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Corporate Taxation in Bangladesh

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Corporate Taxation in Bangladesh

PhD Dissertation

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This dissertation is submitted to the Institute of Bangladesh Studies (IBS), University of Rajshahi, in partial fulfillment of the requirements for the degree of Doctor of Philosophy.

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Declaration

I hereby declare and confirm that this doctoral dissertation submitted to the Institute of Bangladesh Studies at the University of Rajshahi is the result of my work based on my research and literature published, which is evident in the footnotes and bibliography used. I also declare that no part of the thesis submitted has been made in an inappropriate way, whether by plagiarizing or trespassing on any third person's copyright. Finally, I further proclaim that the material or any part of this thesis has not been submitted to any other university or institution for the award of any academic degree or diploma or honor.

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Certificate

This is to certify that the thesis titled **‘‘Corporate Taxation in Bangladesh’’** submitted to the Institute of Bangladesh Studies at the University of Rajshahi by Mohammad Munayem Chowdhury, a PhD fellow of the session 2016-2017 for the award of the Doctor of Philosophy degree, is his research work done under my supervision. I have gone through the entire thesis carefully and, in my opinion, it is worthy of consideration for the award of the PhD degree.

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Abstract

Corporate tax is one of the members of the direct tax family in any country. It contributes to the national exchequer the major part of direct revenues. The corporate tax is relatively easy to collect as it has a wider legal base than other taxes. In Bangladesh, research related to corporate tax is rare. It is an attempt to focus on corporate taxation in Bangladesh covering the legal aspects, tax incentives related issues, corporate taxation in the South Asian perspective, and the determination of effective tax rate (ETR) and its variability. This is a multifaceted study covering all the above-mentioned issues relating to corporate taxation. In this study, secondary data have been used, and content and document analysis methods have been applied to accomplish this study. But in chapter five, we have used some panel data of 52 DSE listed manufacturing companies to determine the corporate ETR and its variability by testing some hypotheses. Sources of data have been collected mainly from the annual reports of sample companies, annual reports of NBR & other government agencies, Bangladesh economic survey reports, and corporate tax guides by national and international audit firms, tax codes, scholarly articles, etc. Some informal interviews with chartered accountants, academicians, and tax officials have also been conducted to have a deep insight into the corporate taxation in Bangladesh. Objective-wise brief discussion is presented in the following paragraphs.

Firstly a review has been done on the legal and organizational framework of corporate taxation in Bangladesh to perceive the legal instruments regarding corporate taxation, administrative processes, and the organizations involved in the corporate tax administration directly and indirectly. In the case of legal instruments, there are ITO 1984, income tax rules 1984, S.R.O.s, circulars, explanations, and court verdicts, which are numerous in numbers and pages, and there is no official publication of these instruments. The language of tax codes is difficult to understand and sometimes ambiguous. The government has taken initiatives to formulate a new code and thus, drafted the ‘Tax Code 2013’, but it has not yet been finalized. The tax reform process is very lengthy (experienced from the recent VAT reform process in Bangladesh) as several active stakeholders are having diverse interests. Coordination

among the stakeholders like companies, the National Board of Revenue (NBR), the Institute of Chartered Accountants of Bangladesh (ICAB), and Registrar of the Joint Stock Companies (RJSC) should need to be increased for increasing the number of corporate taxpayers as well as the volume of tax revenue.

Secondly, tax reform initiatives concerning corporate taxation are discussed in this part. Tax reform is a continuous process and in line with this process, Bangladesh has adopted a lot of tax reform initiatives. The Taxation Enquiry Commission 1976 was the first of its kind in Bangladesh, and then the World Bank's reform initiatives and the formation of Revenue Reform Commission in 2002, and many other donors and government-sponsored reform initiatives have been done, and some are still going on. However, corporate tax-related issues like tax rate, tax depreciation, and tax incentives are discussed in this part. It is found that all the recommendations of those reform initiatives are almost the same, like broadening the tax base, increasing progressivity, increasing tax-GDP ratio, simplification of tax codes, and make a dynamic tax administration. It is also found that direct tax revenue collection has improved significantly over the period.

Thirdly, tax incentives and industrial policies of Bangladesh have been reviewed to see the congruence between them as well as to see the implication of direct tax incentives on the industrial development of the country. Tax incentives are tools used worldwide to enhance domestic and foreign investment for the progression of expected economic growth. By reviewing some tax-related aspects of national industrial policies and existing direct tax incentives provided by the tax authority, it is found that incentives suggested by industrial policies and given tax incentives are almost identical, and the priority sectors have been shifted to infrastructure, power, and technology. By observing some investment and GDP related data **it is** found that local private sector investments are dominant over FDI, and the manufacturing sectors' contribution to GDP has increased to some extent over the last decade.

Fourthly, corporate taxation related issues of the selected four South Asian countries are reviewed to know their comparative position. Corporate tax-related issues are divided into two broad categories- first one is general issues like background, tax administration, legal framework, and tax-GDP ratio of those countries and finally, it focuses on specific aspects of corporate income tax like – tax rates, deductible & non-deductible expenses, depreciation, treatment of losses, minimum tax, and tax incentives, etc. in a systematic manner. There is homogeneity in the legal and administrative systems of all the selected countries and a poor tax-GDP ratio throughout the region in comparison to the global scenario, but the tax rate is moderate and showing a decreasing trend. In the case of tax depreciation and tax incentives, all the countries have their unique schemes to attract investors. All the selected countries have a comprehensive double taxation avoidance treaty with their major trade partners.

Finally, an initiative has been taken to measure and analyze the corporate ETR of the selected DSE listed manufacturing companies in Bangladesh. ETR is a ratio through which we can measure the actual tax burden of a company. The study has also observed the effect of tax incentives on this statistic. In this study, current based ETR has been used to measure corporate ETR. Four hypotheses have been set and tested to observe the variability of ETR. Here, ETR is the dependent variable and firm size (SIZE), return on assets (ROA), capital intensity (CINT), and leverage (LEV) are the independent variables. It is found that the average ETR for our sample companies is 28.92 percent, which is higher than the average statutory tax rate of 26.25 percent. The reason for this higher rate may be for setting 0 and 1 in some cases. After removing 0 and 1 we find the average ETR is 25 percent, which is equal to out statutory tax rate. The regression result shows that ETR is negatively associated with the variables- SIZE, CINT, and ROA, but positively associated with LEV. This result is consistent with some previous studies.

Abbreviations

ACC	Anti Corruption Commission
ACR	Annual Confidential Report
ADB	Asian Development Bank
ADR	Alternative Dispute Resolution
AY	Assessment Year
BAS	Bangladesh Accounting/Auditing Standards
BCS	Bangladesh Civil Service
BDT	Bangladeshi Taka
BFRS	Bangladesh Financial Reporting Standards
BIDA	Bangladesh Investment Development Authority
BIN	Business Identification Number
BSEC	Bangladesh Securities and Exchange Commission
C&AG	Comptroller & Auditor General
CA	Chartered Accountant
CBDT	Central Board of Direct Taxes, India
CFC	Controlled Foreign Corporation
CIC	Central Intelligence Cell
CIT	Corporate Income Tax
CMA	Cost and Management Accountant
CMP	Comprehensive Modernization Plan
CPF	Contributory Provident Fund
CPI	Consumer Price Index
CTJ	Citizen for Tax Justice, USA
DCCI	Dhaka Chamber of Commerce and Industries
DCT	Deputy Commissioner of Taxes
DFID	Department for International Development
DSHE	Department of Secondary and Higher Education
DTAA	Double Taxation Avoidance Agreement
e- TIN	Electronic Taxpayers Identification Number

FA	Finance Act
FBCCI	Federation Bangladesh Chamber of Commerce and Industries
FBR	Federal Board of Revenue, Pakistan
FD	Finance Division
FDI	Foreign Direct Investment
FRC	Financial Reporting Council
FY	Fiscal Year
GDP	Gross Domestic Product
GoB	Government of Bangladesh
IAS	International Accounting Standards
ICAB	Institute of Chartered Accountants of Bangladesh
ICMAB	Institute of Cost and Management of Bangladesh
ICT	Information and Communication Technology
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
INR	Indian Rupee
IRD	Inland Revenue Department, Sri Lanka
IRD	Internal Resources Division
ITO	Income Tax Ordinance
ITP	Income Tax Practitioner
LTU	Large Taxpayers Unit
MAP	Modernization and Automation Project
MAT	Minimum Alternative Tax
MCCI	Metropolitan Chamber of Commerce and Industries
MDG	Millennium Development Goals
MoF	Ministry of Finance
NBR	National Board of Revenue
NGO	Non Government Organizations
NIP	National Industrial Policies
OECD	Organization for Economic Cooperation and Development
PPP	Public Private Partnership
PSI	Pre Shipment Inspection

RIRA	Reforms in Revenue Administration
RJSC	Registrar of Joint Stock Companies
RRC	Revenue Reforms Commission
SDG	Sustainable Development Goals
SDP	Strategic Development Plan
SGMP	Strengthening Governance Management Project
SME	Small and Medium Enterprises
SRO	Statutory Rule and Order
TACTS	Tax Administration Capacity and Taxpayers Service
TEC	Taxation Enquiry Commission
TIN	Taxpayers Identification Number
TIRS	Taxpayers Information Retrieval System
U/s	under section
UTIN	Unified Taxpayers Identification Number
VAT	Value Added Tax
WB	World Bank
WTO	World Trade Organization

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Chapter One

Introduction

1.1 Prelude

Every government collects taxes in the form of direct and indirect taxes to mobilize resources for that country. Generally, taxes are imposed to increase revenue and to provide public goods and welfare services or to deal with externalities.[1] In the direct tax family personal and corporate income tax are key constituents. In this research, the term *taxation* is a synonym of *Corporate Income Tax* (CIT), which is the most important tax instrument and is the focus of our research. The foremost challenge of corporate taxation is to find an appropriate way to raise the needed tax revenue.

Corporate tax is a key constituent of the taxation system in Bangladesh. A large portion of the income tax revenue of the Government of Bangladesh (GoB) comes from the corporate sector. In the fiscal year 2016-17, the total collection of income tax from the corporate sector was taka 318 billion, which was 60 percent of the total income tax revenue of the GoB.[2] The complexity of collecting taxes is an essential part of the overall tax system in general, but regarding income tax, the extent of intricacy is of such scale and scope that everyone wishes to understand it more easily.[3] Even a slight misunderstanding and error in implementing the provisions of income tax laws may lead to a higher tax burden on corporate entities.[4] Direct tax law of Bangladesh is now under review and the government is considering a new and

[1]Halvar Troyel Nerbo, ‘‘A Theoretical and empirical evaluation of the corporate tax base elasticity in OECD countries from a Norwegian viewpoint,’’ (Master thesis at the Department of Economics, University of Oslo, 2015): 1.

[2]GoB, Ministry of Finance, *NBR Annual Report 2016/17*(2019): 21.

[3]Swapan Kumar Bala, “Complexities in the Income Tax Laws: A Quest for a Simpler Taxation System”, *International Business Forum of Bangladesh (IBFB)* (2009):4.

[4]RN. Lakhotia, Subhash Lakhotia, *Corporate Tax Planning*, 7th ed. (New Delhi: Vision Books Pvt. Ltd., 1997), 9.

relatively unproblematic law to cope with the recent economic and technological progress of the country.

This study reviews the tax laws and accounting aspects of corporate taxation as well as to make an appraisal of corporate tax reforms in Bangladesh. Industrial policies are one of the guiding policies to frame incentive structures for the corporate sector as the government has some stated goals to achieve through those instruments. In this study, national industrial policies (NIP) 2005, 2010 and 2016 and incentives provided under the direct tax code of that period have been reviewed to determine the congruence among them. To get a complete picture of corporate taxation in the South Asian region, this study has reviewed some corporate tax-related issues of the selected countries to know the relative position of those countries.

Finally, this study has measured the corporate effective tax rate (ETR) of selected companies to know the real tax load of those companies. Moreover, it also analyzed some determinants of variability of corporate ETR of the selected non-financial listed companies on Dhaka Stock Exchange Ltd (DSE).

The following sections of this chapter deal with problem statement, objectives, literature review, development of hypotheses, and a detailed methodology to accomplish this study. Finally, brief discussions about the thesis structure and some concluding remarks have been presented.

1.2 Definition of Key Terms

Corporate Tax

Corporate tax is a kind of direct tax which is leviable on the net income of a company. Earnings before tax are calculated by subtracting expenditures including the cost of goods sold (COGS) and depreciation from revenues and other allowable deductions and additions under the provision of tax laws, statutory tax rates are applied to produce a legal compulsion the business owes the government. [5]

[5]http://www.investopedia.com/terms/c/corporatetax.asp#ixzz4hsSmlff1(accessed July 11, 2017).

Double Taxation

It is a condition where a jurisdiction imposes a tax on an income that has previously been taxed in the same or another country. For example, corporate profits are taxed on the corporate level at the corporate tax rate when they are earned, and then taxed again on a personal level at a personal tax rate when the profits are distributed to the shareholders as a dividend.[6]

Effective Tax Rates (ETR)

For financial reporting purposes, it is the sum of taxes currently payable and deferred tax expense divided by net income before tax. For tax reformer purposes, the effective tax rate is defined as taxes paid currently divided by net income before tax. The second view is used in this research.[7]

Company

According to section 2 (20) of Income Tax Ordinance 1984 (later on has been mentioned as ITO) company means a company as defined in the Companies Act, 1913 and Companies Act, 1994 and includes-

(a) A body corporate formed or created by or under any law that was in force for that time;

(b) Any state-owned banking or other financial organizations, Assurance Company and manufacturing or commercial initiatives;

(bb) any organization or collection of person called by whatever name, if it is a company according to the definition of companies act 1913 or 1994;

(bbb) any company formed under the act of a country beyond Bangladesh;

(c) Any overseas organization not formed under any law may be treated as company if the board declare those enterprises as company for tax purpose.

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[6]http://www.businessdictionary.com/definition/double-taxation.html (Accessed July 11, 2017).

[7] Myron S. Scholes, Mark A. Wolfson, Merle Erickson, Edward L. Maydew and Terry Shevlin, *Taxes and Business Strategy: A Planning Approach*, 2nd ed. (Upper Saddle River, New Jersey: Prentice-Hall Inc. 2002): 495.

Publicly Traded Company

From the assessment year 2002-2003, according to the explanation provided in the rate schedule part of the finance acts, "publicly traded companies'' are those companies which have fulfilled the following two conditions:

a) Companies which are registered in Bangladesh according to the provision of the companies 1913 or 1994;

b) Companies should be listed with stock exchanges before the year of assessment.

Tax Incentives

It may be defined as some activities by or at the direction of the government to achieve economic objectives. The forms of tax incentives are full or partial exemption, exclusion or deduction from income and reduced rate. Incentives are given to correct market failures and to attract investments.[8]

Tax Holiday

It is a stipulated time period, during which time the government eliminates corporate taxes on certain sectors, or industries located in a specific area to encourage the sectors to grow and flourish.[9]

Tax Base

Tax base is the amount of income or asset on which tax liability are calculated. Tax liability are calculated by using statutory tax rate on those amount of income or assets.[10]

Hidden Tax

A hidden tax is a tax burden that is not directly understandable by the taxpayers. These types of taxes can increase the prices of commodities and lower salaries for workers. Thus hidden taxes can decrease the purchasing power of individuals significantly.

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[8] http://www.businessdictionary.com/definition/tax-incentive.html (accessed July 11, 2017).
[9] http://www.businessdictionary.com/definition/tax-holiday.html (accessed July 11, 2017).
[10] http://www.investopedia.com/terms/t/taxbase.aspixzz4m6LjZKvv (accessed July 11, 2017).

Many types of tax behave like hidden taxes one of them is CIT, because of this tax, shareholders, and employees get less dividends and salary.[11]

Externality

Externality may be defined as the result of an economic action experienced by an unrelated third party. There is two type of externalities—positive and negative. Example of negative externalities may be the tannery industry and example of positive externalities are educated labor force.[12]

1.3 Statement of the Problem

The business entity assumption is the original basis for imposing a separate corporate tax. It partly describes the public view of the companies. This assumption can explain why two levels of tax would be imposed.[13]

Another common interpretation is that corporate tax is merely another type of tax on capital. General people support an income tax on corporate profits because they believe that this tax is charged on owners of capital, the general people do not have substantial amount of capital, as such, they assume that those who have enough capital should be taxed.[14] A common difference on this issue is the ‘‘hidden tax’’ argument. This argument makes corporate tax a administratively suitable means of collecting revenue because the general people does not comprehend that they eventually endure the load of this tax.[15] Some opponents of corporate tax have opined that the corporate tax continues because it helps achieve the government’s revenue objectives more easily.

[11]Myron S. Scholes, Mark A. Wolfson, Merle Erickson, Edward L. Maydew and Terry Shevlin, *Taxes and Business Strategy: A Planning Approach*, 2nd ed. (Upper Saddle River, New Jersey: Prentice-Hall Inc. 2002): 497.

[12] http://www.investopedia.com/terms/e/externality.asp#ixzz4m6J98Cfm (accessed July 11, 2017).

[13]Deborah M. Weiss and Jennifer Arlen, ‘‘A Political Theory of Corporate Taxation.’’ *The Yale Law Journal* 105 (1995):331.

[14] Ibid

[15] Ibid 332.

There is a visible impact of socio-economic, political, and ideological factors to shape the CIT laws.[16] These laws help determine the amount of revenues to be transmitted from the corporate sector to the treasury to fund public goods, which economic activities to encourage or discourage through the initiation of particular incentives and disincentives in the corporate tax laws. Besides, these laws stimulate the overall economic activity explicitly through the reduction of tax load on the corporate sector and its transference to other sectors of society to maintain the economic stability of the society.[17]

Because of its important social role, CIT's lawmaking process is particularly competitive as different interest groups constantly trying to shape it according to their interests. In the corporate tax lawmaking process, there are deeply involved different actors with distinct behavioral leanings and aims. The lawmakers, tax authorities, political parties, corporate lobbyists and other interest groups act in continuous tension to determine the definition of CIT's objectives and particular legislative shape to their favor.[18] The internal tension of these forces reflects in the definition of corporate tax laws.

This study has reviewed the existing theories, tax laws, tax administration, institutions involved, and assessment procedure of corporate tax. It has evaluated the corporate tax reform initiatives to have a deep insight into the legal framework and reform efforts of corporate taxation in Bangladesh.

Industrial policies are the guiding polices to provide incentives to the industrial sectors for balanced economic growth. United Nations Conference on Trade and Development (UNCTAD) in 2003 defines an incentive as *''any measurable advantage given to specific enterprises or categories of enterprises by (or at the direction of) government.''* Using the sense of this definition, a general decrease in company tax rate is not an incentive program even if it may lead to an increase in corporate investment.

[16] Ajay K. Mehrotra, ''Mergers, Taxes, and Historical Materialism. '*Indiana Law Journal*: Vol. 83: Issue. 3 (2008): 881-954.

[17] Miguel G. Correia, ''The Taxation of corporate groups under a corporation income tax: An interdisciplinary and comparative tax law analysis.'' Michigan ProQuest LLC (2014):12.

[18] Robert C. Clark, ''The Morphogenesis of Subchapter C: An Essay in Statutory Evolution and Reform.'' *Faculty Scholarship Series*. (1977): 95.

Reducing corporate taxes to companies locating in a specific area, or manufacturing certain commodities or services, may be defined as an incentive scheme.

Generally incentives are offered to increase both local and foreign investment. Other than those there are some reason for giving tax incentives, those are to correct market failure. Incentives can be classified from different viewpoints. Though there is no substantial proof to support the efficacy of tax incentives, governments continue to offer them due to the simplicity of the tax incentives to address the investment obstacles compared to issuing other specific grants or tax regime benefits to help offset these obstructions.[19]We have reviewed the industrial policies and direct tax incentives to verify the congruence between them. A thorough review of national industrial policies (NIP) 2005, 2010 and 2016 and direct tax incentives of that period of Bangladesh are done, so that we can ascertain the shifting pattern of the priority sectors and incentive schemes, factors leading to success in corporate tax collection and also identify some prospects and challenges in this field.

