Tax Amnesty Schemes in Bangladesh: Some Observations

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Abstract

Ensuring voluntary compliance in the field of direct taxes remains a formidable challenge for Bangladesh tax administration. The problem is not peculiar with Bangladesh. Most developing and transition countries experience the same problem. One of the many means of ensuring voluntary compliance is the use of tax amnesty scheme. Tax amnesty scheme is used by the tax administration around the word to ameliorate compliance in the field of income tax. Bangladesh at times introduce tax amnesty scheme to improve voluntary compliance in the field of income tax. The paper contends that though tax amnesty might temporarily increase revenue collection, in the long turn it shows the other way. Particularly, tax amnesty scheme does not make any contribution in the expansion of tax net which is now a crying need for Bangladesh income tax administration.

Keywords: Bangladesh, Tax, Amnesty, Voluntary Compliance, Black Money, Political Purpose.

Part- I: Introduction

Currently, Bangladesh is facing a formidable challenge in ensuring voluntary compliance in the field of direct taxes. Though the problem is not peculiar to Bangladesh and most of the developing and transition countries face the same problem, the state of tax compliance in Bangladesh is much worse than the other countries. The truth is revealed when one finds that with a population of 164 million, as of June 2020, the number of TIN (Taxpayers Identification Number) holders is staggeringly low with a total number of around three million. However, tax administration in Bangladesh is persistently trying to improve the poor state of tax compliance and resorting to many tools over the years. One such tool employed by the ITDB (Income Tax Department of Bangladesh) is the tax amnesty scheme. Tax amnesty scheme is used by the developing and the developed countries to

augment revenue collection and increase voluntary compliance ((Luitel and Tosun, 2013 and Ibrahim et al, 2017). It remains a major part of the political agendas of the states around the world (Torgler, Shaltegger and Schaffner, 2003). Tax amnesty scheme is allowed as a part of the tax reform process by the tax administrations (Hasseldine, 1998 and Ahmed, 2018). The supporters of tax amnesty schemes argue that tax amnesty increases revenue in the short term and also it might expand the tax net (Alm et al, 2009 and Ahmed, 2018). It is argued that tax amnesty might accelerate revenue collection in the short term but in the long run it does not and the contribution of tax amnesty in expanding tax net is negligible. At least for Bangladesh this is true.

In Bangladesh, tax amnesty schemes are offered frequently in an attempt to curb the problem of tax evasion in the country and consequently augment revenue collection. In the fiscal year 2020-2021, the ITDB has proposed to launch another tax amnesty program with a view to collect more revenue against the backdrop of poor state of projected revenue collection because of COVID-19. However, the present article argues that tax amnesty in Bangladesh is perceived by the people as a means of 'whitening black money' business people and other corrupt sectors of society. The overall impact of the tax amnesty scheme is not as tantalizing as is expected. It is argued that tax amnesty in Bangladesh paves the avenue for taxpayers to be corrupt. Because, it gives an opportunity for the recalcitrant tax evaders to escape punishment by taking advantage of the amnesty (Waris and Lyla, 2014, Ahmed, 2018). It is also contended that tax amnesty does not have a positive effect on improving voluntary compliance (Alm et al, 2007). The article is structured as follows: Part I gives an introduction. Part II defines tax amnesty along with a short literature review. Part III discusses tax amnesty schemes in the field of income tax in Bangladesh as of income tax year 2020-2021. Part 4 discusses whether the purpose for which tax amnesty in Bangladesh is conducted is being achieved. Finally part 5 offers a conclusion.

Part-II: Meaning and History of Tax Amnesty

Although tax amnesty schemes are frequently used by the present-day tax administrations around the world, it has its antiquity. The history of tax amnesty can be traced back to the ancient Egypt, 2200 hundred years when Rosetta stone was written which contained tax laws of the day. The Rosetta stone, inter alia contained law regarding tax amnesty which was initiated by Ptolemy V (Roth, 1992). Tax amnesty scheme were offered in Roman Empire 1600 years before and also in the years AD 434, 445, 450 and 458. The purpose of those tax amnesty schemes were to target the accumulated and not the current taxpayers (Adams, 1982, 95 cited in Roth, 1992).

