2020
Private Power Generation	CIT	Income from Power Generation is fully exempted Foreign employees' income exempted for three years Foreign loan interest, technical know-how, royalty, capital gain on share transfer	Exemption	Energy	5/Law/income tax/2020
Investment in Economic Zone	CIT	Investment other than in Edible Oil, sugar, flour, cement, iron is exempted for: first 3 years 100%, next 1 year 80%, next 1 year 70%, next 1 year 60%, next, 50%, Next 40%, Next 30%, Next 20% Exempted	Exemption	Investment	104/Law/income tax/2020
Exemptions for certain types of hospitals	CIT	Income of certain hospitals is fully exempted from tax for ten years	Exemption	Social welfare	169/Law/Income tax/2021
Investment in Manufacturing Computer Accessories	CIT	Exempted for 10 years	Exemption	Investment (IT)	163/Law/income tax/2021
Fruit Processing, Vegetable, Dairy production, baby food Agricultural instrument production	PIT/ CIT	Income from these sectors is exempted for 10 years	Exemption	Agriculture	164/Law/income tax/2021



Exemption of income from production of light engineering products	CIT	Fully exemption of income from production of light engineering products of a company for 10 years	Exemption	Industry assistance	166/Law/Income tax/2021
Light Engineering Industry	CIT	Full exemption for 10 years	Exemption	Investment	166/Law/income tax/2021
Washing Machine, Blender, Microwave oven, electric swing machine, induction cooker, kitchen hood, kitchen knife manufacturing unit	CIT	Fully Exempted for 10 years	Exemption	Investment	167/Law/income tax/2021
Exemption of income for providing training on human resource development	CIT	Full exemption of tax on income of company for providing training on human resource development for 10 years	Exemption	Human resource development	168/Law/Income tax/2021
Agriculture, IT, Vocational, Food, Pharma, Medical, Fishery, Poultry related education and Training	CIT	Education and training related income fully exempted for 10 years	Exemption	Investment	168/Law/income tax/2021
Hospital	CIT	Location other than, Dhaka, Narayangonj, Gazipur & Chittagong: Exemption For 10 years on Diagnostic Income only	Exemption	Healthcare	169/Law/income tax/2021
Made in Bangladesh Automobile (3 & 4 wheelers)	CIT	Exempted for first 10 years, and next 10 years 10% concessional rate	Exemption	Investment	170/Law/income tax/2021
Active Pharmaceuticals Ingredients	CIT	Fully exempted from income tax	Exemption	Investment	316/Law/income tax/2021
Electronics Manufacturing of certain units	CIT	For, motorcycle, fridge, AC, compressor manufacturing company tax at concessional rate @ 10%	Exemption	Investment	325/Law/income tax/2021
AIT on import stage	PIT	Import on physical system, materials engaged in Ruppur power plants	Exemption	Investment	255/Law/income tax/2021