The President of Institute of Chartered Accountants of Bangladesh (ICAB) and taxation subcommittee member of Metropolitan Chamber of Commerce and Industry (MCCI), Adeeb H Khan said *‘‘cost of doing business in Bangladesh is already to some extent high because of infrastructural inefficiencies. Besides, if businesses have to pay one-third of their profits as corporate tax, it can be discouraging for them. Also, investors have to pay a twenty percent tax on their dividend that they take from the business. Potentially, an investor is thus paying around half of his/her profit as taxes.’’*[20]

In the corporate tax reform discussion, average effective tax rates (ETR) are using spontaneously by the policy makers and other interest groups for a long time. In this regard, there is a classic example of citizen for tax justice of the USA (CTJ). By calculating ETR they have shown that big companies are not paying their appropriate amount of tax.[21] ETRs generally measured as a ratio of taxes paid to pre tax income.

[19]Danie Jordaan, ‘‘An Overview of incentives theory and practice: A focus on the agro-processing industry in South Africa.’’ Directorate of Agro-processing Support, Pretoria (2012):i.

[20] Report, ‘‘High corporate tax hinders FDI, internal investment,’’ *The Financial Express* (30 April 2017).

[21]S. Gupta, K. Newberry, "Determinants of the variability in corporate effective tax rates: Evidence from longitudinal data." *Journal of Accounting and Public Policy* 16 (1997): 1-34.

ETR is used suitably in this debate because they properly abridge in one figure the collective result of several tax incentives.[22]Average effective tax rates are used to measure and compare the actual tax burdens across companies and industries or cash flows resulting from past investments. Average tax rates are reflective measures of the tax burden on past investments made in the corporate sector.[23] ETR and its variability have been determined for selected manufacturing companies of Bangladesh to know the actual tax burden of the companies and also determined the causes of variability by testing some hypotheses.

The regional perspective of corporate tax issues can help formulate a competitive tax strategy for a country of this region. For that reason, an overall picture of corporate taxation of the South Asian region is essential to know to identify the comparative strengths and weaknesses of Bangladesh among these countries. In this regard, some corporate taxation issues like tax rate, deductible and non-deductible expenses, tax depreciation, and tax incentives are reviewed in a comparative analysis mode among other corporate taxation issues.

1.4 Research Questions

The following research questions have been derived from the above problem statement:

1. What are the legal, administrative and accounting frameworks of corporate taxation in Bangladesh?

2. What reform initiatives have yet been taken about corporate taxation in Bangladesh and what is the present scenario?

3. Is there any congruence between industrial policies and tax incentives?

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[22]D.S. Callihan, ‘‘Corporate Effective tax rates: A synthesis of the literature.’’ *Journal of Accounting Literature* 13(1994):1-43.

[23] Matthew Knittel, ‘‘Corporate Average Tax Rates: Overview and Recent Trends.’’96th Annul Conference on Taxation, National Tax Association Proceedings, (November 13-15, 2003) Chicago, IL.

4. What is the present corporate taxation scenario in Bangladesh in comparison to other South Asian countries?

5. How can we determine corporate ETR and its variability by analyzing firm-level data of the listed manufacturing companies in Bangladesh?

1.5 Objectives

The main objective of this study is to review the legal and policy framework of corporate taxation and to analyze corporate Effective Tax Rate (ETR) in Bangladesh. Specific objectives are:

1. to review the legal, administrative and accounting framework of corporate taxation in Bangladesh;

2. to review the reform initiatives have yet been exercised on corporate taxation in Bangladesh and to assess the present scenario;

3. to examine different industrial policies and tax incentives to have deep insights on the congruence among them;

4. to evaluate the corporate taxation scenario in Bangladesh in comparison to other South Asian countries; and

5 to determine corporate ETR and its variability by analyzing firm-level data of the listed manufacturing companies in Bangladesh.

1.6 Literature Review

In the context of Bangladesh, a few articles are found on corporate taxation, those are scanty, mostly based on secondary sources of information and in most cases no accepted research method is followed. Those studies discussed the problems and weaknesses of the income tax system in Bangladesh and also the urgency and scope of reforms, and suggestions for reforms. Although there are a lot of studies on tax incentives and ETR in developed countries, there is hardly any in-depth and comprehensive study in the context of Bangladesh. In this backdrop, we have reviewed the available literature in both developed and developing countries that are presented below:

Khondaker (2014) conducted a study based on the secondary sources of data provided by KPMG to investigate the relationship between corporate tax rate and private investment in the context of developing countries. He observed that experiential studies on industrialized nations had found an opposite association between corporate tax and private investment. Conversely, the effect of the reduction of the marginal effective tax rate on local private investment in developing countries was neutral, and the effect of the average effective tax rate on private investment was found unhelpful. It is also found that there was less investment in foreign countries due to the high corporate tax rate in Bangladesh.[24]

Alam and Masud (2007) studied on the key issues that have directed the recent tax reform initiative in Bangladesh. They have identified that tax reforms in Bangladesh are done on a fragmentary basis at different times. In addition to this, some comprehensive approach of tax reforms also started from the 1990s mainly as a conditionality of donor agencies. The main objective of these reforms was to improve the tax-GDP ratio by extending the tax base. They pointed out the major reforms were done in Bangladesh in the field of income taxation like- the initiation of TIN, simplification of self-assessment procedure, expansion the scope of withholding tax, the formation of LTU and CIC, highlighting audit processes, deal with tax evasion, specific steps for modernization of taxation system, etc. About achievements, they stated that the achievements of tax reforms in Bangladesh are mixed. Though some improvements have made in revenues, but, implementation, audit and collection efforts stay weak which reflect the capacity constraints and resistance from some quarters. Widespread court rulings on tax cases have damaged the revenue collection. About challenges they have identified that—(1)Low level of compliance (2) Long processing cycles (3)Failure to gather appropriate tax from the high-income segments of the society—businessmen, doctors, lawyers, actors, professionals, and other self-employed professionals are the vital challenges. They suggested that reforms in tax administrations should be well planned and extensive, addressing inclusive strategy,

[24]Khondaker Golam Moazzem, ‘‘Corporate tax structure and investment’’ *The Financial Express* August 8, 2014.

organization and job design, performance management, and implementation of information technology. The study presents overall aspects of tax reforms in Bangladesh. However no survey was conducted in the study, rather only a few revenue figures were used from secondary sources. However, the findings of the study provide some indications for the present study.[25]

Chowdhury (2003) in his study stated that through the reform process the tax system has been subjected to a continuous process of changes and shuffles. A rate was increased one year on one ground and further decreased in the following year on another ground. He commented that tax reforms in Bangladesh seems to be mostly the output of administrative policy who pursues to defend their position by lessening the political cost of tax issues while thwarting a budget deficit.[26]

Begum (2007) conducted a study on the tax effort and tax resilience in Bangladesh. She found that Bangladesh tax effort index is very poor it is about one half among the developing countries. The meaning of this index is, the country is not utilizing its optimum ability to gather tax revenue. It also implies that there is huge potential of Bangladesh in the field of tax revenue collection. Another findings of this study relating to tax buoyancy ratio, she found that it is 1.25 in Bangladesh. It indicates that tax revenue is well respondent to GDP. This study also shows that the tax revenue was augmented over the period mostly through several reform initiatives. The study point out the scope of tax reforms and output of the reforms which inspires for thorough studies using Bangladesh situation.[27]

Badrul Ahsan (2010) in his short article published in an online journal mentioned those income tax laws in Bangladesh are complex and it creates confusion in many things. In Bangladesh, tax rates are high, company income is taxed double, and traders, manufacturers, and service providers need to maintain a lot of papers only to fulfill taxation requirements and a legal battle is usual between the tax department and

[25] M. Faridul Alam and M. Zakaria Masud, ‘‘Reforming Taxes in Bangladesh: The dilemmas of Achievements and challenges.’’*Journal of business studies*, Southeast University vol 2 (July- Dec 2007):243-259.

[26]Faijul Latif Chowdhury, ‘‘Some Thoughts on tax reforms in Bangladesh.’’ *Fiscal Frontiers: A quarterly Journal of Customs Service Association*, Bangladesh. (2003): 13-54.

[27]Lutfunnahar Begum, ‘‘A panel study on tax effort and tax buoyancy with special reference to Bangladesh,*’’ Bangladesh Bank Working Paper Series* WP 0715 (2007).

taxpayers. It also increases the cost of tax collection. He concludes that simple and transparent tax law and low tax rate ensures compliance while ambiguity, discretion, and high tax rate promote evasion and corruption.[28]

Akter (2010) in his study discussed about the unfriendly environment of the tax offices. He stated that due to contradictory provisions in tax laws and misinterpretation of the tax officials, taxpayers are harassed and they are taxed more. Due to harassment and anxieties for taxes, more taxpayers hesitate to meet the tax officials. Detrimental attitudes towards assesses by unfriendly tax officials resulted in a poor collection of revenue.[29]

Khaled (2010) in his study presented some negative insights of the taxpayers and inadequacies of the tax offices based on the newspapers column. He recommended executing a business-like strategic management method to increase revenue. Though some significant drawbacks are mentioned in these studies, however, these are presented from experience and information from the media, not through the methodological study.[30]

Rahman and Rahman (2010) conducted a study on the causes of revenue loss under direct taxation in Bangladesh. They have identified six factors of non-compliance in the case of income tax. These are - dodging, lack of consciousness, official harassment, and complication of tax laws, lack of social benefits, and other reasons. By multiple regression analysis, they found that each of these factors is significant for revenue loss in Bangladesh. In consideration of the categories of taxpayers, this factors contribute significantly to the amount of revenue losses in case of both private limited and public limited companies and contribute partially in case

[28]Badrul Ahsan ‘‘Income Tax in Bangladesh and Global Trend. ‘*The Financial Express*, 2 March 2010.

[29]Zamil Akhter, ‘‘Income Tax Ordinance 1984 needs clarification.’’ *The Financial Express*, 17 March 2010.

[30]Moslehuddin Khaled, ‘‘How to increase tax revenue: Improvement of enabling Environment, Application of strategic Management Approach.’’ *The Bangladesh Accountant* (April- June 2010)42-47.

of individuals, professionals, and companies having rental income; and no relation has been found in case of the financial institutions.[31]

Mondol and Roy (2010) on a study mentioned that no attempt has yet been made to estimate the amount of tax revenue dodged every year. They conducted a initial study to simply screen out the tax evasion situation and the tax gap ratio in Bangladesh. They stated that gross tax evasion and avoidance have three components—non-filing, under-reporting of tax owed and underpayment. They estimated that only the non-filing and under-reporting tax gap is about 45 percent (non-filing 64% and under-reporting 33%). They have identified some issues in measuring the tax gap in Bangladesh. These are tax evasion and avoidance, possible exaggeration of tax liabilities, the suitability of data, and tricky transactions.[32]

Sarker (2007) conducted a study on the incidence of income tax in Bangladesh. In this study he found that there is inequality in the the number of tax payers and amount of taxes. In case of personal taxes it has found that 13 percent taxpayers paying about three fourth of the tax revenue whereas half of the total taxpayers paying less than one percent of tax. In the field of corporate tax collection, he classified companies as private and public companies. He found that, one fourth of private companies are paying more the four fifth of the tax revenue where as thirteen percent of such companies are paying nothing. In case of publicly traded companies, about one percent companies are paying more than half of total tax collected from this source. Another findings on this issue is topmost forty percent companies are paying the total corporate tax. He also mentioned some cause for such unusual burden of tax those are, unrestricted tax exemptions and tax holidays, narrow tax base, no progressivity in the tax system, urban rural inequality, superior privileges to the public sectors and frequent tax amnesty.[33]

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[31]A.K.M Mafizur Rahman and Akim M. Rahman, ‘‘Loss of Revenue under Direct Taxation in Bangladesh: Causes and Remedies.’’ *The Southeast University Journal of Business Studies*. vi, no.1 (June 2010): 113-135.

[32]Abdul Based Mondol and Mohan L. Roy, ‘‘Tax Evasion and Avoidance- A real challenge for Bangladesh to Achieve Millennium goal.’’ *The Cost and Management* (July- August 2010):15-20.

[33]Tapan K. Sarker, ‘‘Incidence of Income Taxation in Bangladesh’’ http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.595.8967&rep=rep1&type=pdf (accessed July 13, 2017).

Alam and Alam (2008) conducted a study on tax expenditure from the perspective of Bangladesh. They found that the amount of tax expenses i.e. cost of exemptions and tax incentives in Bangladesh are more than two and half percent of GDP. The proportion of this cost for direct and indirect tax is .28 and 2.24 percent respectively. Tis paper have focused one significant dimension of tax incentives. It stresses policy measures to reduce the cost.[34] The information will be helpful for the research, but the paper presents the matter very precisely.

Maruf (2010) conducted a study on Large Tax-payers Unit (LTU) and found that the formation of LTU lead to increase compliance and improve the effectiveness of tax administration. It also helps the tax department to focus their effort on a few large taxpayers that account for a large percent of total tax collection and to address major operational weakness in tax administration. However, no empirical evidence and primary data are used in the study.[35]

Chalk (2011) in a study on tax incentives in the Philippines revealed that incentives in any country are expensive and lead to an increase in other taxes to arrive at a given revenue target. They are often inequitable across countries, across physical area within a country, and time and they create an effective tax rate that varies between sectors and activities and with the will of several public agencies. All of these censures appear true of the Philippines. However the Philippine govt. is sealed into incentives that have previously been given (since they have predetermined contracts upon which investors have founded their capital distribution decision) and is inhibited by a regional prejudice in the direction of a generous tax system for FDI schemes. While the exact design of the tax regime facing direct investors is ultimately a policy decision of the Philippine government these conclusions offer some ways to minimize the costs, maximize the benefits, and improve the transparency of the current regime.[36]

[34]Zahurul Alam and Mohammad Nurul Alam, ''Tax Expenditure: The Bangladesh Perspective.'' *The Bangladesh Accountant* (July -Sep 2008): 79-84.

[35]Kamrul Haque Maruf, ''Efficiency in tax administration: A case study of large tax payers unit in Bangladesh.'' The cost and Management (Jan-Feb 2010):13-17.

[36] Nigel A. Chalk. ''Tax incentives in the Philippines: A Regional Perspective.'' *IMF working Paper*, Asia and Pacific Department, WP/01/181 (November 2001):13-17.

Jordaan (2012) in a study showed that incentives are given in different form, those are for direct taxes for indirect taxes and for other purposes. He also mentioned market failures as a common reason for giving incentives that is why the government get involved with incentives. Market failures most of the time mentioned include externalities, new industries, information irregularities and indecision, and the political economy. There is no strong proof of effectiveness of the tax incentives. Though governments are continuing them because of two reasons— one is tax incentive is not directly involved with spending of money, and another reason is it is comparatively easier to implement than other tax related benefits provided by the government.[37]

Contos (2005) concentrated on the significant distortions that are caused by the excess corporate tax. He examine how equity financing and debt financing affect the corporate entity's capital structure. As we know that interest expense is tax deductible whereas dividend payment is not tax deductible. By testing some hypothesis he conclude that over use of debt to get the tax benefit is not prudent because it may sometimes cause financial crisis and insolvency.[38]

Yanin (2010) studied corporate ETR and investment relations. In this study he showed that corporate tax rate and foreign investment have some positive relationship and some impact on increasing investment. He did this study on OECD countries for the period of 1998 to 2006. The regression result showed positive relation but not significant relation between foreign investment and tax rate for OECD member countries. He also showed some other variables which have influence on investment inflow, those variables are GDP, economic choice, location of the country, law and order etc.[39]

Mian (2016) conducted a study on ETR in Bangladesh and attempted to analyze the statutory tax rate applicable for Textile Companies in Bangladesh. The sample for

[37]Danie Jordaan, ‘An Overview of incentives theory and practice: A focus on the agro-processing industry in South Africa,’’ Directorate of Agro-processing Support, Pretoria (2012): 1-34.

[38]George Contos, ‘‘An Essay on the effects of taxation on the corporate financial policy.’’ Proceedings. *National Tax Association Journal* 98 (2005):415-423.

[39]Yanin Cover, ‘‘The Impact of Corporate Taxation on Foreign Direct Investment.’’ Jonkoping University, Sweden. (March 2010-04-12):1-20.

this study was the nine textile companies. He collected the data from the annual reports of those selected companies. He analyze the corporate effective tax rate by considering current tax plus deferred tax and use pretax income as denominator. After calculating of sample companies ETR, he tries to analyze those rate with the statutory tax rate. He found almost two third companies have lower ETR than statutory tax rate but one third companies have higher ETR than STR. He mention some causes for this higher and lower ETR. One reason is that some companies use effectively the tax benefits provided by tax authority and some are not, another reason may be consideration of both current and deferred portion of tax. Finally he suggested that lower tax burden may lead to many benefits for the company related parties.[40]

Callihan (1994) found that there are two varieties of experiential ETR research namely research into marginal ETRs and research into average ETRs. In this study he explains the two viewpoints of analyzing ETR, one is marginal ETR and another one is average ETR. He said that marginal one determine the efficacy of taxation system on additional investment as it is measure extra rate of tax paid for extra unit of income. Marginal ETR is a study from the economic standpoint whereas average ETR is from the accounting viewpoint. He also mention some determinants of variability for effective tax rate and commented that average ETR can better explain the actual tax burden of a company.[41]

Robinson et al. (2010) studied performance estimation for corporate tax department. In this study they look into the choice of tax department as cost center and profit center and attempted to investigate the link between this choice and effective tax rate. For this study they have conducted a confidential survey on the CFOs and make a data base for this study in 1999. They found that probability of choosing tax department as profit center is increasing in company's some characteristics like—decentralization issues and on tax planning effort. After that they have investigate a new dimension that, whether profit center has some contribution to

[40]Repon Miah, ‘‘Corporate Statutory Tax Rate or Effective Tax Rate: A Study on Selected Listed Textile Companies in Bangladesh.’’ *MCT Global Journal on Management and Entrepreneurship*, vol. 4, issue 11, (Oct-Dec 2016,) ISSN: 2231-3710.

[41] D. Callihan, ‘‘Corporate Effective tax rates: a synthesis of the literature.’’ *Journal of Accounting Literature* 13, (1994):1-43.

net income through lower ETR. In this regard they put ETR as control variable and found that there is significantly lower ETR with profit center companies than cost center companies. Thus it contributing to the profit center through lower ETR.[42]

Gupta and Newberry (1997) examined the corporate effective tax rate and it's determinants of variability by testing some hypothesis. They use company level data for two tax rate regime for non financial companies in the USA. They have found ETRs are related with some company specific variable like— company size, capital intensity, leverage, return on assets, research and development expense, inventory intensity etc. They use both pooled and fixed effect regression estimation and found that fixed effect model better fit than pooled estimation. Company size and ETR relation is an important issue for tax reform debate. In this study they showed a negative relationship in both pre and post tax reform period for size variable.[43]

Guha (2007) examined the relationship between company size and the effective corporate tax rate for Indian private manufacturing companies in India. In this study he used a panel data set from 1992 to 2001 of sample companies. Dependent variable for this study was statutory tax rate and independent variables were leverage, capital intensity and exportability of sample companies. This study found that there is some association among the dependent and independent variables. In this study he highlighted the relationship between effective tax rate and company size. In this regard it has found that size has negative relationship with effective tax rate, i.e. big companies are paying less tax. He mention the reason for this result, is due to the influence of larger companies in the policy making.[44]

Derashid and Zhang (2003) examined the association between ETR and a set of company specific variables using regression analysis. They found that among other sectors hotels and manufacturing companies are paying less tax in the study period.