The word amnesty comes from the Greek word 'amnestia' which means oblivion. It might mean that government forgets the tax crime and forgives the tax past dodgers and allows them to correct their mistakes by paying taxes on the amount of income not declared before. Borgne and Baer (2008) state, "A tax amnesty can be defined as a limited-time offer by the government to a specified group of taxpayers to pay a defined amount, in exchange for forgiveness of a tax liability (including interest and penalties), relating to a previous tax period (s), as well as freedom from legal prosecution. Amnesties generally fall in two categories: financial and legal. For the former, a tax amnesty implies a reduction (in real terms) of taxpayers' declared or undeclared tax liabilities as established by law. This reduction can be achieved through a variety of measures: for example, through a reduction or cancellation of (1) interest and penalties owed on the underreported or undeclared taxes or (2) tax liabilities (or some combination of these). The latter includes a waiving of civil and criminal penalties." Ahmed (2018) states, "Tax amnesty can be defined as an opportunity offered to a tax payer to rectify past errors or omissions in terms of reporting income and the payment of tax thereon. 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."

Why tax amnesties are offered by the tax administrations? Borgne and Baer (2008) identified three reasons for tax amnesty schemes. Firstly, to collect tax quickly; (2) to ensure future tax compliance and (3) to bring back the money hidden offshore. Compliance through tax amnesty can be ensured by encouraging taxpayers to declare and pay previously undeclared tax, file tax returns, or receive TIN and stay up to date by paying their tax liabilities.

However, research on the effect of tax amnesty on revenue collection and compliance behavior has flourished after 70s and research on tax compliance has become a cottage industry by now. Some research found tax amnesty effective in improving compliance and collection of short-term revenue. Again, some researches found that in the long run tax amnesty negatively impacts compliance and revenue collection. Alm and Beck (1991) find a positive effect of tax amnesty on revenue collection when combined with increased enforcement measures. Parle and Hirlinger (1986) noted that amnesty programs generate revenue in low volume. Tax amnesty schemes need low cost to implement and it contributes significantly in ensuring compliance and minimizing budget shortfall. Ahmed (2018) refers to Rakhmindyarto (2011) who through empirical research identifies factors that lead to a successful tax amnesty program in Indonesia. Rechberger et al (2010) found that if the tax amnesty is perceived as just it positively impacts future tax compliance. Responding to tax amnesty scheme largely depend on the fairness of the scheme. Luitel (2005), Baer and Le Borgne (2008), Saracoglu and Kasakurlu (2011), Boise (2007), Lederman (2012), Bose and Jetter (2018), all find tax amnesty schemes as short term revenue generating tool and has the effect of ameliorating future tax compliance.

However, Alm, Martinez-Vazquez and Wallace's (2009), Torgler et al (2003), Fisher, Goddeeris and Young (1989), Joulfaian (1988), Christian, Gupta and Young's (2002), Uchitelle (1989), Martinez (1991), Alm, McKee and Beck (1990), Alm (1998),Gupta and Mookherjee's (1995), Luitel and Sobel (2007), they all argue that tax amnesty schemes do not ensure sustainable tax compliance although in short term they might prove successful in pouring to the national exchequer.

Part-III: Tax Amnesty Scheme in Bangladesh

Every year Bangladesh experiences huge illicit capital flight. It is estimated that an amount of $7.53 billion on average annually is siphoned off from Bangladesh for the period from 2008 to 2017 due to misinvoicing. In 2015, $5.9 billion (about Tk 50,000 crore) was laundered from Bangladesh and a total of $81.74 billion was siphoned off from Bangladesh from 2006 to 2016 (GFI, 2019). The size of the informal economy has increased to an alarming 38.1 per cent (Hassan, 2011). However, the rate of black economy is being lowered over the years. For example, the black economy ratio was 36.34% in 1991 and in 2015 it stood at 27.6% (Kibria, 2018). Although declining over the years, the rate is still alarming and need to be curbed. However, the government of Bangladesh has so far taken various measures to tackle the problem of tax noncompliance in the country. One such measure is the tax amnesty scheme. Although it is argued that tax amnesty scheme, which is known as a 'black money whitening' scheme and is highly controversial, failed to tackle the problem of tax noncompliance in Bangladesh (Gani, 2006). On the contrary, it might encourage corruption and tax non-compliance (Waris and Latif, 2914).