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[42] John R. Robinson, Stephanie A. Sikes and Connie D. Weaver, ‘‘Performance Measurement of Corporate Tax Departments. ’*The Accounting Review*, Vol. 85, No. 3 (May 2010): 1035-1064.

[43] S. Gupta, K. Newberry. ‘‘Determinants of the variability in corporate effective tax rates: evidence from longitudinal data.’’ *Journal of Accounting and Public Policy* 16 (1997):1-34.

[44]Atulan Guha, ‘‘Company Size and Effective Corporate Tax Rate: Study on Indian Private Manufacturing Companies.’’ *Economic and Political Weekly*, Vol. 42, No. 20 (May 19-25, 2007): 1869-1874.

It is also found that effective tax rate is negatively associated with company size which support the political power theory rather than political cost theory in Malaysia. Another significant finding is that more efficient companies are paying relatively less tax due to the lower effective tax rate.[45]

1.6.1 Research Gap

By reviewing the related literature, I have found some Bangladesh related tax studies mostly on tax reform and urgency for reform. But, we did not find any research covering the whole spectrum of corporate tax related issues in Bangladesh, as I have set in my study objectives. However there is a lot of researches have been done on corporate tax law reforms, different policies and tax incentives relationship and on analysis of ETR from different viewpoints in abroad, mainly in some developed and developing countries. As we know that, different economic conditions provide different results in the same area of research by changing the viewpoints of research. There is a dearth of researches in the field of taxation in Bangladesh, though there are some study on individual direct tax, but there is hardly any study particularly in the field of corporate taxation in Bangladesh. So there is an ample scope to do research in this field with my stated study objectives.

1.6.2 Justification of the Study

Bangladesh is an emerging economy having ample scope for faster industrial development. It is high time for the government and the related agencies to take proper steps in policy reforms so that the country can get the right direction towards expected development. In revenue vision 2021, government of Bangladesh has set the target of contribution of direct taxes to be more than half of total revenue collection by the year 2021. Some tax researcher has claimed that, tax laws of Bangladesh are complex, voluminous and sometimes ambiguous. From business community, there is always a demand regarding corporate tax rate cut and increasing the tax incentives at the time of each year budget. Other than those, Bangladesh govt. is actively thinking of

[45]Chek Derashid, Hao Zhang, ‘‘Effective Tax Rates and the ‘Industrial Policy’ Hypothesis: evidence from Malaysia.’’ *Journal of International Accounting, Auditing and Taxation* 12(2003): 45-62.

changing the current direct tax statute. In those context I have been inspired to review direct tax related legal issues, tax incentives issues and corporate ETR of Bangladesh. Other than those issues, I also have reviewed the corporate tax related aspects of south Asian region to get a holistic picture of corporate taxation in Bangladesh. Research on corporate taxation is rare in Bangladesh. If this research could be completed successfully the results of this research will add to the existing stock of knowledge of tax research in Bangladesh and also fulfill the stated research gap in this field.

1.7 Hypotheses Development

In line with the fifth objective, I have developed some hypotheses by studying the unfounded literature on this issue. In this study, I have considered only four explanatory company specific variables. Those are company size, leverage, capital intensity and return on assets. Considering the above variables I have developed four hypotheses as follows:

Companies' investment decisions could have an impact on their ETRs. In the Bangladeshi tax laws there are provisions for accelerated depreciation. In this system companies are entitled to depreciate their asset for a short period of time in a higher rate so that companies can cover their early losses through this incentive. As we know that depreciation is a tax deductible expense, so more capital assets will generate more depreciation and more depreciation leads to less taxable income and less taxable income leads to lower tax and lower tax leads to lower effective tax rate. So it has been said that more capital intensive companies are expected have lower ETR.[46]Based on the above discussion, it has been hypothesize that:

H_1: ETRs are negatively associated with companies' capital intensity.

In the size and ETR literature we have found two differing views about the relationship among ETRs and company size: one is the political cost theory and the other one is political power theory. According to the political cost theory, the higher presence of big companies causes them to become targets of superior regulatory

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[46]C.P. Stickney and V.E. McGee, ''Effective Corporate Tax Rates: The Effect of Size, Capital Intensity, Leverage and Other Factors.'' *Journal of Accounting and Public Policy,* 1 (1982): 142.

actions by the tax authority.[47] This theory said that big companies have higher ETRs as taxes are one part of the total political costs endured by companies.

On the other hand there is an opposite view, which we call political power theory. In this theory we consider big companies have more resources to influence the political process in their favor regarding tax issues and they have the ability to engage in effective tax planning effort so that they can achieve optimum tax savings.[48] Studies of U.S. firms on the association between ETRs and firm size have found mixed results. Research on ETRs and firm size using Bangladesh setting is virtually non-existent. As the adverse relationship between ETRs and company size is more common in prior researches, therefore, we suppose an adverse relationship between ETRs and company size in this study. Based on this discussion, I assume that:

H_2: ETRs are negatively associated with company size.

Corporate profitability could also have influence on ETRs. Return on assets means the performance of the assets. The impact of tax incentives are not always proportionate related to accounting income. ETRs are changed because of changes in the pretax income. ROA is calculated as net income before tax divided by total assets. We suppose ROA to have a positive sign as an increase in ROA leads to an increase in ETRs.[49]Based on the above discussion, I assume that:

H_3: ETRs are positively associated with companies' return on assets.

Corporate financing decisions could have an influence on ETRs. Generally tax laws permit interest expense as tax deductible expense. Recently some countries introduce thin capitalization rule to avoid some unexpected tax benefit through interest expense. Like the logic put in the previous hypothesis, I can say that companies with higher debt will generate more interest and more interest will generate less taxable income (as interest expense is tax deductible) and less taxable income will

[47] R. Watts and J. Zimmerman, *Towards a Positive theory of accounting*. (Prentice-Hall, New Jersey 1986):235.

[48]J. Siegfried, ''The Relationship between economic structure and the effect of political influence: empirical evidence from the federal corporation income tax program.''(Ph.D. dissertation, University of Wisconsin 1972):32-36.

[49]Gupta, K. Newberry. ''Determinants of the variability in corporate effective tax rates: evidence from longitudinal data.'' *Journal of Accounting and Public Policy* 16 (1997): 15.

generate less tax and less tax leads to lower ETR. Thus more levered companies will have lower ETRs than unlevered companies. Research by Stickney and McGee in 1982 and Gupta and Newberry in 1997 finds also an adverse relationship between ETRs and leverage. Based on the above discussion, I assume that:

H_4: ETRs are negatively associated with companies' leverage.

1.8 Research Methodology

1.8.1 Nature of the Study

The study is both exploratory and empirical in nature. Exploratory as it has explored the existing laws, incentives, policies, and empirical as it has collected data from experience rather than from belief. It has collected data to analyze corporate ETRs of publicly traded manufacturing companies in Bangladesh by creating a database. Future researchers can be able to verify the results of this study through observation or experiment.

1.8.2 Research Approach

The approach of the present study is mixed approach (both qualitative and quantitative). To meet the first three objectives we have reviewed thoroughly the tax laws and different policies including national industrial policies of Bangladesh. To achieve the forth objective a comparative analysis was done on some corporate tax-related issues of South Asian countries. The purpose of the fifth objective of this study is to analyze corporate ETR for that purpose we have to form a database through collecting information from the audited financial reports, so that we can draw inference.

1.8.3 Research Method of Reasoning

There are two separate approaches of reasoning namely the deductive and the inductive. Where there is no establish theory and standard, inductive reasoning is suitable for those situations. In the case of law and policy, there is no standard form. We have to study the efficiencies of the existing laws and policies and finally will make some generalized comments on those. So for this part, the inductive reasoning process is used. Deductive reasoning begin with a universal theory, statement, or hypothesis and then works its way down to a conclusion based on proof. The present study is based on some existing theories (entity theory, political cost theory, and political power theory) and hypothesis (stated earlier). Some measurement techniques have been developed to measure ETR and why they vary among industries based on collected data. Finally, the inference will be drawn based on the findings. This is why the research reasoning approach for this part is deductive.

1.8.4 Types and Sources of Data

Mainly secondary data have been used to achieve the objectives of this study. Sources of those secondary data are national legal instruments like acts, ordinance, rules, regulations, notifications, S.R.O.s, official tax reform reports, national industrial policies and other official documents of the concerned authorities.

In addition to above mentioned sources, published annual reports of the sample companies, books, research reports, and the reports of international organizations like, the World Bank, International Monetary Fund (IMF) and Asian Development Bank (ADB), and published and unpublished dissertations, journal articles in print and electronic form, corporate tax guide by national and international audit firms, and report from the tax authority of India, Pakistan, and Sri Lanka are also consulted.

Some interviews and discussions are held with NBR officials, company officials, practicing professional accountant (CA/ FCA), practicing income tax lawyers, and academicians of this field to supplement the secondary data sources.

1.8.5 Time Reference of Data

This research has been carried out using a wide variety of data available during the period 2005 to 2018. But for the purpose of empirical study, that is to analyze ETR, I use financial statement data of fiscal years 2011 to 2018. However, there is a flexibility to incorporate any new information available after that period.

1.8.6 Sampling Design

Sampling design means the way I have selected the sample from the population are given with a reasonable detail. I have included the following points in the sampling design:

1.8.6.1 Population

The population for this research is the DSE listed nonfinancial companies. Publicly traded companies in Bangladesh can be divided into three broad categories. They are financial, nonfinancial and others (bonds, debentures, and mutual funds). The present study is conducted only on the companies listed under the nonfinancial category because the legal framework for accounting and tax purposes is different for the financial and other companies. Total Companies listed with the DSE as on 05th January, 2018 according to the DSE website is 569. Of them, Bank 30, Corporate Bond 2, Debenture 8, Financial Institution 23, Insurance 47, Mutual Fund 36 and Treasury Bond 221 make a total of 367 companies. Remaining (569-367=202) two hundred and two companies are included in this category including the miscellaneous category. So, the size of the population of the study is two hundred and two (202), and hence, it is a finite population.

1.8.6.2 Sampling Unit

The nonfinancial companies are divided into fifteen sectors including the miscellaneous category. Eight sectors from these fifteen sectors have been selected using the Simple Random Sampling technique considering time and budgetary constraints. The selected eight sectors are Cement, Ceramics, Engineering, Pharmaceuticals & chemicals, Food and Allied, Fuel & Power, Tannery, and Textile. Each of them is a sampling unit of the present study.

1.8.6.3 Sampling Frame

The population for this research is the DSE listed nonfinancial companies. According to database of DSE as at 5th January 2018, there are twenty-eight (28) Pharmaceuticals & Chemicals, seven (7) Cement, eighteen (18) Fuel & Power, thirty six (36) Engineering, six (6) Tannery, five (5) Ceramics, eighteen (18) Food and

Allied and forty nine (49) Textile companies . This list will be used as the sampling frame for the present study. The total number of companies in this frame is one hundred and sixty-seven (167), of them, only eighty-six (86) companies are listed on or before 2005. So, the sample frame for this research is 86 companies.

1.8.6.4 Sample Size

Considering the time and budgetary constraints, the researcher has fixed the sample size at 60 percent of the total number of companies in the sampling frame. So, the sample size is 52 (86*60%=51.6). These 52 companies have been selected by using probability proportional to size sampling method.

1.8.6.5 Distribution of Sample Companies

The sector wise distribution of sample companies has been shown in the following table:

Table 1.1 Distribution of Sample companies based on Probability Proportional to Size

Name of Selected Sectors(1)	Total No. Companies in the sectors(2)	Number of companies enlisted in or before 2005(3)	Number of selected companies on the basis of column no. 3(4)	Selection Process(5)
Cement	7	5	5/86*52=3	Simple Random Sampling
Ceramics	5	3	3/86*52=2	Do
Engineering	36	16	16/86*52=10	Do
Food and Allied	18	15	15/86*52=9	Do
Fuel and power	18	6	6/86*52=4	Do
Pharmaceuticals and chemicals	28	16	16/86*52=9	Do
Tannery	6	5	5/86*52=3	Do
Textile	49	20	20/86*52=12	Do
Total	167	86	52	

Source: Compiled from DSE website

1.8.6.6 Sample Companies

Companies have been selected based on Simple Random Sampling Technique. The list of selected nonfinancial companies under the selected eight industrial sectors has been given below:

Table 1.2 List of the sample companies of the selected sectors

SL No	Name of Company	Name of Sector	Acronym
1	Heidelberg Cement Bangladesh Ltd.	Cement	HCL
2	Lafarge Surma Cement Ltd.	Cement	LSL
3	Meghna Cement Mills Ltd.	Cement	MCL
4	Fu-Wang Ceramic Industries Ltd.	Ceramics	FCL
5	Monno Ceramic Industries Ltd.	Ceramics	MCL
6	Aftab Automobiles Ltd.	Engineering	AAL
7	Anwer Galvanizing Ltd.	Engineering	AGL
8	Aziz Pipes Ltd.	Engineering	APL
9	Bangladesh Lamps Ltd.	Engineering	BLL
10	Bangladesh Thai Aluminum Ltd.	Engineering	BTAL
11	Eastern Cables Ltd.	Engineering	ECL
12	National Polymer Industries Ltd.	Engineering	NPIL
13	Quasem Drycells Ltd.	Engineering	QDL
14	Rangpur Foundry Ltd.	Engineering	RFL
15	Singer Bangladesh Ltd.	Engineering	SBL
16	Agricultural Marketing Company Ltd. (PRAN)	Food and Allied	AML
17	Apex Foods Limited	Food and Allied	AFL
18	Bangas Ltd.	Food and Allied	BL
19	Meghna Condensed Milk Ltd.	Food and Allied	MEGMILK
20	Fine Foods Limited	Food and Allied	FFL
21	Fu Wang Food Ltd.	Food and Allied	FUFL
22	Gemini Sea Food Ltd.	Food and Allied	GFL
23	Olympic Industries Ltd.	Food and Allied	OIL
24	Rahima Food Corporation Ltd.	Food and Allied	RFCL
25	Bangladesh Welding Electrodes Ltd.	Fuel and Power	BWEL
26	CVO Petrochemical Refinery Ltd.	Fuel and Power	CVOPRL
27	Padma Oil Company Ltd.	Fuel and Power	POCOL
28	Linde Bangladesh Ltd.	Fuel and Power	LBL

29	ACI Ltd	Pharmaceuticals & Chemicals	ACIL
30	Beximco Pharmaceuticals Ltd.	Pharmaceuticals & Chemicals	BPL
31	GlaxoSmithKline Bangladesh Ltd.	Pharmaceuticals & Chemicals	GSK
32	Keya Cosmetics Ltd.	Pharmaceuticals & Chemicals	KCL
33	Kohinoor Chemical Co. (Bd.) Ltd.	Pharmaceuticals & Chemicals	KCI
34	Orion Infusion Ltd.	Pharmaceuticals & Chemicals	OIL
35	The IBN SINA Pharmaceutical Industries Ltd.	Pharmaceuticals & Chemicals	IBNSINA
36	Renata Limited	Pharmaceuticals & Chemicals	RL
37	Square Pharmaceuticals Ltd.	Pharmaceuticals & Chemicals	SPL
38	Apex Tannery Ltd.	Tannery	ATL
39	Bata Shoe Co. Ltd.	Tannery	BSL
40	Legacy Footwear Ltd.	Tannery	LFL
41	Al-Haj Textile Mills Limited	Textile	ATL
42	Alltex Industries Ltd.	Textile	AIL
43	Anlimayarn Deying Ltd.	Textile	ADL
44	Apex Spinning & Knitting Mills Limited	Textile	ASKL
45	Desh Garmants Ltd.	Textile	DGL
46	H.R.Textile Ltd.	Textile	HRTL
47	Metro Spinning Ltd.	Textile	MSL
48	Prime Textile Spinning Mills Limited	Textile	PTSL
49	Rahim Textile Mills Ltd.	Textile	RTL
50	Sonargaon Textiles Ltd.	Textile	SOTL
51	Square Textile Ltd.	Textile	STL
52	Stylecraft Limited	Textile	SL

Source: Complied from DSE website.

1.9 Techniques of Data Analysis

At first, the researcher has verified, reviewed and scrutinized the collected data to avoid any kind of error and inconsistency. Then the data have been arranged and tabulated based on verifiable indicators of the set objectives. The arranged data, then analyzed using the following variables and model.

1.9.1 Variable Definitions and Model Specification

A regression model is used to analyze the ETR and its variability by using the following variables:

1.9.1.1 Dependent Variable

For this study the dependent variable is corporate effective tax rate (ETR). We used current based ETR as the dependent variable in this study. The definition of this variable is represented as ETR equal to the current tax expense divided by the net income before tax (NIBT).

Addressing the problems to Measure ETR:

There are some problems to measure ETR when we face negative income and tax refunds. Here we consider two situations, one is ETR of a firm with negative NIBT and a negative current tax expense and another situation is ETR of a firm with positive current tax expense but negative NIBT. To address this problem we set ETR =0 for negative current tax expense and negative NIBT and ETR=1 when current tax expense is positive but NIBT is negative. We have assumed the ETR of our sample companies to lie between 0 percent and 100 percent.

1.9.1.2 Independent variables

For this study I have set four independent variables. These variables are capital intensity (CINT), financial leverage (LEV), company size (SIZE) and return on assets (ROA).

Definitions of these variables are:

CINT has been calculated as book value of net property, plant and equipment divided by book value of total assets.

LEV has been calculated as book value of long-term debt divided by book value of total assets.

SIZE has been calculated as the natural logarithm of book value of total assets. Finally,

ROA has been calculated as net income before tax divided by book value of total assets.

1.9.1.3 Regression Model

I have developed the following multiple regression model to infer the causes of variability of ETR:

$$ETR_{it}=\alpha_0+\beta_1 CINT_{it}+\beta_2 SIZE_{it}+\beta_3 ROA_{it}+ \beta_4 LEV_{it} +\varepsilon_{it}$$

Where the dependent variable, ETR_{it}, is the corporate effective tax rate for company i in time t. The independent variables are capital intensity (CINT), leverage (LEV), firm size (SIZE), return on assets (ROA) and ε_{it} is the error term. Finally, all variables are calculated on the basis of financial statement data taken from the company websites and Dhaka Stock Exchange Ltd (DSE).

1.9.2 Statistical Tools

Both the descriptive and inferential statistical methods are used in this study for analyzing data. The descriptive statistics include frequency distribution, mean, maximum, minimum, range, mean absolute deviation, standard deviation, variance, coefficient of variance, etc. The Shapiro-Wilk test has been used for normality test purposes. The inferential statistics like ANOVA, t-test, etc. are used to test the validity of the statements about the population parameters, and Pearson's correlation, and multiple regressions, etc. are used to examine the relationships among the variables. Variance Inflation Factors (VIF) is used to check the multicollinearity problem in the independent variables.

1.10 Data Processing and Presentation

The IBM Statistical Package for Social Sciences (SPSS) version 22 software and MS Excel are used for processing and analyzing the data. The findings are presented both in tabular and graphical forms of presentation for better understanding of the readers. In the graphical presentation, histograms, bar diagrams, and line diagrams are used. Findings from qualitative data would be presented in narrative form but when qualitative data has been quantified some tables and graphs would are also used.

1.11 Scope and Limitation

The study has reviewed tax-related laws & policies, and corporate tax reform initiatives to ascertain the congruence among tax incentives and industrial policies through content and document analysis and by conducting some interviews. Corporate taxation issues in the South Asian region are analyzed using some corporate tax guides issued by the national and international audit firms, and reports from the tax authority of those countries. ETR measurement has been done by using financial statement data of the sample companies. Data have been collected from company websites and the DSE to measure and analyze the effective tax rate of the companies. Tax-related data are confidential and access is very restricted from both the NBR and sample companies, and this is our main limitation. That is why we have used data from financial statements to measure ETR to know the actual tax burden of the companies. Some other important dimensions of corporate tax like the book-tax gap, income manipulation, tax evasion have been excluded from the scope of this research. These are also some limitations to this study.

1.12 Structure of the thesis

The thesis is divided into seven chapters that are, introduction; Legal and Organizational Framework of Corporate Taxation; Evolution of Corporate Tax Regime in Bangladesh; Tax incentives and Industrial Development; Corporate Taxation in South Asian Region; Corporate ETR in Bangladesh and finally Summary, Recommendations, and Conclusion.

In the first chapter, the statement of the problem, research objectives, literature review, hypotheses, and methodology have been discussed to get a holistic picture of this study. In the second chapter, the legal and organizational framework, and the assessment procedure of the corporate tax have been discussed to see the adequacy of the laws as well as to know the coordination among the corporate tax-related institutes including companies and NBR. In the third chapter, we solely focused on corporate tax reform aspects. Different tax reform reports have been reviewed to see the evolution of corporate tax in Bangladesh. In the fourth chapter, relations between tax incentives and industrial development have been observed by reviewing industrial policies and direct tax incentives of Bangladesh to have a deep insight into the congruence among them. In the fifth chapter, the South Asian perspective has been observed. In this part some corporate taxation issues like- tax rate, tax depreciation, and tax incentives, etc. are discussed to know the relative position of those countries. In the sixth chapter, the measurement of corporate ETR and its variability have been analyzed by using statistical tools. Finally, an objective wise summary of findings, limitations, and some recommendations are made along with a brief conclusion.

1.13 Conclusion

This research has provided a complete and integrated picture of corporate tax-related laws, administration, corporate tax reforms, and tax incentives and industrial development relations, South Asian perspective, measurements of corporate ETR and its variability in the publicly traded nonfinancial companies in Bangladesh. Optimistically, the findings of this study will serve the interests of all the stakeholders, corporate tax-related parties including the NBR and publicly traded companies in Bangladesh. By satisfying the demands and needs of the above mentioned different interest groups, the research would contribute immensely towards building a sound and efficient corporate tax system in Bangladesh.

Chapter Two

Legal and Organizational Framework of Corporate Taxation

2.1 Introduction

Bangladesh is an emerging economy and a middle-income country. The country needs huge revenue to build the needed infrastructure for sustainable industrial development and economic growth. Effective tax code and taxpayer-friendly administration can help in this endeavor to collect expected tax revenue. Direct taxes play a vital role in the country's total tax revenue collection and corporate tax consistently contributes more than half of total direct tax collection.[1] Corporate tax system consists of the following elements— tax code, tax law administering agencies like the National Board of Revenue (NBR) and companies, and some other statutory and regulatory govt. agencies like Bangladesh Securities and Exchange Commission (BSEC), Registrar of Joint Stock Companies (RJSC), Bangladesh Investment Development Authority (BIDA), Financial Reporting Council (FRC), and professional bodies like Institute of Cost and Management Accountants of Bangladesh (ICMAB), Institute of Chartered Accountants of Bangladesh (ICAB), and different business bodies are also playing important role in formulating, administering and performing their legal obligations in the corporate tax system of Bangladesh.

In the first part of this chapter, the legal framework of corporate taxation has been reviewed. The legal instruments reviewed in this part are Income Tax Ordinance 1984, Income Tax Rule 1984, SROs, and circular issued by the tax authority. In the second part, direct tax administration including judicial authority and some other organizations having a role in corporate matters are discussed. In the final part, the accounting framework and assessment procedure of Bangladeshi companies have been discussed and analyzed critically. In the first part of this chapter, the legal framework of corporate taxation has been reviewed. The legal instruments reviewed in this part are Income Tax Ordinance 1984, Income Tax Rule 1984, SROs, and

[1]NBR, *Annual Report 2016-17* (Dhaka: NBR, IRD, Ministry of Finance, 2015), 47.

circular issued by the tax authority. In the second part, direct tax administration is discussed including judicial authority and some other organizations having a role in corporate matters are discussed in this part. In the final part, the accounting framework and assessment procedure of Bangladeshi companies have been discussed and analyzed critically.

2.2 Evolution of Income Tax laws in Bangladesh

Income tax history in the Indian Subcontinent had its beginning in the year 1860 when James Wilson, the first finance member in India, presented the Income Tax Bill titled —''An act for imposing duties on profits arising from property, professions, trades, and offices.'' This bill was presented to refill the deficit caused by the Sepoy Mutiny in 1857. This bill was dropped in 1865. In 1867, the tax was reimposed in the name of license tax. The Certificate Tax Act, 1868 was introduced by the parliament in place of license tax with wider coverage. In 1869 Income Tax II was introduced to meet the deficit in financing. It was effective for only one year and in the following four years; there were yearly acts to collect income tax. Income tax was abolished in the fiscal year 1873-74 due to budgetary surplus. After five years, the tax was again rejuvenated in the name of license taxes and has sustained till the year 1885-86. The first full-fledged Indian Income Tax Act was introduced in 1886. This act was substantially enhanced and amended in 1916 and 1918 to consolidate income tax laws.

Income Tax Act 1922 (Act XI of 1922) was enacted on the recommendation of the all India income tax committee formed in 1921. Inland Revenue board was established by that act, which was the top authority for income tax management. Some new concepts like income year, assessment year, concepts of total income, profits and gains and choice of accounting methods and loss adjustments are included in the act. It was the annual finance act which was to set out the rates of taxes and set the machinery into motion. In 1924, the Central Board of Revenue was replaced by a Board of Inland Revenue. This act has been amended in 1939 to established income tax appellate tribunal among other substantial reforms.[2]

[2] Md. Jehad Uddin, *Bangladesher Aaikor Aiyan*, (Dhaka: Bangla Academy, 2010), 1-4.

The Income Tax Ordinance, 1984 (Ordinance no XXXVI of 1984) was come into force on the 1st July 1984 to combine and modify the law connecting to income tax in Bangladesh. Thus the Income-tax Act, 1922 was cancelled and changed by this Ordinance.[3] So, the legal base of income tax in Bangladesh can be shown as, from 26 March 1971 to 30 June 1984: The Income-tax Act 1922 and 1 July 1984 and onwards: The Income Tax Ordinance 1984.

2.3 Legal Framework of Corporate tax in Bangladesh

The following documents consist of the legal framework of the direct tax system of Bangladesh. We have discussed these legal documents to get a brief idea as well as to know the role of those instruments in the field of corporate taxation in Bangladesh. The income tax laws do not consist of only the main act, rather these include several other statutory elements as follows:

- Income Tax Ordinance 1984 – the parent act;
- Income Tax Rules 1984;
- S.R.O. (Statutory Rules and Order)/Gazette Notification issued from time to time;
- Income Tax Circulars;
- General or Special Order;
- Explanation/Office Memorandum;
- Verdicts of Appellate Tribunal for an equivalent fact;
- Verdicts of the High Court Division on the question of law; and
- Verdicts of the Appellate Division on the judgment of the High Court Division.

Income Tax Ordinance 1984: In the main form of the Income Tax Ordinance 1984, there were 22 chapters, 187 sections, and seven schedules. To meet the demand of each year budget tax codes are changed through the finance act this is called regular changes and there is another type of change made in the tax code which is called reform. There is several reform initiative took place in Bangladesh to streamline the

[3] Swapan Kumar Bala, ‘‘Complexities in the Income Tax Laws: A Quest for a Simpler Taxation System,’’ *International Business Forum of Bangladesh* (December 2009): 6-7

tax laws, processes and administration. As on July 1, 2019, the Income Tax Ordinance 1984 contains of 23 chapters, 353 sections, and 7 schedules but there are only 296 active sections by counting inserted and omitted sections. From July 1, 1994, to June 30, 2002, there was another chapter (Chapter XVIII A on ―Settlement of cases, having five sections from section 152 A to section 152 E). This section may be reintroduced further as there is no tax ombudsman office currently. In the year 2011 tax ombudsman act 2005 has been repealed without giving any valid reason.[4] Thus, in terms of number of sections, the income tax ordinance is about almost double bigger than its original size. This is the main act of the direct tax regime. Tax authority discharges their duties and authority under the power given by this act, other rules, SRO's, circulars, and explanations can only supplement this mother act.

Draft Direct Taxes code 2013: (under active consideration of GoB)

The title of the draft code is the Direct Taxes Code, 2013. There are 8 parts, 16 chapters, 299 sections, and 15 schedule that are available at the website of the NBR.[5] It is not yet passed in the parliament.

Income Tax Rule 1984: The Income Tax Rules 1984 had originally 66 rules, and now on July 1, 2019, it has 135 rules and sub-rules. Of them, 27 rules and sub-rules are repealed. So the active rule and sub rule on July 1, 2018, are 108. Thus the Income Tax Rules 1984 has been augmented by more than fifty percent in terms of number of rules. In this 135 rules and sub-rules, one rule (rule 68 on- modes of recovery of taxes, inserted on May 20, 2007) comprises resources of about 32 pages. It describes the operational procedures and different forms and documents to be kept and maintained by the tax office. It is a very important document for the functioning of the ITO 1984.

SROs, Circulars, and Explanations: Another common legal document regarding income tax is statutory rules and order (S.R.O.), but sometimes colloquially known as ‘Swift Route to Opulence’, when used by rulers for allowing optional tax favors to their allies. Its use is common and at the choice of the NBR and for that intention, the updated volume is difficult to obtain. In the newest volume of collected SROs in

[4] Swapan Kumar Bala, ‘‘Complexities in the Income Tax Laws: A Quest for a Simpler Taxation System,’’ *International Business Forum of Bangladesh* (December 2009): 6-7.

[5] http://nbr.gov.bd/uploads/publications/95.pdf (accessed 28/12/2017).

'Income Tax SRO Booklet' by Md. Liton has published a 576-page paper comprising a total of 486 SROs given from May 30, 1974, SROs up to September 2018. Of these SROs, 58 SROs have already been annulled and 16 SROs have been corrected afterwards. Thus 428 SROs can be called effective, but as this not an authorized publication of the NBR, it is problematic to say, how many SROs are presently effective.

Income tax circulars, usually issued by the NBR, explain the procedural direction of the provision of the Finance Act and SROs. Thus the income tax laws in Bangladesh are undoubted of sheer length.

Tax Ombudsman Act 2005 (repealed):Tax Ombudsman Act, 2005 (Act no XXIX of 2005) was made for the provision of tax-ombudsman recruitment and related matters and to conduct inquiry into the matter and conduct remedial or corrective measures including the determination of misappropriation done by the person engaged in administering tax laws or tax employees.[6]

The Parliament passed the Tax Ombudsman Act 2005 on July 10, 2005. On October 15, 2006, the Tax Ombudsman Act 2005 was made effective from 09-07-2006 [vide SRO No. 252-Ain-2006, dated 15.10.2006]. It was repealed in 2011 by the Tax Ombudsman (Repeal) Act, 2011 (Act no X of 2011) on 22 June 2011.[7] The act was made for bringing transparency in the tax administration but for unknown reasons the act was repealed, as it is not mentioned in the later act.

Fiscal Policies: The strategy which affects the behavior of economic forces through public financing. Objectives of the fiscal policy of Bangladesh are to safeguard macroeconomic firmness of the country, stimulate economic development, and develop a system for fair distribution of income. Fiscal policy controls the level of public revenue and public expenditure and guides the measures required to maintain a balance between the two. The design and implementation of a sound fiscal policy are one of the most important jobs of the government.

[6]http://bdlaws.minlaw.gov.bd/bangla_sections_detail.php?id=932&sections_id=28201 (accessed 2/12/17).

[7] http://bdlaws.minlaw.gov.bd/bangla_pdf part. php?id=1074 (accessed 2/12/17).

Finance Acts: According to article 83 of the constitution of Bangladesh (Part V: The Legislature, Chapter II: Legislative and Financial Procedure) ''No tax shall be levied or collected except by or under the authority of an Act of Parliament.''[8] In line with this guideline Bangladesh government annually makes a Finance Act to comply with the constitutional obligation. The Finance Act is formulated to give the effect of the financial proposals of the government (i.e. annual budget) and to amend some acts. This is the act through which changes in Excises and Salt Act, 1944, Stamp Act, 1899, Income Tax Ordinance, 1984, Customs Act, 1969, VAT Act, 1991, and the rate of income tax for individuals and corporations and rate of the Surcharge are promulgated. This is a very important law to administer fiscal policy.

2.4 Sections Related to Business Entities under ITO

The following are the tax compliance obligations of a business entity as per various sections of the Income Tax Ordinance 1984 up to July 2018. We can categorize those sections as (1) Responsibilities of a business entity as an assessee (taxpayer) (2) Responsibilities of a business entity as a tax collector on behalf of tax authority (3) Responsibilities of related persons of a business entity.[9]

2.4.1 Compliance as an assessee (taxpayer)

Exclusions from income from business or occupation u/s 29; deduction not allowable in particular conditions u/s 30; provision for disallowance u/s 30A, Capital gains u/s 31; calculation of Capital gains u/s 32; system of accounting u/s 35, treatment of losses u/s 37; carry forward of business losses u/s 38; carry forward of loss under the head capital gains u/s 40; conditions and limitations of carry forward of loss, etc. u/s 42, computation of total income u/s 43; exemptions of income of an industrial undertaking u/ 45, exclusions of income in a tourist industry u/s 46, exclusions from tax of newly formed undertakings u/s 46A, 46B, 46C, collection of TIN certificate u/s 184B; unified taxpayers identification number (UTIN) u/s 184BBB; obligation of document or acknowledgement receipt having 12 digit TIN in some cases, u/s 184A, exhibiting

[8] http://bdlaws.minlaw.gov.bd/sections_detail.php?id=367&sections_id=24639 (accessed 4/12/17).

[9] https://www.researchgate.net/profile/Swapan_Bala/publication/228129441_Tax_Planning_in_Business_Bangladesh_Perspective/links/5a0e643aa6fdcc2b5b5dfb67/Tax-Planning-in-Business-Bangladesh-Perspective.pdf(accessed 4/12/2017).

of TIN certificate u/s 184C; imbursement of tax in advance u/s 48, 64-73; preparation of tax return u/s 75; return regarding withholding tax u/s 75A; tax payment on the basis of return u/s 74; revised tax return filing u/s 78; upkeep of books and documents: u/s 35, 75(3) (c) ii; collaboration with income tax authority at the time of inspection (u/s 114), survey (u/s 115); enquiry (u/s 116); examination and seizure (u/s 117) and corroboration regarding deduction or collection of withholding tax (u/s 117A).

Compliance with various notices: Notification of call u/s 135, notice for submission of return u/s 77, notice to show books, reports and papers etc. u/s 79, Announcement to appear trial u/s 83(1) if there is assessment after enquiry, Notification to apprise re-assessment u/s 93(1), notification to join enquiry u/s 130 in case of imposing penalty u/s 123-128, Inform the transferor, the transferee and the individual in occupation of the permanent property to start the actions for acquisition of the permanent property u/s 32(4) and u/r 42 if the reasonable market value of the assets surpasses the transferor's stated value and others], and so on.

2.4.2 Compliance as a tax collector on behalf of the tax authority

Account number for collecting tax u/s 184BB, tax deducted at sources, if appropriate, and credit that amount to the treasury u/s 48-63; giving papers of TDS with needed evidence u/s 58, and supplying yearly returns regarding salary payment u/s 108, interest u/s 109 and dividend u/s 110.

2.4.3 Compliance obligations of related persons of a business entity

Presence in support of the assessee at any income tax lawsuit u/s 174, legal representative will be treated as assessee in case of a dead person u/s 92, liability in some cases (as a representative of another person u/s 95, as an proxy of a nonresident person u/s 96, 102 and 103A), combined obligation of a director of the private company u/s 100, and combined accountability for the receiver of a private company u/s 101.

In case of non-compliance following enforcement measures are available:

Examination of company record u/s 114, survey u/s 115, investigation and production of documents u/s 116, search and seizure u/s 117, proof of deduction and collection of tax u/s 117A, best ruling assessment u/s 84 and afterward retrieval of tax u/s 134-

143, charge of penalty u/s 123-133, crimes and trial u/s 164-171), deductions not allowed u/s 30, exemptions not allowed due to not having suitable proof of the income u/s 57, imposing interest as penalty u/s 73. For these causes, a business unit may be involved with proceedings for which it might seek appeals u/s 153-159, revision u/s 120-121, and references u/s 160-162. But all these measures are expensive and are subject to not only monetary costs but also political and psychological costs.[10]

2.5 Direct Tax Administration

2.5.1 General Administration

The National Board of Revenue (NBR): This board is the top administrative body for taxation of Bangladesh. In the year 1972, it was established by the presidential order number 76 of 1972. It works under the internal resources division of the ministry of finance of Bangladesh. Traditionally secretary of internal resources division is the chairman of NBR but sometimes govt. may employ another competent person for this post.

The main duties of NBR are administering the tax policy and continuous monitoring and evaluation of tax policies and tax laws, negotiating tax agreements with a foreign government and take part in the meetings of different ministries on economic matters having a bearing on fiscal policies and tax administration. It collects all direct and indirect taxes under the jurisdiction of Bangladeshi tax code. Customs wing, VAT wing, and income tax wing constitute the main body of NBR. Other than those there are to more wings namely information technology wing and research, and statistics related wing under NBR.[11]

Top Management of the Tax Administration as per the NBR website is as follows:[12]

Chairman's office—secretary to IRD is the ex-officio chairman of NBR.

Admin (Board) there is one Member (Board Admin);

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[10]https://www.researchgate.net/profile/Swapan_Bala/publication/228129441_Tax_Planning_in_Business_Bangladesh_Perspective/links/5a0e643aa6fdcc2b5b5dfb67/Tax-Planning-in-Business-Bangladesh-Perspective.pdf(accessed 4/12/2017).

[11] http://nbr.gov.bd/about-us/about-us/eng (accessed 27/11/17).

[12] http://nbr.gov.bd/about-us/top-management/eng (accessed 27/11/17).

Admin (Customs and VAT) There is one Member (Customs and VAT Admin);

Customs: There are 3 members in the Customs wing—Member (Customs Policy and R&S), Member (Customs Export, Bond & IT), Member (Customs Audit, Modernization, and International Trade);

VAT: There are 3 members in the VAT wing. They are, member (VAT Audit and Intelligence), Member (VAT Policy), Member (VAT Implementation and IT);

Income Tax: There are 6 members in the income tax wing they are—Member (Tax information Management and Sheba), Member (Audit Intelligence and Investigation), Member (Tax Survey and Inspection), Member (Tax Admin and Human Resource Management), Member (Tax Legal and Enforcement), and Member (International Taxes).

There is 40 Income Tax Commissionarate in Bangladesh including LTU, Commissioner of Appeals, Central survey unit, BCS Tax Academy.[13]The Commissionerate is constituted of Commissioner, Additional Commissioner, Inspecting Joint Commissioner, Deputy Commissioner, Tax Recovery Officer, Assistant Commissioner of Taxes, Extra Assistant Commissioner of Taxes and Inspector of Taxes.

CIC: Director General;

Statistics: Director General (Research and Investigation);

ICT: System Manager.

2.5.2 Judicial Administration

2.5.2.1 Commissioner of Taxes (Appeal)

The name of Commissioner of Taxes (Appeal) is mentioned u/s 3(2) a. By FA 1990 a new subsection 2(19a) is incorporated in ITO. NBR can employ a required number of Commissioners of Taxes (appeal), Appellate Additional Commissioner of Taxes and Appellate Joint Commissioner of Taxes u/s 4(2) of ITO.

[13] http://nbr.gov.bd/about-us/list-of-income-tax-commissionaret/eng (accessed 7/12/2017).

Commissioner of Taxes (Appeal) appointed by the NBR to perform a quasi judicial function in the judicial process. Under section 6 (5) a, b, c, when any person is aggrieved by any ruling delivered under this section can make a representation within 30 days of that order:

a) If the directive was delivered by a DCT then appeal to the inspecting join commissioner of taxes;

b) If the directive was issued by an inspecting join commissioner then appeal to the commissioner of taxes;

c) If the order issued by a commissioner then appeals to the board and the decision of the board will be final on that representation.