Over the years, the National Board of Revenue of Bangladesh (the NBR) conducted repeated tax amnesty schemes with not very encouraging result. The latest tax amnesty scheme has been proposed by the NBR for 2020-2021 assessment year with the hope that the scheme will help taxpayers comply by declaring their unreported money. New sections 19AAAA and 19AAAAA have been inserted in the Income Tax Ordinance 1984. Section 19AAAA deals with special tax treatment in respect of investment in Securities. According to section 19AAAA no question as to the source of any sum invested in securities by an individual assessee during the period between the first day of July, 2020 and the thirtieth day of June, 2021 (both days inclusive) shall be raised by any authority if the assessee pays tax at the rate of ten percent (10%) on such investment within thirty days from the date of such investment. A declaration in respect of such investment shall be made in the prescribed form and submitted to the respective Deputy Commissioner in the prescribed manner in respect of such investment shall be made and submitted to the respective Deputy Commissioner of Taxes. Where any such sum invested is withdrawn from the capital market within three years from the day of such investment, such sum shall be deemed to be income of the assessee for that income year classifiable under the head "Income from other sources". On the other hand, section 19AAAAA offers amnesty in the form of special tax treatment in respect of undisclosed property, cash, etc. According to the new section, no question as to

the source of any undisclosed movable property and immovable property shall be raised by any authority if an individual assessee pays, before the submission of return or revised return of income during the period between the first day of July, 2020 and the thirtieth day of June, 2021, tax at a specified rate as contained in the attached table of section 19AAAAA. Movable and immovable properties include land and building or apartment situated in different parts of the country with a varying rate of taxes and also cash, bank deposits, financial schemes and instruments, all kinds of deposits or saving deposits, savings instruments or certificates if ten percent tax of the total amount is paid by the taxpayer. The provisions of this section shall not apply to cases where any proceeding has been drawn under any provision of this Ordinance or any other laws by thirtieth June, 2020. It is to be noted that at the time of writing the article, the tax amnesty provisions were merely proposal contained in the Finance Bill. It will become law if it is passed by the Parliament.

In Bangladesh from 1971 to 2019, tax amnesty has been allowed 20 times and if the law is passed the new tax amnesty program will be the 21st tax amnesty program. For the first time Tk 2.75 crore, which was black money, was whitened during the army back government in 1975. Later, Tk 50.76 crore was whiten during the period from 1976 to 1981, Tk 45.89 crore was whitened during the period of time from 1982 t 1990, Tk 150.79 crore was whitened during the time from 1991 to 1996, Tk 950 crore was whitened from 1997 to 2000, Tk 827 crore was whitened from 2001 to 2006, Tk 9,682 crore was whitened from 2007 to 2008, Tk 1,805 crore was whitened from 2009 to 2013 and Tk 856.30 crore was whitened from 2014 to 20017(Bangladesh Post, 2020). However, repeated tax amnesty programs failed to achieve the aims of the programs. The experience speaks for the proposition. Despite the prevalence of black economy in the country, tax amnesty programs could not pour profusely to the treasury (Kar and Freitas, 2012). Byron (2013) noted that from the introduction of the tax amnesty program till 2013, Tk 1,805.01 crore has been whitened, while tax of Tk 230.41 crore has been collected under several tax amnesty programs. This is only a fragment of the estimated amount of black money in the country (Ahmed, 2018). The following table presents an overview of black money whitening under the tax amnesty schemes conducted at different times by the Bangladesh NBR.

Table-5.1: Black Money Whitening under Tax Amnesty Schemes over the Years

Financial Year	Disclosed Amount (in Bangladesh Tk. Crore	Amount in Revenue Collected (in Bangladesh Tk. Crore
1976-1977	70	10
1987-1988	200	40
1988-1989	250	25
1989-1990	400	40
2000-2001	1,000	100
2002-2005	1,757	No Tax
2005-2006	4,603	345
2006-2007	3,775	687.43
2007-2008	800.03	80.03
2008-2009	70.87	10.08
2009-2010	923	121

Source: NBR Bangladesh

The above table discloses that revenue earning through amnesty programs is not particularly high. The percentage of income tax collected as a result of tax amnesty compared to the overall collection in the concerned financial years is not satisfactory. The following table demonstrates the low effect of tax amnesty on overall revenue collection.