By the power of proviso part of section 8, no order, direction or instruction shall be given to inhibit the discretionary power of the Appellate Joint Commissioner or the Commissioner (Appeals) in the application of their appellate functions.

2.5.2.2 Taxes Appellate Tribunal

It is being formed and functioning u/s 11-15 of the ITO. The government of Bangladesh can appoint a president and the required number of members under the provisions of this ordinance. If any taxpayer or Deputy Commissioner of taxes is not satisfied with the decision by appellate joint/ additional commissioner or appellate commissioner of taxes then they can appeal to Appellate Tribunal u/s 158 of ITO. Further, if any party is not satisfied with the decisions of the Tribunal they may go to High Court Division u/s 160 and can appeal to the Appellate Division u/s 162 of the ITO.

2.5.3 Other Organizations having some Role on Company matters

2.5.3.1 The Institute of Chartered Accountants of Bangladesh (ICAB)

This institute is a national professional body for accounting in Bangladesh. This institute was established in 1973 under the Bangladesh chartered account order 1973. The main duty of this institute is to guide and regulate the profession of accountants and other related matters related to this profession. It works under the supervision of the ministry of commerce.

ICAB members are the qualified professional accountants who care business initiative, corporate governance and sustainable development in the business area. The mission of this institute is to uphold and regulate quality financial reporting and auditing in Bangladesh; to improve and sustain the capability of qualified accountants; and to improve the grade of the accounting profession in all segments of the economy.[14] Practicing members of the ICAB are eligible to become a member of the taxes appellate tribunal, a legal representative on behalf of a business entity and are playing a vital role in the assessment of company tax following the provisions of ITO.

2.5.3.2 Institute of Cost and Management Accountants of Bangladesh (ICMAB)

This institute is a national professional body for providing a CMA degree in Bangladesh. Main function of this institute is to uphold and guide the cost and management accounting profession in Bangladesh and accomplish other activities relating to this profession. This institute offers high-quality CMA degree to the interested people. ICMAB also researches in relevant areas and is the only authority to issue license for practice to its members.[15] Practicing members of the ICMAB are eligible to become a member of the taxes appellate tribunal, a legal representative on behalf of a business entity and are playing a vital role in the assessment of company tax in the companies by complying with the provisions of ITO.

2.5.3.3 Bangladesh Investment Development Authority (BIDA)

BIDA is established by merging the Privatization Commission and Board of Investment under the Bangladesh Investment Development Authority (BIDA) Act 2016, the BIDA is the main private investment advancement and facilitation agency of Bangladesh. The main function of BIDA is providing various publicity and support services to speed up the industrial development of the country among other government assigned functions. Combining all, BIDA's present functions can be categorized as investment promotion, investment facilitation, and policy advocacy.[16]

[14] http://www.icab.org.bd/icabweb/webGeneralContent/view/14245 (accessed 4/12/2017).

[15] http://www.icmab.org.bd/index.php/about-us/the-institute (accessed 4/12/17).

[16] http://www.boi.gov.bd/site/page/fbe1aaaf-bfe8-4cac-9e5f-eee8f91998a7/BIDA-Functions#(accssed 9/12/17).

BIDA is sponsoring the investment incentives offered by the tax authority to the local and overseas investors.

2.5.3.4 Registrar of the Joint-Stock Companies (RJSC)

Registrar of the Joint Stock Companies (RJSC) is formed to register all types of companies, cooperative societies, and partnership firms as well as oversee their compliances under the act they were registered. They discharge their authority under the power provided in companies act, partnership act and they can fine for noncompliance. A new act is under progress to define the power and authority of RJSC. There are 3,462 public limited companies, 161894 private limited companies and 860 foreign companies registered with RJSC till December 2018[17]

2.5.3.5 Bangladesh Securities and Exchange Commission (BSEC)

This commission is formed to ensure the protection of investors investing in securities, and to develop the securities market and to formulate rules and regulations regarding these matters. This commission has been established under the Securities and Exchange Commission Act 1993. This commission regulates the securities market in Bangladesh. In a country where the securities market is functioning well, those countries developed at a faster rate because of the quick formation of capital. This commission also categorizes listed securities as A, B, G, N, and Z according to their performances. So that investors can take their decision knowingly.

2.5.3.6 Dhaka Stock Exchange (DSE)

The Dhaka Stock Exchange Ltd. (DSE) is a registered public limited company. It is regulated under company act 1994 and acts and rules of BSEC. Key functions of DSE are, listing of firms and monitoring of listed firms as per listing regulations, facilitating automated trading services and settlement of trading as per settlement of transaction regulation. [18] Listed companies are entitled to enjoy the lower corporate rate schedule according to the tax code of Bangladesh.

[17] http://www.roc.gov.bd/site/page/2f14b592-33c7-4931-b276-e16b0a9ded0d (accessed 30/12/17).

[18] http://www.dsebd.org/ilf.php (accessed 30/12/2017).

2.5.4 Coordination among these organizations

The NBR collects tax according to the prescribed rule of ITO. It is the main authority to administer the tax policy of Bangladesh. It conducts meetings with different stakeholders before every national budget to exchange views or to get some suggestions from them and also to inform the view of the NBR regarding any taxation issue. Before starting a business in Bangladesh every company has to fulfill some criteria with NBR and RJSC. Members of the ICAB are entitled to conduct an audit for all types of companies in Bangladesh. So there must be information regarding the audited companies in Bangladesh.

There are 3,462 public limited companies, 161894 private limited companies and 860 foreign companies registered with RJSC till December 2018[19] but only 75,144 companies are paying tax.[20]So there is a huge gap between registered companies and companies paying tax. Coordination among NBR and RJSC and ICAB can help improve this situation among other measures.

2.6 Accounting Aspects and Assessment procedure of a Company

2.6.1 Legal framework for financial reporting in Bangladesh

The Companies Act of 1994 lay the footing of basic requirements for financial reporting by all companies in Bangladesh. After passing Financial Reporting Act 2015, section 185 (2A) and (2B) are inserted to use Bangladesh accounting and auditing standards for preparing books of accounts, financial statements and balance sheet and no annual reports of any company will be received by the RJSC if it is not provided with the report of listed auditors of FRC.[21]

For Listed companies: The Securities and Exchange Commission of Bangladesh (BSEC) regulates financial reporting by listed companies. Securities and Exchange Rule (SER), 1987 entails compliance with IASs/IFRSs as accepted in Bangladesh (these are known as Bangladesh Financial Reporting Standards and include

[19] http://www.roc.gov.bd/ (accessed 23/6/19)

[20] NBR, *Annual Report 2016-17* (Dhaka: NBR, IRD, Ministry of Finance 2019):93.

[21] http://bdlaws.minlaw.gov.bd/bangla_sections_detail.php?id=788&sections_id=33574 (accessed 3/12/17).

Bangladesh Accounting Standards). Legal framework for financial reporting is discussed in the following paragraphs:

a. Financial Reporting Act, 2015

Objective of this act is to bring the financial reporting activities of the public interest organizations to a well defined framework, and to set standards of accounting and auditing profession , and to form a financial reporting council to ensure appropriate compliance, implementation, monitoring of those standards and to perform related other activities and to formulate rules regarding this council. [22] Due to this act some other acts are amended like companies act 1994 Bangladesh chartered accountant ordinance 1973 etc. ITO 1984 has also included some provision in section 35 (3) to bring transparency and accountability in the accounting system of the companies.

Some fresh sections have been introduced in the Bangladesh Chartered Accountant Order 1973(P.O. No. 2 of 1973) by the enactment of Financial Reporting Act, 2015 those are as follows:

8A. The Institute will ensure that members of the institute will comply with the financial reporting standards and auditing standards issued by the Financial Reporting Council (FRC) following the section 40 of the Financial Reporting Act, 2015.

A new sub-clause is included to the article 9(vii), a member has been removed from the membership of the Institute on being found on inquiry not to have complied with the Bangladesh financial reporting standard (BFRS) and Bangladesh Auditing Standards (BAS) issued by the Financial Reporting Council (FRC) pursuant to section 40 of the Financial Reporting Act, 2015.

13A. the purposes of the Institute shall be conditional on the public interest oversight of the FRC in accordance with requirements of the act. It will also take the responsibility to ensure and maintain high accounting professional standards.[23]

[22]Financial Reporting Act 2015. Bangladesh Gazette Sept. 9, 2015 (act no. XVI of 2015).

[23]http://bdlaws.minlaw.gov.bd/bangla_sections_detail.php?id=1169&sections_id=44515 (accessed 3/12/17).

b. Companies Act 1994

Balance Sheet, Statements, Books, etc. (Sec 181 to 191) Inspection and Audit (Sec 210 to 220) and Part 1 and Part 2 of Schedule 11 reveal how books of accounts should be maintained and how they would be inspected and audited. However, u/s 62 of the Financial Reporting Act 2015 (Act No. XVI of 2015) the following changes have been made in the Companies Act 1994, (a) Sec 185 (2), New (2A and 2B), (b) Sec 190 (1), New (1A), (c) Sec 212(4), New 212(5), (d) Sec 220 (3), New 220(4).

These sections are related to compliance of public interest companies with Bangladesh auditing and financial reporting standards, listed auditors and auditor's report. Every company must follow the rules of the Financial Reporting Council.[24]

c. Rule 12 of Securities and Exchange Rules, 1978: *Submission of an annual report by issuers.* Sub-rules 1 to 8 describes elaborately the accounting and auditing procedure to prepare and present financial statements in annual reports. The annual report should include a balance sheet, profit and loss account, and a cash flow statement, and notes to the accounts, which are called financial statements.

d. DSE listing regulations Section 14: Preparation of Financial Statements: The yearly or quarterly financial statements of the issuer of listed securities should be presented in a manner prescribed in the securities and exchange rule 1987, and should follow the Bangladesh financial reporting standard and Bangladesh accounting standards adopted by ICAB, unless otherwise any conditions specified in the mentioned rules related to issue or issuer of securities.[25]

e. Method of accounting u/s 35 of ITO and Section 75(3) (c) ii: Section 35(3) describes the method of accounting for companies as-

Without bias to the earlier sub-sections, every public or private corporation as defined in Companies Act 1913 or Companies Act 1994 shall, with the return of income obligatory to be filed under this law for any income year, supply a copy of the trading account, income statement, and the statement of financial position of that income year

[24] http://bdlaws.minlaw.gov.bd/bangla_sections_detail.php?id=1169&sections_id=44518 (accessed 3/12/17).

[25] Dhaka Stock Exchange (Listing) Regulations, 2015 Dated, the 30th June, 2015(12/7/2015 published in official Gazette).

audited and certified by a chartered accountant[26] to the effect of that the accounts are kept and the statements are prepared and reported, are consistent with the Bangladesh accounting standards(BAS) and the Bangladesh financial reporting standards (BFRS) and are audited in accordance with the Bangladesh Standards of Auditing(BAS).[27]

35(4) (c) Where a corporation has not satisfied with the requirements of subsection (3), the income of the assessee will be calculated on such base and in such manner as the Deputy Commissioner of Taxes may consider suitable.

Sec 75 (c) ii of ITO: in the case of a company, an audited statement of accounts and a calculation sheet clarifying the change between the profit and loss showing in the financial statements and the taxable income presented in the tax return.

f. BAS 12: Income Taxes (Effective on or after 1 January 1999)

BAS 12 recommends the accounting method for income taxes. Here income tax means both income tax from domestic sources as well as from foreign sources and calculated based on taxable income. It also includes withholding taxes by a subsidiary, or other allies of a company on deliveries to the reporting unit.

The unpaid portion of the current year's tax including the current tax of preceding period is treated as a liability. Payment exceeding the amount of current tax is recognized as an asset. Existing tax obligations or assets for the present and prior periods are measured at the sum likely to be paid to or recuperated from the tax authorities, using the tax rates pertinent at that period.

2.6.2 Assessment Procedure of Companies in Bangladesh

Assessment of companies means applying the assessment procedure on the income of companies. The company has a particular meaning in the Income Tax Ordinance. For company tax assessment, the company means a company as defined in the Companies Act 1913 or 1994 or any other organization declared as a company under this ordinance.

[26] Finance Act, 2014 Bangladesh Gazette sept 2014 (Act no. 4 of 2014), 15423.
[27] Finance Act, 2016 Bangladesh Gazette sept 2016 (Act no. 28 of 2016), 11799.

a. Classification of Companies for different tax rates: For rate purposes companies has been classified into five category. This classification has been mentioned in the rate schedule part of the Finance Acts.

a) Bank, Insurance and Financial Institutions

b) Merchant Bank

c) Mobile Phone Operator company

d) Cigarette Manufacturing Company

e) Other Company

Other than those categories there are some other categories mentioned in the rate schedule that is (a) Publicly Traded Company and Non-publicly Traded Company (b) Private Limited Company and Public Limited Company.

b. Residential Status of companies: If the control and management of a company are situated wholly in Bangladesh in the income year, then those companies are called resident company. It may be Bangladeshi company or other than Bangladeshi company.

c. Submission of Return: A company assessee have to provide in the recommended form with such facts and information along with such schedules, statements, accounts, annexures or prescribed documents, signed and verified by the principal officer, escorted by an audited statements of accounts and a calculation sheet clarifying the change between the profit or loss revealed in the statement of accounts and the income or loss revealed in the tax returns. Tax day for the companies is the fifteenth day of the seventh month following the end of the income year. U/s 2(62A) ii., DCT may prolong the return filing time up to two months from the date of tax day s/he may further prolong the date up to another two months with the prior endorsement of Inspecting joint commissioner. The return of the company should be submitted in the prescribed form (Form: IT 11-GHA) u/s 75(1) i, 3 (a), (b) iii, (c) ii &6.

d. Set-off and carry forward of losses: If loss has occurred in any head of income, the company is permitted to write off that loss against its income calculated in other heads of that year. But, loss on speculation business and loss on a capital gain can only be offset against income from those head in the current year or in the years to come. Unabsorbed loss can be carried forward in six consecutive taxation years. Unabsorbed depreciation loss can be carried forward for an indefinite period but loss from the source of exempted income cannot be set off against any source of income.

Finance Act, 2011 announces the submission of withholding tax return by introducing a new section (75A: Return of withholding tax). Every company will file a return of withholding tax collected or deducted with the DCT where he is being assessed. Those return shall be ready in a suggested form and singed and verified by the principal officer of the company. Those returns will be filed half-yearly by the following dates –First return by 31st January of the year and second return is by 31st July.

Provided that the last date for submission of a return is specified in this subsection may be extended by the DCT of taxes up to 15 days from the date so specified.

e. Advance payment of tax: If the last assessed income surpasses Tk. 4 lakhs, those companies have to pay advance income tax in four installments each year. The date of installments is the fifteenth day of September, December, March, and June. The company will be treated as an assessee in default if it fails to pay any installment and penalty will be levied for such nonpayment. If a company guesses that, its income during any financial year will be less than the last measured income, it may submit an estimation of income and pay the advance tax accordingly.

If the amount of advanced tax plus the tax subtracted at sources is less than 75 percent of the tax payable based on regular assessment, simple interest at the rate of 10 percent is leviable on the amount by which the tax so paid and deducted falls short of 75 percent of the assessed tax. Conversely, the company is eligible to take interest at the rate 10 percent on the amount by which the combined sum of advanced tax paid during a financial year surpasses the amount of tax payable based on regular assessment.

f. Applicable tax rates for companies: Imposition of additional tax u/s 16B: If any company hires any foreign employee without earlier approval of the competent authority, such company shall be charged an additional tax at 50% of the tax payable on his income or Tk. 5 lakhs whichever is higher.

16BB: Charge of the additional amount, etc.

16BBB: Charge of the minimum tax

g. The corporate tax rate at a glance: The tax rates for all categories of companies have been rationalized and gradually reduced over the years. In 1972, the corporate income tax rate was 30% on general income and the super-tax rate was 30% on dividend income and capital gains. In 1980-81, the provision for the super-tax was abolished and the companies were divided into three categories and the separate tax rate was declared for each of these categories—(a) industrial undertakings using local raw materials, (b) industrial undertakings using imported raw materials, and (c) other companies. The tax rates were 50%, 55%, and 60% respectively. The rates of all categories of companies were gradually reduced in the following few years. In 1993-94, the corporate taxpayers' categories were revised as – a) publicly traded, b) Non-publicly traded, and c) Others including banks, etc. and rates were determined at 40, 45, and 50 percent respectively. The rates were further reduced in the following years and in 2010-11 these rates were 27.5, 37.5, and 42.5 respectively. Besides, a separate category was declared for Mobile Phone Operator Companies from 2007-8. The tax rate for publicly traded Mobile Phone companies was 35% and for non-publicly traded companies 45% from the financial year 2010-11.

Table: 2.1 Category wise corporate tax rates for the last five successive Assessment years.

Types of companies	Tax rates for AY (in percent %)				
	2019	2018	2017	2016	2015
(A) Bank, Insurance and Financial Institutions(without Merchant Banks)					
Publicly traded	37.5	37.5	40	40	40
Non-publicly traded	40	40	42.5	42.5	42.5
Affiliated in 2013	37.5	37.5	40	40	40
(B) Merchant Bank	37.5	37.5	37.5	37.5	37.5
(C) Cigarette, biri, jorda, gul, and all types of tobacco manufacturing company					

	45	45	45	45	45
D) Mobile Phone Operator Companies Publicly traded (by fulfilling conditions)	40	40	40	40	40
Non-publicly traded	45	45	45	45	45
(E) Companies other than mentioned above Publicly traded	25	25	25	25	25
Non-publicly traded	35	35	35	35	35

Source: Finance acts 2015 to 2019.

h. Tax Rebate: If any unlisted company transfers its minimum 20% share through IPO then a 10% tax rebate facility is applicable for that year.

If any assessee owned any small and cottage industry engaged in the production of goods at the less developed area, it will enjoy tax rebate at 5 or 10 percent upon fulfilling two conditions.

i. Corporate Social Responsibility [SRO 229 dated 4/7/11, SRO 223 dated 27/6/12, SRO 186 dated 1/7/2014]: The maximum allowable limit of spending in the head 'Corporate Social Responsibility (CSR)' is 20 percent of the total income or Tk. 12 crores or the actual amount of CSR whichever is lower. If the actual outlay goes above the maximum limit, the excess amount will not be used to calculate the tax rebate.

The maximum tax rebate limit on CSR expenditure is 10% under some stated conditions. However, no company can charge such CSR expenditure in its manufacturing or income statement. Those companies must submit the supporting documents to the DCT to ascertain whether the payments claimed as CSR is spent. Besides, the money granted or contributed as CSR has to be through the banking channel.

j. Scope of Income: Corporate income should be computed in light of the directions under the following sections:

Section 28: Income from business or occupation;

Section 29: Exclusions from income from a business or occupation;

Section 30: Deduction not allowable in certain conditions;

But for tax rate purposes income is classified as –

a) Capital gains; b) Dividend income; and

c) Income except capital gain and dividend.

2.7 Conclusions

The study has revealed some valuable information about the corporate tax system in Bangladesh in light of the above review of the legal structure, administrative arrangement, accounting framework, and corporate tax assessment procedure. From the legal and organization part of this chapter, it is evident that the tax code is voluminous and cumbersome, and there is no official publication of the complete tax code by the NBR. The language of the tax code is very complex and sometimes ambiguous. The tax authority sometimes over exercises their discretionary power. The Tax Ombudsman Act has been repealed. It implies that the tax authority is reluctant to transparency and accountability. There is a draft direct tax code 2013 but still, it is in the darkness. A Financial Reporting Act was enacted in 2015, but still, there is no formation of the Financial Reporting Council (FRC) under the provision of the Act. It is also evident that some registered companies do not submit their audited financial statements with reports of qualified Chartered Accountants to their regulators due to a lack of proper monitoring and coordination among NBR, ICAB, and RJSC. If the above-stated issues are addressed properly, the legal and administrative situation, as well as tax collection, will be improved to some extent.

Chapter Three

Evolution of Corporate Tax Regime in Bangladesh

3.1 Introduction

The taxation system of every country is designed considering macro economic goals which include redistribution of income, creation of employment, sustainable development, and social justice. The legal and administrative set up of any tax system is always changing due to changes in the socio-economic arena. Tim Cestnick has commented in this issue as ―regular adjustment is the only constant in the domain of tax.[1] There is two types of changes take place time to time in any tax regime— one is done in every fiscal year through Finance Act (FA) and another one is major structural changes or reform in the field of laws, processes and administration. Tax reforms in Bangladesh were done in a piecemeal basis at different times. Some comprehensive approach of tax reforms were also started from 1990s mainly as conditionality of donor agencies. The main objective of those reforms were to improve tax-GDP ratio by extending the tax base. Some reforms were also intended to simplify the administrative procedure and function to help achieve those broad goals.

Bangladesh is yet to produce expected revenue from taxes for funding the public expenditure. The tax-GDP ratio is very low (9 .06 percent in FY 2016-17)[2] in Bangladesh but slowly improving. Corporate income tax is the major source of direct tax revenue and as such, a thorough study on how corporate tax-related issues have been changing over time and what reforms have been initiated in this field is essential as there is hardly any study highlighting the corporate income tax in Bangladesh.

This study has reviewed the reform initiatives of Bangladesh in two parts- one is changes of ITO through finance act every year and another one is review of major reform initiatives in brief highlighting the corporate issues and related administrative reforms. After reviewing those reform initiatives the researcher will try to identify

[1] Tim Cestnick, 101 Tax Secrets for Canadians: Smart Strategies that can Save You Thousands (Canada: John Wiley & Sons Canada Ltd., 2007).

[2] NBR, Annual Report 2016-17 (Dhaka: NBR, IRD, Ministry of Finance, GoB, 2019), 36.

the areas of reform already have done and then validate those reform efforts by explaining some outcomes of tax revenue and lastly to identify some problems and challenges of direct tax system of Bangladesh.

3.2 Philosophy of tax reform

The theory of tax reform has experienced important variations over the years considering the shifting insight of the role of the state i.e. increasing emphasis on the market driven resources allocation system.[3] Conventionally there are three different models of tax reform but in recent years there is also practice of another model combining these three model. A brief description of these models are presented below:

The optimal tax (OT) model: Ahmad Ehtisham and Nicholas Stern are the proponents of this model. This model is theoretically sound but there is some problem with the application as it is some what impractical. It does not properly consider some practical issue like information cost and administrative costs to design an optimal tax model. So to design an optimal tax model this model is less useful.[4]

The Harberger tax model (HT): Theoretically this model is very sound like OT model. This theory put more emphasis on practical experience rather than design issues. This model consider efficiency, distribution weights to design tax policy. It also equally consider the administrative capability at the time of designing tax policy. This model successfully design a best model by accommodating administrative feasibility, political suitability as well as address tax induced distortions. This model suggests that tax reforms should focus mainly on practical experiences rather than economic methodology.[5]

Supply-side tax model (SST): This model highlights the need to decrease the part of the state. They suggested that volume of public expenditure should be reduced by decreasing the direct tax rate. It said that high rates are disincentives to the labor,

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[3] M. Govinda Rao, ‘‘Tax Reform in India: Achievements and Challenges,’’ *Asia-Pacific Development Journal* 7, no. 2 (December 2000).

[4] Ehtisham Ahmad and Nicholas Stern, *Theory and practice of tax reform in developing countries* (Cambridge: Cambridge University press, 1991).

[5] Arnold Harberger, “Principles of taxation applied to developing countries: what have we learned” in Michael Boskin and Charles McLure, Jr., eds., World Tax Reform: Case Studies of Developed and Developing Countries (San Francisco, ICS Press, 1990)25-46.

savings and investment. The proponents of this model put emphasis on broadening tax base and having minimum tax incentives and preferences. It also suggests a lower marginal tax rates.[6]

The recent reform approaches combine elements of all the models discussed above. Present tax reform approach includes equally model and previous reform knowledges and consider governmental, political and information limitations in planning and applying tax reforms. The motivation of this method is to improve the revenue efficacy of the tax system at the same time minimizing comparative price biases. So the best practice model should be a comprehensive, simple, based on experience and transparent.

3.3 Legacy of Tax laws in Bangladesh

The history of income tax law in Bangladesh goes back to the year 1860, when income tax was imposed for the first time in the then British India. It was discontinued and re-imposed several times. It took a final stable shape in the form of the Income tax Act, 1922. However many changes were made in this law during the course of subsequent year. India and Pakistan both inherited this act at the time of the partition of the sub-continent in 1947. Indian government reformed the Income tax Act 1922 with a newly formulated Income tax Act 1961 which is still in effect. Govt. of Pakistan replace the income tax act 1922 by the Income tax Ordinance 1979.

The income tax Act 1922, however continued to be in force in Bangladesh after Bangladesh's liberation in 1971. With the passage of time it was felt that the old act become cumbersome and complex, difficult to understand and implement due to its original structure of 1922 and annual changes made therein since its inception. The need for a simplified, well-defined, easy to understand income tax law was felt for a long time. This task was completed in 1984. The Income tax Act 1922 was thus replaced and the Income tax Ordinance, 1984 was in effect from 1st July, 1984.

[6] M. Govinda Rao, ‘‘Tax Reform in India: Achievements and Challenges,’’ *Asia-Pacific Development Journal* 7, no. 2 (December 2000).

3.4 Tax Reforms in Bangladesh

Tax reform is an ongoing process worldwide. Reasons for the tax reform may be for new economic theory, change in the economic structure, urgency for practical tax administration and learning from the practice. The quarter century between 1965 and 1990, observed a remarkably strong trend of tax reforms. In this time several states in the world have shifted their focus to domestically based taxation like VAT instead of foreign trade taxation. Other than those most of the countries rationalize their personal and corporate tax regime. Those were happened due to necessities arises from wider global economic integration. [7]

In this global reality Bangladesh has took some reforms initiatives— the first was taxation enquiry commission (TEC)1976, which suggested to replace the old act and as a result a new act was adopted in 1984. Then World Bank reform initiative call for broaden the tax base for indirect taxes and as a result introduction of VAT in Bangladesh and after that formation of revenue reform commission (RRC) and many other projects for reforming tax system of Bangladesh. These initiatives were mainly to broaden the tax base, ensuring progressivity and equity, increase the ratio of direct tax, decentralization of tax administration, digitalization and automation of the tax system with a view to increase the tax-GDP ratio and sustainable economic development. Some reform initiatives are still continuing and some are completed.

Tax codes are changed in two way. One is done in every fiscal year through finance acts and another one is overall change in the laws, processes and administration. In the following section the researcher has first reviewed the regular changes done through the finance acts and then reviewed the major tax reform initiatives highlighting the corporate tax issues in brief:

3.4.1 Changes of ITO through FA

The Income Tax Ordinance, 1984, in its original form, contained 23 chapters, 187 sections and seven schedules. Since its enactment, various provisions of the ordinance have been changed almost every year according to the fiscal measures declared in the

[7] Shankar Acharya, ‘‘Thirty Years of Tax Reform in India’’ *Economic and Political Weekly* 40, no. 20 (May 14-20, 2005):2061-2070.

annual budget— some are omitted, some are amended, some are substituted and some are newly inserted. Every year these change are made by Finance Acts/Ordinance and sometimes by Income Tax (Amendment) Act/ Ordinance or Notifications of IRD. The year wise overall structural changes in the Income Tax Ordinance are given below:

Table: 3.1 Fiscal Year wise changes in the ITO 1984, from 2010 to 2018.

Finance Act and Years	Sections Inserted	Sections Omitted	Sections Substituted	Sections Amended	No. of Operating Sections
FA 2018	166 A, 169 A	52 S, 184 BBB	52U, 108A, 113A, 132, 153	2, 16B, 18, 19, 30, 35, 52AA, 52Q, 53F, 54, 56, 58, 75, 82BB, 82C, 94, 102, 107A, 123, 124, 143, 163, 178, 184A, 184BBB	296
FA 2017	133A, 178A, 178B	-	53E, 79, 82BB, 120, 124AA, 184A	2, 19, 19E, 29, 30, 46B, 52, 52AA, 52K, 52R, 56, 58, 65, 73, 73A, 75, 75A, 80, 82, 82A, 82C, 93, 94, 102, 152I, 152Q, 153, 154, 158, 159, 163,173	296
FA 2016	53CC, 57A, 68A, 68B, 185A	16C, 16CCC, 76	16B, 16BB, 16BBB, 51, 52, 52A, 52AA, 52B, 52D, 52JJ, 56, 58, 73, 73A, 75A, 75AA, 82C, 152J	2, 11, 19, 30, 35, 37, 44, 49, 52R, 53BB, 53BBBB, 53E, 53F, 53FF, 62, 74, 75, 80, 82BB, 107I, 117A, 129A, 134, 153, 154, 158, 163, 184A, 184F	293
FA 2015	107HH, 124AA, 129B, 165AA, 165C	53CC, 53O	16B, 52AA, 107F	2, 16CCC, 19, 19BBBBB, 19E, 28, 29, 30, 33, 37, 46B, 46C, 47, 49, 50, 51, 52, 52A, 52B, 52D, 52JJ, 52S, 52U, 53AA, 53E, 53EE, 53F, 53H, 53HH, 53K, 53P, 54S, 56, 57, 82BB, 82C, 84, 124, 127,130, 132, 152I, 153, 184A	291
FA 2014	52JJ, 52T, 52U, 52V, 53HH, 53K, 53O, 107EE, 129A	19D	184A	2, 16CCC, 19, 25, 28, 29, 30, 33, 35, 46B, 46C, 49, 51, 52, 52A, 52D, 52F, 52N, 52S, 53A, 53DDD, 53E, 53F, 53H, 54, 74, 75, 82, 82A, 82BB, 82C, 123, 128, 163, 173, 184AA, 184B, 184C, 184D	288

FA 2013	19BBBBB, 52S, 116A	16E, 53L	-	16CCC, 29, 44, 46B, 46C, 49, 50, 52A, 52AA, 52B, 53BBB, 53E, 53FF, 75, 82C, 116, 124, 160, 164, 184A	280
FA 2012	19E, 53DDD, 52R, New Chapter XIA (107A to 107J =9 sections) 184BBBB	-	-	2, 19, 25, 30, 46B, 46C, 47, 49, 52, 52K, 52N, 53, 53A, 53BB, 53BBBB, 53D, 53F, 53FF, 53H, 53J, 53K, 75, 75A, 82BB, 82C, 93, 94,117, 152II, 152K, 152N, 152O, 153, 178, 184A	279
FA 2011	16CCC, 19D, 46C, 50B, 52P, 52Q, (Chapter XVIIIB, 152F-152S=14,) 165B, 184F	62A, Eighth schedule omitted	-	2, 3, 4, 5, 11, 19, 31, 44, 46B, 49, 52A, 52AA, 52D, 52M, 52N, 53BB, 53BBB, 53BBBB, 53C, 53D, 53E, 53FF, 53H, 53J, 73, 74, 75, 75A, 75B, 75C, 82BB, 82C, 117, 124, 158, 160, 164, 184A, 184B	266
FA 2010	16E, 19C, 53L, 53M, 124A, 165A, 184E	19A, 19AA, 19AAA, 19BBBB, 52L	52C, 184D	2, 4, 4A, 11, 19, 29, 30, 32, 46B, 49, 52AA, 52D, 52F, 52M, 53BB, 53BBB, 53BBBB, 53CC, 53EE, 53FF, 53G, 53GG, 53I, 64,68 73, 75, 82BB, 82C, 94, 117, 122, 184A, 184B	245

Source: Finance Act, 2010-2018.

3.4.1.1 Analysis of Changes through FAs

Sections frequently amended, substituted and inserted and omitted are mentioned with the title to understand the areas of change. Sec 2 related with definitions, Sec 16 impose of income taxes, Sec 16A levy of surcharge, Sec 16B impose of additional tax, Sec 16BB levy of extra amount, Sec 16BBB impose of minimum tax, Sec 16C impose of additional profit tax, Sec 16D impose of dividend distribution tax, Sec 16E Charge of minimum tax, Sec 19 Unexplained investment, etc. considered to be income; Sec 19As, 19Bs, 19C & 19D Exceptional tax treatment in respect of investing in different investment instruments provided and omitted by Finance Acts. Sec 29

Exclusions from income from income head business or occupation, 30 Exclusions not permissible in certain situations, Sec 30A rules for disallowance, Sec 31 capital gain, and Sec 32 calculation of capital gains.

Sec 43 related with calculation of total income, Sec 45 exclusions of income of an industrial undertaking, Sec 46 exclusions of income in a tourist industry, Sec 46A, 46B, 46C exclusions from tax of newly formed undertakings, Sec 50s, 51s, 52s and 53s Deductions from different income heads, Sec 75-80 Return of income and Statements.

Sec 82, 82A, 82BB, 83, 84 Different types of assessment, Sec 82C Minimum Tax, Sec 184s Taxpayers Identification Number (TIN) related sections.

In 2011 a new chapter XVIIIB: alternative dispute resolution including 15 new sections from 152F to 152S and in 2012 XIA: Transfer Pricing including 9 new sections from 107A to 107J are inserted in the tax code to deal with the matters newly arises.

3.4.2 Major Tax Reform initiatives in Bangladesh

Major tax reform initiatives of Bangladesh were the Taxation Enquiry Commission (TEC), World Bank's initiative, RRC, reforms in revenue administration (RIRA) and comprehensive modernization plan (CMP) etc. In this section all these major reform efforts have been reviewed critically highlighting the corporate taxation issues.

3.4.2.1 Taxation Enquiry Commission (TEC), 1976[8]

First taxation reform initiative was taken in the name of Taxation Enquiry Commission (TEC) at 23 October in 1976, headed by the than governor of Bangladesh Bank M. Nurul Islam. Main objective of the commission was to review taxation related laws and study the opinions of the different sections of the tax payers and suggest to an inclusive tax reforms. Major findings and recommendations of the final report of the commission relating to income taxes (here ‘income tax’ means

[8] Ministry of Finance, *Final Report of the Taxation Enquiry Commission* (Dhaka: Ministry of Finance, GoB, April 1979).

combination of both personal and corporate income tax as there is no separate term used as ‘corporate tax’ in our tax statutes) are presented below:

Overall findings and suggestions: Tax base was narrow because the than Bangladesh economy was by and large agro-based and rural, and even the urban trade is predominantly of a retail nature with hardly any refinement of book-keeping and accountancy. Larger industries are mostly in public sectors. A small sector of trade and industry were in the hands of the private corporate sectors which really cares for the usual norms of accounting. For such a state of trade and business predominantly of rural and retail nature with hardly any accounts. Recommendations in this regard was a simple, rational and broad based tax system with a lower rate schedule.

Corporate Tax rate: The rate of corporate tax which was form 60% (30% income tax and 30% super tax). Recommendation of the commission in this regard was merging income tax and super tax for companies into a single tax to be called ‘a corporate tax’. And it recommends the rate of 35%, 55% and 60% according to the income level of the companies.

Exemptions, deductions and allowances for business income: The commission observed that the wide range of exemptions and allowances squeezed the tax base which requires a high marginal tax rates to safeguard adequate tax revenue. In this ground, the commission recommends to set-up broad-based tax system with comparatively lower rate plan but with fewer exemptions and allowances which have a strong relation to savings and capital formation.

Carry forward of losses: Business loss can be carried forward for six successive years against income from any other head. But loss from capital gain head can only be set off against income from capital gains. But unabsorbed depreciation can be carried forward for an unlimited period of time. In Bangladesh there is no rule for carry of losses.

Tax incentives for business: The commission reviewed the existing incentives for investment in Bangladesh as provided in the existing direct tax laws were total exemption of income from tax, deductions of allowable expenses and allowances made from the total income to arrive at the taxable income. The commission considered those incentives as adequate for industrial development of that time and suggested for continuation.

Tax administration: In the administrative ground among others the commission suggested that –a) The tax authorities should be strengthened with more power, status, logistics and remunerations; b) Measures should be taken to create confidence and trust of the tax payers in tax administration through good public relation activities which will reduce tax evasion considerably; c) Adequate inspection and audit should be done to overcome the missing and misplacement practice of files, tax returns, statements, challans etc. d) Constitute special bench in the high court to hear and dispose of the tax reference cases.

3.4.2.2 World Bank's initiative for tax reforms in Bangladesh[9]

The World Bank in late 1980's carried out a reform initiative on the taxation system of Bangladesh and submit final report on December 1989. The final report titled as ‘‘Bangladesh: An Agenda for Tax Reform’’ and contained three volume and seven chapters. Volume three contains the direct taxation including corporate tax. Following are the facts and recommendations regarding corporate tax:

General findings and suggestions: By analyzing macroeconomic scenario and tax pattern, the World Bank mission identified certain vulnerability of the Bangladesh taxation structure. These were— (a) poor tax- GDP ratio (7.9% in 1984-85), (b) the share of direct tax to total tax revenue was also very low (21.8%), (c) ratio of domestically based indirect tax revenue to total indirect tax revenue was also very low (only 35.2%), (d) the tax system was inelastic, highly depends on import taxation and (e) the tax system was inequitable because of enormous tax incentives and exemptions. The WB has suggested to formulate a medium to long term strategy for specific policy changes to overcome those vulnerability of the taxation system.

Basic Rules and Tax Rates: The FY 88 budget reduced company income tax rates across the board to the following: Non-industrial Companies 55 percent, Industrial Companies 45 percent Publicly Traded Companies 40 percent. Intercompany

[9] The World Bank, *Bangladesh: An Agenda for Tax Reforms* (Washington, D.C., World Bank Publications, 1989): 15 and 23-33.

dividends were taxed at a uniform rate of 15 percent. Capital gains were taxed as normal income if the holding period is less than two years; the rates decline as the holding period increases, reaching a minimum rate of 15 percent after 15 years.

Depreciation: Depreciation for tax purposes was based on historical costs and the declining balance method was applicable to most assets. The rates differ across assets, but most are within the range of 15 percent to 30 percent, including 20 percent for buildings and most machinery and 15 percent for furniture and office supplies. For certain vehicles, including inland and ocean-going ships, the straight-line depreciation method with rates varying from 10 percent to 20 percent were used. When the ships are used for transporting passengers and fishing, however, a special rate of depreciation (40 percent) was allowed in the first year.

Carried forward of losses: Business losses may be carried forward but not carried back against taxes already paid. Moreover, foreign business losses incurred by a resident company may be set off against domestic income.

Investment Incentives: Two forms of major investment incentives were available in Bangladesh. The first was a tax holiday and second one was accelerated depreciation allowance (ADA). First one involving full exemption of business income for a specified period (4 to 12 years based on location). The exemption however does not apply to capital gains or intercompany dividends. In case of ADA the rates of first year depreciation allowances for plant, machinery and furniture vary from 80 percent to 100 percent depending on location. These incentives were not granted on a selective basis that is why the commission recommend to conduct a study as a matter of priority to determine the level to which industrialization and regional development can be ascribed to the extremely generous tax incentives currently available and to set them against the considerable revenue losses and possibilities of abuse to which tax holidays given rise.

Tax administration: The WB recommended an integrated package of organizational changes in the administrative structure of NBR, its auxiliary organizations, and field level units both for the direct and indirect taxes. In case of direct taxes WB suggested to establish separate directorate for inspection, training and, survey and investigation. WB also suggests to include taxpayers education under the directorate of survey.

3.4.2.3 Revenue Reform Commission 2002[10]

Considering the emerging changes in economy caused by market economy and changing situation of the macroeconomic indicators the than Bangladesh Government formed a Revenue Reform Commission (RRC) on July 2, 2002. Main findings and recommendations connected to income tax in the final report of the RRC are presented below:

Overall taxation system: The commission suggested to raise tax-GDP ratio at 12.61 percent by FY 2012 at the rate of annual growth of 0.45 percent. Commission also suggested to broaden the tax base and improving the quality of revenue administration and expand the area of compulsory TIN requirements.