Table 5.2: Collection through Tax Amnesty Program versus Total Collection

Financial Year	Total Income Tax Collection (in Tk. Crore)	Collection of Tax through Tax Amnesty Program (in Tk Crore	Percentage of Amnesty Tax of Total Income Tax Collection
1976-1977	114.64	10	8.72
1987-1988	664.29	40	6.02
1988-1989	705.93	25	3.54
1989-1990	782.24	40	5.11
2000-2001	3,500.82	100	2.85
2002-2005	14,520.00	No Tax	0.00
2005-2006	7,162.01	345	4.81
2006-2007	8,721.24	687.43	7.88
2007-2008	11,744.66	800.03	6.81
2008-2009	13,857.74	100.08	0.72
2009-2010	17,042.28	121	0.70

Source: National Board of Revenue (Cited in Ahmed, 2018)

Part-IV: Comments on the Repeated Tax Amnesty Schemes in Bangladesh

The statistics furnished in the previous section of the article speak of the redundancy of the tax amnesty schemes in Bangladesh. The proposed new tax amnesty schemes can be considered a broad-based scheme since it covers lands, buildings, shares and securities, cash and movable and immovable properties. Such type of scheme was not offered before. But the question remains whether the present scheme will be able to serve the very purpose of gathering satisfactory amount of revenue and bring a huge number of taxpayers within tax net. Regarding the new tax amnesty schemes the Finance Minister of the country said, "These provisions, when [they] come into effect, will increase the flow of money into the mainstream economy, generate employment and enhance collection of tax revenue. No authority, including the income tax authority, can raise any question on such declarations. Extraordinary times demand extraordinary measures." So, it is clear from the statement of the Finance Minister that the government is going to implement such tax amnesty schemes with the prime objective of collecting much needed revenue against the back drop of the economic crisis caused by COVID-19. Obviously, there are arguments for and against such schemes. As mentioned earlier, researchers also took opposite stands regarding the impact of tax amnesty schemes. Noman (2020) states, "While the government aims to enhance cash flow and attract more investment, and thereby boost the pandemic-hit economy by allowing a legalising of black money in wholesale manner --- with the business fraternity as a whole appearing to have been cheered by the move --- economists and civil society organisations have raised questions about the legality and ethicality of the decision." Former economic adviser to the care taker government Mirza Aziz commented that the new tax amnesty schemes will discourage the honest taxpayers will be discouraged and corrupt persons will be encouraged by this move and also previous schemes failed to produce notable amount of tax revenue. Regarding the revenue impact of repeated tax amnesty in Bangladesh and also in other countries encouraging research out comes were not observed. As Ahmed (2018) observes, "Although the repeated tax amnesty conducted by the government at different times during different regimes has failed to curb the underground economy to the expected level, the government of Bangladesh is always eager to conduct tax amnesty programs again. The statistics of tax collected through tax amnesty are not very encouraging—during the last 40 years, Tk 12,996 crore was whitened, and the government received tax of Tk 1,368 crore." Again, Luitel and Sobel (2005) state, "We find that overall, when a state offers an amnesty for the first time, it produces revenue during the amnesty period but then harms revenue in the long run, which is consistent with the theory proposing that people respond to the amnesty by beginning to evade taxes in anticipation of additional future amnesties. Repeated broad-based amnesties fail to produce even additional short-run revenue, while creating significant long-run revenue losses due to reduced compliance that grow as additional amnesties are offered. Based on our results we suggest that states avoid using tax amnesties on a repeated basis, and even the first offering is not clearly a

revenue enhancement once the long run compliance effects are considered."

Part- V: Conclusion

Tax amnesty scheme is being used by the administrations around the world as a short-term revenue raising tool. It is observed that although tax amnesty enjoys short term success, in the long run it fails to expand tax net. It temporarily impacts black economy. But in the hope of future amnesty, compliance is reduced. At least, empirical evidences speak for the truth. Moreover, honest taxpayers feel frustrated for being honest. Alm (1998) states, "Tax amnesties are controversial revenue tool. The obvious purpose of a tax amnesty is to raise short-term revenue. This may or may not work, and it can bring about expectations of future amnesties thereby reducing taxpayer compliance after the amnesty…In addition, citizens must believe and must eventually see that the amnesty is accompanied by enhanced enforcement."

In Bangladesh, the tax amnesty scheme faced criticism from different corners of the society. The proposed amnesty law is being criticized by different sections of the citizenry. For Bangladesh it is observed that repeated tax amnesty could not gather revenue to the expected level. Rather than domestic tax amnesty Bangladesh now can think of offshore tax amnesty to bring back the money siphoned off from Bangladesh (Ahmed, 2019). Countries like Italy, Spain, India, Indonesia are offering offshore tax amnesty rather than onshore tax amnesty scheme. However, given the moribund economic situation of the country, it is not unwise to go for such scheme for a short term. If taxpayers come forward government might collect the much-needed revenue to face the economic crisis. Given the poor tax culture in Bangladesh (Ahmed, 2018), it is however uncertain, to what extent the proposed law will be successful in generating revenue and improve tax compliance.

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