Tax rate: Corporate income tax rate on publicly traded companies should be reduced to the level of higher marginal personal income tax rate that is it should be reduced to 25% while the rate of tax on non-publicly traded companies be also reduced to 35% and for banks, insurance companies and financial institutions be reduced to 40%.

Dividend tax: Ten percent dividend distribution tax on companies be abolished as well as dividend income be kept tax-free in the hand of the share holders. The present incentive of 10% tax-rebate for the companies declaring 20% or higher dividends should be retained and an advanced higher rebate be given to the companies declaring even higher dividends.

Investment incentives: The commission suggested to raise the minimum investment threshold at taka ten lakh to qualify for any kind of tax reductions. But, small and cottage industries may provide incentives with other schemes. The commission also suggested to abolish the tax holiday facilities and instead of those, it advised to introduce a uniform reduced rate of tax for the desired industrial sectors. At the same time, accelerated depreciation allowances should also be continued. A viable industrial undertaking may enjoy either accelerated depreciation allowance or uniform reduce rate of tax.

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[10] Ministry of Finance, *Final Report of the Revenue Reform Commission* (Dhaka: IRD, Ministry of Finance 2003).

Exemptions and allowances: The commission suggested to withdraw the tax exemption from the income from house property under any trust or other institutions of religious or charitable purposes. The commission also suggested to retain the exemptions relating to: a) donation to charitable, cultural and socioeconomic activities approved by NBR; b) tax rebate for the companies declaring 20% or more dividend should be continued; and c) existing tax exemption on capital gains should be continued.

Administrative Reforms: The commission suggested to the simplification of the administrative procedures and to guarantee transparency and accountability in the tax management. There should be a strong reward and punishment system. Universal self assessment should be implemented for all cases. In case of companies' assessment, mandatory measure should be made to comply all International Accounting Standards (IAS), as accepted by Institute of Chartered Accountant of Bangladesh (ICAB), in the books of all accounts of companies in Bangladesh.

3.4.2.4 Reforms in Revenue Administration (RIRA)

This reform initiative has taken with a view to rise the voluntary tax compliance and to shape an up-to-date tax system and an efficient tax administration. Specific objectives of this reform initiative are: a) to increase tax revenue through improving efficiency, b) to increase approachability and efficiency of tax administration, c) to reform the official and technical aspects, d) to increase transparency and reliability of the tax services. Other field of reforms are human resources management, improve collection effort, and strengthening audit and enforcement measures, and improving taxpayer services. Under this project LTU and CIC have been initiated.

3.4.2.5 Strategic Development Plan (SDP)

The Government of Bangladesh is devoted to increasing the Tax- GDP ratio by mobilizing domestic resources in order to funding higher public investment in infrastructure and social sectors to help accelerate economic development and poverty reduction.[11] NBR has started various reform projects in the last decade for that goal.

[11] NBR, *Final Report part I* (Dhaka: Modernization and Automation Project, NBR, January 2009): 6-7.

In this process, the Government of Bangladesh has taken a Strategic Development Plan (SDP) in 2005 to visualize better transparency and accountability from both tax officers and taxpayers. Goals of SDP are as follows:

1) Improve revenue collection marks by upgrading of tax management and simplification of processes; 2) Grow a complete and apparent, lawful and supervisory structure; 3) Find some more risky areas and to take measure confidently and fairly with non compliance; 5) Improve and achieve an operational revenue management operated with a well-trained, interested, and specialized work force; 7) Raise and improve a taxpayer's service rendering ethos and increase involvement from civil society; 9) develop an information technology (IT) based tax administration.

3.4.2.6 Modernization and Automation Project (MAP)

The actions within SDP have lead the origination of the modernization and automation Project (MAP) of NBR with the support of different donor agencies. The project commenced in mid 2005 and is planned to be fulfilled within a three and half year period. The objective of the project was to reinforce institutional capability so that it can contribute to better policy management and better functioning of the tax administration. Through this project, NBR would experience considerable changes in its viewpoint and vision within following three to four years. The project intended to strengthen the institutional capacity of the NBR and its departments to collect taxes more efficiently and improve revenue mobilization significantly.

3.4.2.7 Tax Administration Capacity and Taxpayers Service (TACTS)[12]

The Government of Bangladesh, with support from the UK's Department for International Development (DFID), has executed a five year project - Tax Administration Capacity and Taxpayer Services (TACTS). TACTS has enabled the government of Bangladesh to strengthen its capacity to collect tax revenue. It were built on the DIFD-funded Reforms in the Revenue Administration (RIRA) project which established two pilot— Large Taxpayer Units for income tax and VAT in Dhaka as well as a Central Intelligence Cell (CIC) to investigate and prosecute tax evasion. These two initiatives have been central to increased Government revenues.

[12] https://www. devex.com/jobs/tacts-project-manager-192870 (accessed 2/1/18).

TACTS will continue reforms in these areas, and will begin to roll out the strengthened business processes piloted in the LTU's across the country and focus on strengthening taxpayer services to increase taxpayer trust and voluntary compliance.

3.4.2.8 Strengthening Governance Management Project (SGMP)

Strengthening Governance Management Project was started in 2011 with a view to introducing online filing and digitalization of tax return and to establish taxpayer's information and service centers. More specifically issues to be dealt with in this project was— submission of online return; digitalization of the returns submitted offline; networking and connectivity; automation of the office procedure; database management; and report generation. Duration of the project was from July 2011 to December 2015. This project is still continuing. Financer of this project is GoB and Asian Development Bank (ADB).[13]

3.4.2.9 Comprehensive Modernization Plan (CMP)

In the first quarter of 2011, NBR had initiated a comprehensive modernization plan covering all components of NBR reform efforts under one plan. Some goals have been set to achieve within the following five years. Under this plan, NBR has attempted to review and modernize both tax policy and tax administration. Nine strategic areas were selected for reforms within five years. Those were—

1) Reforms in the tax policy; 2) reforms in the business process for better revenue revenue management; 3) reforms in the tax process automation; 4) reforms in the juridical power of NBR; 5) reorganizing NBR according to purpose and scope; 6)reform in the taxpayers service including educating them; Strategic communication and taxpayer outreach, education and assistance; 7) reforms to increase enforcement activities; 8) reforms in the human resource management; and 9) plans for erecting physical infrastructure.[14] There is no major reform initiatives by NBR after this project a new tax code has been drafted under this project but still in the process of reviewing and finalizing.

[13] NBR, *Annual Report 2013-14* (Dhaka: NBR, IRD, Ministry of Finance, 2015): 201.
[14] NBR, *Outline of Modernization Plan* (2011-16), available at www.nbr-bd.org/tender/NBR_Modernization _Plan_Final_draft.pdf (accessed 2/1/18).

3.4.2.10 Major Tax Reform initiatives in Bangladesh at glance

Table: 3.2 Summary of the major tax reform initiatives.

Reform initiatives	Focus	Recommendations
Taxation Enquiry Commission, 1976	To review taxation related laws and survey the opinions of the different segments of the tax payers and suggest to a comprehensive tax reforms.	Broaden tax base, increase Tax- GDP ratio, abolish super tax on companies, strengthen tax authority and to formulate an easer legal framework.
World Bank initiatives for tax reforms in Bangladesh, 1986 (The final report titled Bangladesh: an agenda for Tax Reform)	Identification of the vulnerability of the Bangladesh taxation structure and to formulate medium and long term strategy to strengthen the taxation system.	Increase tax-GDP ratio, increase share of direct tax to total tax, broaden tax base, reduce dependence on import taxation and take integrated package for organizational change.
Revenue Reform Commission, 2002	Improving internal resource mobilization, and structure and management of revenue collection to build a self- reliant economy.	Increase tax-GDP ratio, broaden tax base, improving the quality of revenue administration, reduce corporate tax rate, and abolish tax holiday and dividend distribution tax.
Reforms in Revenue Administration 2002 (RIRA)	To build a contemporary tax system and an operational tax management that enables and advances voluntary compliance with tax laws.	Communication with tax payers, increased professionalism of tax officials, programs to deal with corruption, revising legislation and re-organizing the NBR.
Strategic Development Plan (SDP)	To envisage better transparency and accountability from both tax officers and taxpayers.	Enhance revenue collection goals by modernization of tax management and simplification of procedures. Develop a comprehensive and apparent legal and regulatory system.
Modernization and Automation Project (MAP)	To reinforce official capability so that it can contribute to better policy management and better functioning of the tax administration.	Strengthening the effectiveness of the Large Taxpayers Unit (LTU), strengthening audit and enforcement, introducing modern tax policies and business procedures and processes in income tax and VAT and strengthening statistics and research effort.
Tax Administration's Capacity and Taxpayers Service (TACTS)	Strengthened business processes piloted in the LTU’s across the country and focus on strengthening taxpayer services to increase taxpayer trust and voluntary compliance.	Increased efficiency, professionalism and effectiveness of the Large Taxpayer Units (LTU), Internal audit and inspection in LTU and strengthening CIC.
Strengthening Governance Management Project (SGMP)	Online Filing and Digitalization of tax return and establishment of taxpayer's information and service centers.	Submission of online return and digitalization of return submitted offline. Improve networking and connectivity and automation of the office procedure. Database management and online report generation.

Comprehensive Modernization Plan (CMP)	To encompassing all components of NBR reform efforts under one plan and to review and modernize both tax policy and tax administration.	To reform in tax policy, business process and automation of the tax processes. Restructuring NBR according to function and size. Improve strategic communication and taxpayer outreach, education and assistance

3.5 Major reforms implemented in Income Taxation

After reviewing the reports of different reform initiatives, exploring the finance acts, budget speech and annul reports of NBR. Major reforms implemented during the last four decade in the field of income taxation (specially emphasizing the corporate part) can be categorize in the following manner:

3.5.1 Reforms done in the policy and procedure

Major reforms have done in Bangladesh in the field of income taxation like— introduction of TIN/BIN/UTIN, simplification of self-assessment procedure, widening the scope of withholding tax, emphasizing audit operations, tackling tax evasion by enacting anti avoidance and transfer pricing rule in the ordinance, specific steps for modernization of taxation system, and inclusion of the provision for advance payment of tax, presumptive taxation, provision for minimum tax, charge of additional tax, consideration of TDS as final settlement and agreement for avoiding double taxation with 33 countries.

3.5.2 Reforms done in the field of corporate matters

Tax rate and classification of companies: The tax rate for all category of companies were rationalized and gradually reduced over years. In 1972, income tax rate was at 30% on general income and a super tax at 30% on the dividend income and capital gains were charged for all companies. In 1980-81 the provision for super tax was abolished and the companies are divided into three categories and separate tax rate was declared for each category— a) industrial undertakings using local materials, b) industrial undertakings using imported raw materials and 3) other companies. The tax rates were 50%, 55% and 60% respectively. The rates of all categories of companies were gradually reduced in following few years. In 1993-94 the corporate taxpayer's categories were revised as— a) publicly traded b) non-publicly traded and c) others including banks etc. and rates were determined at 40, 45 and 50 percent respectively. The rate were further reduced in following years and in 2010-11, these rates were 27.5, 37.5 and 42.5 respectively. In addition a separate category was declared for mobile operator from 2007-08. The tax rate for this category was 35% for publicly traded companies and 45% for non-publicly traded company for 2010-11. Another two new category was declared in 2011 and 2012 was cigarette manufacturing company and merchant bank and the rate was 42.5 and 37.5 respectively. The rate was further reduced in 2015 the rate for all the five categories mentioned above were (1) For other companies the rate was 25% for publicly traded and 35% for non-publicly traded companies, (2) for banks and financial institutions the rate was 40% and 42.5% respectively for publicly traded and no-publicly traded companies, (3) for merchant banks it was 37.5%, (4)for cigarette manufacturing companies it was 45% and for (5) for mobile phone operator company, if it was publicly traded then 40% if not it was 45%. This classification and rates are in effect up to 2018-19.

Deductions from business income: Bangladesh has adopted itemized system of deduction, in the listed method, the deductible items are identified in the law, and no subtraction is allowed except a particular expense is exactly included in the list of deductible expenses mentioned in section 29, 30, 30A of ITO 1984. General rule for this deductions are all operating expenses of a company incurred in the income year are permitted as deduction from business income. Some new provisions in this regard are— bad debts are not allowable deduction but some exact provisions for unpaid expenditures in the pertinent income year are permitted as exclusion. Advance payment of expenditure might be conveyed forward and deducted in the pertinent income year, obligations for costs which stay unpaid will be added to income in the fourth year however permitted as exclusion in the time of installment.

Investment incentives: After the independence there was urgency for economic development that is why the than govt. was liberal about deductions and tax exemptions. They have introduced different tax incentives like— initial, special, accelerated depreciation and tax holiday package and provided those without setting any selection criteria. In the 90s the govt. has liberalized the trade regime and introduce VAT and has shifted the focus of revenue mobilization through foreign trade taxation to domestically based indirect taxation in compliance with the prescription by WB and IMF. Government identified the importance of corporate sector and have considered different tax incentives as a means to industrialize the country. Steadily different types of tax incentives are allowed to businesses, those are tax holidays, tax exemptions, tax rebates, accelerated depreciation, and investment and reinvestment allowances. These incentives are provided sector wise and location wise. There is export processing zones, special economic zones and Hi-tech parks and power generation companies in Bangladesh and there is various incentives schemes for them. In Bangladesh tax incentives are given under section 45/46 of ITO 1984 and under different S.R.Os issued by the tax authority.

Accelerated depreciation are used when the entity will not get tax holiday facility. For new industrial units some accumulated depreciation facilities under the 3rd schedule are— new entrepreneurs will get the following facilities on machinery and plant if established between July 2014 and June 2019 as: 50 percent in 1st year, 30 percent in 2nd year and 20 percent in 3rd year. These facilities will not provided for physical infrastructures mentioned in the section 46C. Tax holiday and accelerated depreciation are mutually exclusive [paragraph 7(2) (d) and paragraph 7A (1) (a) and 7B (2) (d) of Third Schedule].

Normal depreciation: Bangladesh use diminishing balance method of depreciation. This method apply the rate on the written down value of asset, for that reason amount of depreciation are diminishing also. Bangladesh has accepted the listed method of depreciation where depreciable properties are listed in the depreciation table. Each asset's economic life and rate are given in the depreciation table for the calculation of depreciation. Normal depreciation allowances is vary asset wise from 2% to 20%.

Set off and Carryforward of losses: Business losses of a company can be set off and carried forward if there is profit in the other heads. Loss arises from capital gain and speculation business will not be write off other than income of this two heads. If Bangladeshi entity make loss in foreign jurisdiction then that will be set off only by the income (earned in the foreign jurisdiction) of that entity. Unabsorbed trading losses and capital losses can only be carried forward for up to six successive years, but there is no provision for carried back. Unabsorbed depreciation loss can be carried forward for an indefinite period of time.

3.5.3 Reforms done in Tax Administration

Reforming Organizational Structure Expansion of tax administration by establishing functional tax unit like LTU and CIC. Strengthening the legal measure to prevent non-compliance, adoption of ADR system, reorganization of tax appellate tribunal and form special bench in the High Court. Establishment of income tax audit cell, establishment of tax information and service center and establishment of data forensic lab to find out and control transfer pricing and tax evasion by local and multinational corporations.

Reforms done in Administrative functions Reduction of discretionary powers of the tax officials, reduction of time limit for administrative activities, discourage appearance of taxpayer’s in the tax offices, initiate service of notice to inform taxpayers and make an easy refund process are some achievements in this field.

Modernization and digitalization of Tax environment Introduction of e-TIN, e-BIN, e-Filing and e-Payment facilities in some tax zone and introduction of online tax calculator are some achievements through reforms.

Reforms to Ensure taxpayers services Publicity and awareness building through publication of taxpayer's instructions/leaflet and arranging some motivational activities. Celebrating national tax day and recognition to the taxpayers by awarding, *‘kaar bahdur’* title to the best tax payers. Introduction of ‘Citizen Charter’; introduction of income tax fair and issuing tax card as recognition of tax payment are some milestone in this field.

3.6 Revenue Implications of Tax Reforms

The tax reforms are to be considered as revenue impartial activities. There is some impact of tax reform on the revenue collection if it is not simultaneously considered the base as well as rate cut and other tax concessions.[15]The share of revenue from

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[15] M. Govinda Rao, ‘‘Tax Reform in India: Achievements and Challenges,’’ *Asia-Pacific Development Journal* 7, no. 2 (December 2000).

direct taxes showed a noteworthy increase as a ratio of GDP in the last decade. It is not certain to what degree the rise in revenue efficiency is due to new pay scale, or for better tax compliance or for lower marginal tax rates and how much for administrative measures. Some charts are presented below to identify the trend of direct taxation in Bangladesh:

3.6.1 Trend in Tax-GDP ratio

In each reform initiative there was a recommendation to rise the Tax- GDP ratio. In RRC report there was a target to raise tax-GDP ratio at 12.61% by FY 2012 at the rate of annual growth of .45%. But in reality the target are far behind from the actual, it is still in single digit. In Comprehensive Modernization Plan (CMP) the set target of Tax-GDP ratio was 13% by 2016. The following chart shows that there is a steady increase in Income tax- GDP ratio but overall ratio is not matching the set target of different reform initiatives.

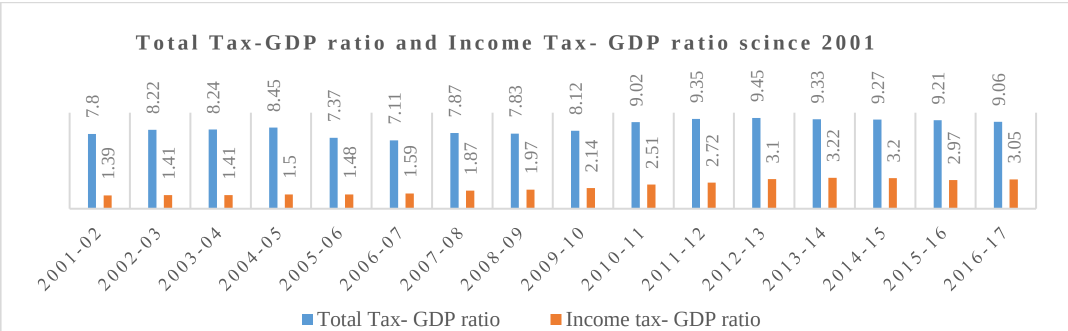

Figure 3.1 Trend in tax-GDP ratio

Source: Data for this graph are collected from NBR's Annual Report 2016-17.

3.6.2 The trend in the direct and indirect tax collection

Like the developed countries, Bangladesh has targeted a progressive tax policy to increase the contribution of direct tax to total tax revenue. In Revenue Vision 2021 target is being set to achieve more than 50% contribution of direct tax’s revenue to total tax revenue by the Fiscal Year (FY) 2020-2021. Following line chart shows the trend of direct and indirect tax collection trend. It shows that direct taxes contribution is increasing over the years and contribution of indirect taxes is decreasing over the years which is matching the set target as well as progressivity of the taxation system.

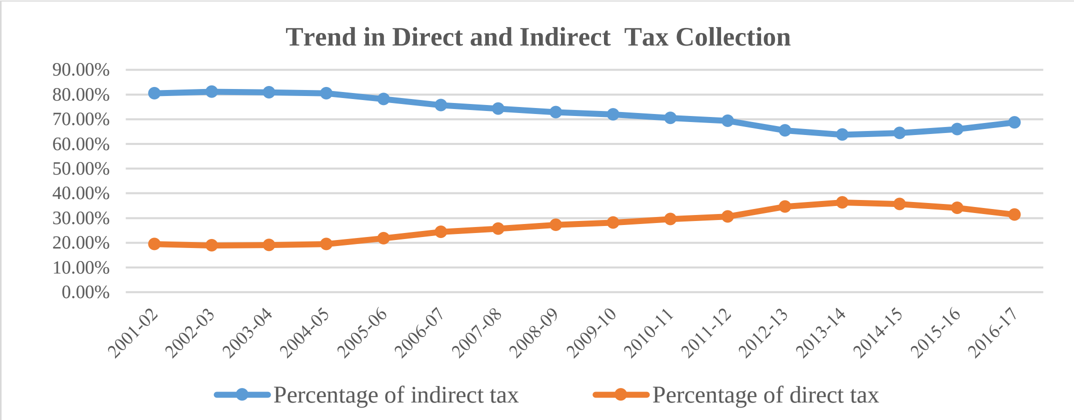

Figure 3.2 Trend in the direct and indirect tax collection
Source: Data for this graph are collected from NBR's Annual Report 2016-17.

3.6.3 The trend in the tax collection from companies and other than companies

Corporate tax plays a vital role in the total tax collection. In the direct tax collection, around sixty per cent (sixteen year average is 58.63%, calculated by the researcher) is contributed by the corporate tax. It is very hard to explain the causes of unusual increase of corporate taxes in 2014 and 2015. The reasons may be attributable to the following events. In FA of 2014, sec 35 of ITO was amended to meet the terms with BAS and BFRS. Introduction of ADR, inclusion of cigarette manufacturing companies and merchant bank in the company category and formulation of transfer pricing rules in 2012 can be the cause for increase of corporate tax among other measures. However in 2015 the corporate tax rate was decreased by 2.5% for publicly and non-publicly traded companies and for banks and financial institutions.

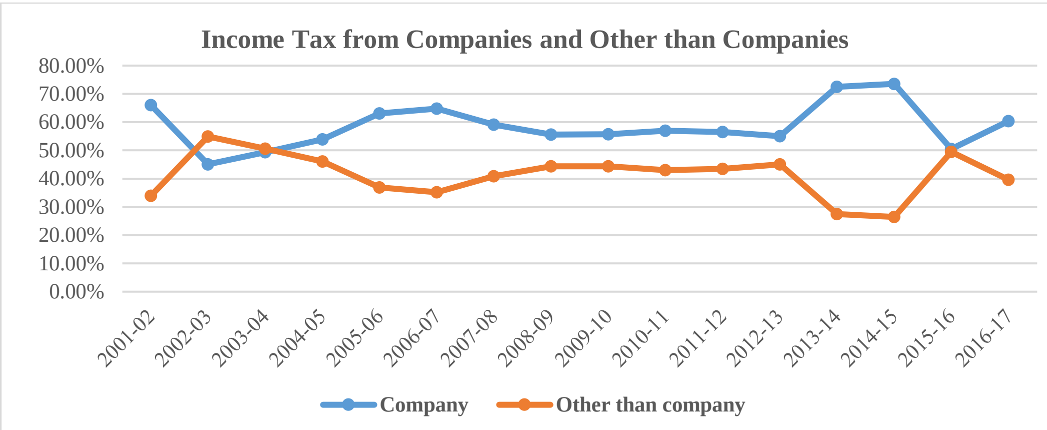

Figure 3.3 Trend in the tax collection from companies and other than companies.
Source: Data for this graph are collected from NBR's Annual Report 2016-17.

3.7 Shortcomings, Challenges and Recommendations

After the independence of Bangladesh there were a number of reform initiatives as already mentioned, a number of disquieting issues still prevailing in the tax system. The tax-GDP ratio is not improving in the planned manner. Although the contribution of income tax has shown noteworthy development, but there is a lot of things to do, to achieve the planned target. Tax incentive schemes are remain ineffective and sometimes used for vested interest group. High indirect to direct tax ratio, heavy dependence on foreign trade taxation, narrow tax base are some common areas of limitations. Other than those, enforcement, audit and collection efforts remain weak which reflect the capacity constraints and resistance from vested interests. Widespread use of court injunction is a major bottleneck for lower tax revenue collection.

Increasing the yield of the tax system remains to be a foremost test in Bangladesh. In the case of corporate income taxes, it is necessary to broaden the tax base by minimizing tax holidays and other tax incentives. Rather than diminishing them, the current governments have increased tax incentives. It may thwart the current tax system by creating a wide gap between the statutory and effective corporate tax rates. Companies might started using extended incentive facilities for minimizing their actual tax burden, on the other hand, government might started applying the minimum tax under the provision of 82C. So one deficiency was pursued to be relieved by another. So a comprehensive rethinking is essential in planning the tax structure of Bangladesh.

Some recent issues regarding corporate tax have to be handle with care for expected revenue collection from this sector. Transfer pricing and anti avoidance rules are recently included in the law, enforce those strictly without prejudice. Thin capitalization rules should be introduce in our tax rule so that no corporation can claim excess interest expense as deduction. Designing appropriate tax incentive structures for selected sectors mentioned as priority in the National Industrial Policies as well as considering regional competition, increase the audit activities to unearth revenue leakage. It will be beneficial to analyze the share of different sectors to corporate tax revenue including public sector enterprises. Employ trained and skilled official to counter the avoidance mechanism by the corporate entity.

3.8 Conclusions

Based on the above discussion it can be concluded that a lot of reform initiatives undertaken in the last four decades, some were comprehensive and some were designed to achieve a particular objective. Of them TEC, World Bank's initiative, RRC and CMP was covering the whole spectrum and others were for the modernization and simplification of tax procedure. After the CMP in 2011 there was not any major reform effort visible in the field of direct taxation. Recently new VAT act has been finalized and put into effect but the draft direct tax code 2013 is still in the darkness. Though some reform already have implemented in some fields but over all outcome of reforms are not satisfactory in terms of tax-GDP ratio and other parameters. In the case of direct taxes the revenue proportion has shown an increasing trend. But the revenues collected are not up to the potential or to the target. To bring equity and progressivity in the direct tax system a lot of things should have to do. The corporate tax rate is reasonable in comparison with other South Asian countries. Inability to bring in all the registered companies with RJSC into the tax net will built pressure to the other companies as well as on tax incentives. Tax incentives should be designed to protect local import substitute industries as well as to attract FDI by considering the regional tax competition. Since last eight years there is no comprehensive reform initiative, so an all inclusive tax reform commission should be formed to address the present limitations and challenges in the tax regime of Bangladesh.

Chapter Four

Tax Incentives and Industrial Development

4.1 Introduction

There are different types of plans and policies to oversee the expected economic development of any country. In Bangladesh there is a planning commission and different ministries to formulate plans and policies to their respective areas. In this chapter the researcher has discussed mainly the national industrial polices and tax incentives to examine the congruence among them. Some other relevant plans and policies by planning commission, ministry of finance, Bangladesh investment development authority (BIDA), and ministry of industry have also been consulted in this chapter. National Industrial Policies (later on will be called NIP) of 2005, 2010 and 2016 have been reviewed and incentives given by this period are also studied to perceive the congruence between them. The above mentioned policy instruments for particular policy areas are not necessarily limited to only their particular areas. Some part of them may join with other areas. For that reason this study has discussed some other plans and policies to get an over all idea about the plan regime of Bangladesh. To get the whole picture of policies and tax incentives in Bangladesh, this study has focused on the background, types and role of plans and polices in brief. After that this study have reviewed the industrial policies covering policy objectives, priority sectors, and suggested tax (direct) incentives for them, shifting of priorities over the years, overall investment environment, and investment outcomes etc. Researcher have also reviewed different aspects of tax incentives covering the theoretical part of tax incentives like—definition of tax incentive, types of tax incentives, justification for tax incentives, characteristics of effective tax incentives and then sort out direct tax incentives currently available in Bangladesh.

In the end part of this chapter researcher has evaluated Bangladesh's tax incentive regime by reviewing the incentive policy, tax structure and will also evaluate Bangladesh's tax (direct) incentives with reference to international best practice mentioned in the characteristics of effective tax incentives. Finally researcher has examined the congruent sectors by observing incentives provided to the sectors and prioritized sectors in the NIP. Congruent sector's growth scenario has also be observed.

4.2 Plans and polices in Bangladesh

With the authority of the article 15 of the constitution of Bangladesh it is committed to give better living standard for the people through planned development. Bangladesh Planning Commission and different ministries and different govt. agencies make plans and policies in their respective field to fulfil the commitment made in the constitution. In present days no ministry can go individually to formulate and execute there plans and policies, coordination is a must. Because each ministry is involved with some other ministries in many aspects. In this part we will mainly discuss the plans and policies by planning commission, ministry of industry and ministry of finance.

4.2.1 Role of different Ministries and Planning Commission

Ministry of Planning and Bangladesh Planning Commission: The Bangladesh planning commission has established in 1972 to fulfill the constitutional commitment of the state. It is a body to work as the secretariat for main economic policy making. It originate and evaluate the development projects and programs by the national economic council (NEC). The NEC is the most powerful economic decision making body headed by the prime minister of Bangladesh. Ministry of planning along with its three divisions also play important role in formulation and implementation of different development plans of Bangladesh.

Ministry of Industry: This ministry play the leading role for formulating new industrial policies and setting other strategies for a sustainable industrial growth of the county. It also monitor and evaluate the performance of the existing industrial policy. This ministry also observe the global industrial trend to identify the best fitting policy for the county. Main role of this ministry is acting as a facilitator to foster the industrial growth of Bangladesh.

Ministry of Finance: This ministry is called the life blood of all other ministries. Because it is involved with the budget of all other ministries. Main responsibility of this ministry is to prepare national budget, formulate taxation and other economic policies of Bangladesh. It comprises of four divisions namely finance, economic relations, internal resources and bank and financial institutions division.

According to the provision of the section 11 of the 'Public money and Budget Management Act 2009'- in each year budget govt. will provide a policy declaration including the fiscal policy of the state. Preparation and execution of tax policy and its implementation are performed by the National Board of Revenue (NBR) under the direct supervision of internal resource division of the ministry of finance.

4.2.2 Types of Plans and polices in Bangladesh

Planning Commission and ministry of planning are mainly responsible for formulating and implementing different development plans of Bangladesh. Fiscal policies are formulated and implemented by the ministry of finance and for planned industrial development NIPs are framed by the ministry of industry by considering the long term development plans adopted by planning commission. There are mainly three category of planning namely short-term, medium-term and long-term plans. Each of the category has been discussed briefly in this section. There is a plenty of plans and policies other than those discussed below. The researcher will not discuss all the plans and policies due to some practical constraints.

4.2.2.1 Long-term Plans

Bangladesh Delta Plan 2100: Bangladesh is one of the biggest deltas of the world built by the confluence of the three huge rivers- the Ganges, the Brahmaputra and the Meghna. Management of this delta from the sustainable development perspective was always a foremost concern for the economic planners. For that reason government of Bangladesh (GoB) has chalked out a long term plan with the following mission statement:

"Ensure long-term water and food security, economic growth and environmental sustainability while effectively reducing vulnerability to natural disasters and building resilience to climate change and

other delta challenges through robust, adaptive and integrated strategies, and equitable water governance".[1]

Perspective Plan of Bangladesh (2010-2021): Bangladesh is a nation full of natural and human resources but yet to realized. 2021 is the fiftieth anniversary of the independence. By identifying the long term development challenges it has chalked out a perspective plan popularly known as 'Vision 2021'. Considering the natural and human resources available it has set the priorities of this plan. Some priorities of this plan are lessening of poverty, make sure broad-based growth, good governance, institution building, forming a sympathetic society, increasing international and regional cooperation, building comprehensive infrastructural facilities and supporting a knowledge based society.

Above mentioned development issues will be addressed through the sixth and seventh five year plan of Bangladesh.[2]

Sustainable Development Goals (SDGs): The Government of Bangladesh has adopted with other UN member countries, the all-inclusive 'Sustainable Development Goals (SDGs)' – broadly mentioned as Agenda 2030 - to fight all types of poverty , disparity and decreasing the adverse impact of climate change on 25 September 2015 at the 70th UN General Assembly. There are 17 goals and 127 indicators based on the latest available indicators suggested by IAEG-SDGs (Inter-agency and Expert Group on SDG Indicators). There is a goal related to sustainable industrial development that is- goal 09: Build strong infrastructure, uphold comprehensive and sustainable industrial development and foster innovation with 8 targets and 12 indicators.[3]

National Sustainable Development Strategy 2010-21 (NSDS): This strategy has been taken to developed strategies to evenly encounter the challenges of economic, social and ecological sustainability of the country. This is also an initiative from the

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[1] The Planning Commission of Bangladesh, *Bangladesh Delta Plan 2100* http://www.plancomm.gov.bd/site/files/fd6c54f6-dfab-4c71-b44a-e983ffd2bdee/-(accessed 22/2/19).

[2] The Planning Commission of Bangladesh, *Perspective Plan of Bangladesh 2010-2021* (page 2) http://www.plancomm.gov.bd/site/files/0424b1cd-bdfe-4d6a-86c6-f6c1bd2fbd2e/-(accessed 21/2/2019).

[3] http://www.plancomm.gov.bd/site/files/9bc534ba-3c1f-4fd0-afcc-1e32b4beaf4a/- (accessed 22/2/19).

government to fulfill some international responsibility regarding sustainable development issues.[4]

4.2.2.2 Mid-term plans

Five year plans: Bangladesh has had about four eras of development struggles at invigorating the economy from its miserable poverty. It started its path of planned development in 1973. First five year plan was started in 1973 as a medium term framework to reconstruct the war-torn economy. Main objectives of this effort was to reduce poverty, generate employment and increase the GDP growth rate. After the first five year plan there was a two year plan from 1978 to 1980. From 1980 there was three consecutive five year plans. There was plan holiday during 1995 to 1997 after the termination of the fourth five year plan. Every five year plan has been directed at a regular annual GDP growth rate more than five percent but attained approximately 4 percent only. Fifth five year plan (1997-2002) was implemented to nurture growth and lessen extreme poverty. Despite huge arrival of foreign aid to increase scanty domestic resources, the intended effort for development were not abled to free the nation from the low growth trap up to fifth five year plan. Objective of sixth five year plan (2011-15) was to speed up growth and reducing poverty, and seventh five year plan now in working for 2016 to 2020 with a view to accelerating growth and empowering citizens. From sixth and seventh five year plan the GDP growth rate is around 6 per cent and showing an increasing trend. In last three years real GDP growth rates were more than seven per cent.

I-PRSP and PRSP: The design of 'poverty reduction strategy (PRS)' in Bangladesh has experienced some fresh and dynamic stages after interim poverty reduction strategy paper (I-PRSP) 2002-2003 was accomplished in 2003. After carefully identifying the gaps in I-PRSP a full-blown PRSP (Poverty Reduction Strategy Paper) was prepared. The title of the 1st PRSP (2005-2007) was ''Bangladesh: Unlocking the Potential, National Strategy for Accelerated Poverty Reduction''.[5] To

[4] The Planning Commission of Bangladesh, *National Sustainable Development Strategy 2010-21 (NSDS)* http://www.plancomm.gov.bd/site/files/16041d4b-5df1-4a86-9612-b1eb2913b0ba/- (accessed 18/2/19).

[5] *BANGLADESH: Unlocking the Potential, National Strategy for Accelerated Poverty Reduction*, https://www. preventionweb. net/files/9305_cr05410.pdf (accessed 22/2/19).

attain the 'millennium development goal' (MDGs) by 2015, government has adopted PRS. The second PRS (2008-11) was adopted after the expiry of 1st PRS.

Industrial Policies: An industrial policy is the strategic endeavor of a nation to guide the industrial sectors sustainable growth so that it can provide expected input to the national economy.[6] The government takes measures with a view to upholding competitiveness and abilities of local companies and promoting physical revolution through industrial policies. Bangladesh National Industrial Policy (NIP) 2005, 2010 and 2016 has been studied in the next segment of this chapter.

4.2.2.3 Short-term plans

Annual Development program (ADP): Annual Development Programme (ADP) is the working paper of a five year plans related to public sector. It is mainly a list of all development schemes of the government started during a fiscal year within the framework of five year plan and TYRIP. This programs are administered by ministry of planning and planning commission of Bangladesh.

Fiscal Policy and Monetary Policy: This policy is a tool of any government through which it adjust the level of expenses and tax rates to guide the economy toward projected direction. Another important policy is monetary policy to regulate the money supply of a country. This two policies are used in appropriate mixture to guide the economic way of the country. Volume of economic action and total demand are affected by the changes made in these two policies.[7] Fiscal policy of Bangladesh is run by the ministry of finance and monetary policy is by the Bangladesh Bank.

4.3 Industrial Policies in Bangladesh

An industrial policy is a policy document by a state to guide and encourage the expected industrial sectors to grow and flourish to contribute optimum GDP contribution to the nation. Due to proactive economic development initiatives undertaken by the governments during the past decade, Bangladesh has been

[6] Otis L. Graham, *Losing Time: The Industrial Policy Debate* (Cambridge, MA: Harvard University Press, 1994), 58.
[7] O'Sullivan, Arthur, Sheffrin, Steven M., *Economics: Principles in Action.* (Upper Saddle River, New Jersey 07458: Pearson Prentice Hall, 2003), 387.

experiencing a major paradigm shift towards industrialization. The country is poised to host private investment of any intensity both from local and foreign sources.

In this part of this chapter we will discuss and review of NIPs of Bangladesh with special attention to private sector industrial enterprises. To be more specific we will focus mainly on local investment and tax (direct) incentives suggested by the NIPs. As we know that local investment projects is the principal constituent (80%-85%) in the total investment basket of Bangladesh.[8] How priorities in the NIPs are shifted over time will also be observed.

4.3.1 National Industrial Policy (NIP) 2005[9]

In Bangladesh private sector is playing a vital role in the process of industrialization of the country. The policy of the government have been shifted to privatization regarding the ownership and management of industrial enterprises due to the influence of free market economy. Besides this, government have also taken many constructive changes for healthy growth and development of the industrial sector. In this case ministry of industry are playing the role of facilitator.

Objectives of NIP 2005

Main objective of the national industrial policy 2005 is to establish planned industries bearing in mind the actual domestic demand, vision for exporting commodities overseas, and dispiriting unintended industrial development by considering the past experience. Some other policy objectives are described as follows:

Shifting the policy to acknowledge private enterprises as the main driving force of economic development and enhance the government’s facilitating role in creating an encouraging environment so as to enhance the flow of private investments in the country’s industrialization process. Speed up denationalization process. Manufacture quality product. Increase industrial sectors contribution to GDP around 30-35% and employ around 35% of the total work force. Expand cottage industries and SME sectors. Expand and develop agro-based industries. Support female businesspersons

[8] Ministry of Finance, *Bangladesh Economic Review* (Dhaka: Ministry of Finance, 2005), 94.
[9] Ministry of Industry, *Industrial policy 2005* (Dhaka: Ministry of Industry, 2005).

with needed backing in founding industries in different sectors. Offer all necessary support for producing environment-friendly product.

Declared thrust sectors/ priority sectors in NIP 2005

Agro based industry, fabrics manufacturing, jute product and jute-mixed product, readymade clothing business, ICT product including software making, electronics product, lite engineering containing cars, pharmacological product, tannery and tannery product, porcelains, fashionable costly RMG, non-natural flower goods, freezing foodstuff, combined shrimp farming, natural flower farming, physical structure, Jewelry and diamond cutting and polishing, petrochemicals, silk industry, stuffed toys, tourist industry, rudimentary substances/raw ingredients used in industries, color and substances used in fabrics sector, ocular frame, fixtures, baggage related products, cosmetics and toiletries, CR coil, handcrafts, writing materials, herbal medications, profitable plantation and gardening.

Tax (direct) incentives suggested in NIP 2005

There are many types of incentives suggested in the NIPs related with VAT, duties and income tax and some other financial and non-financial incentives. We mainly focus on the income tax related incentives suggested for manufacturing sector under ITO 1984. Suggested income tax incentives are as follows:

Tax holiday facility will be delivered on the basis of location of industries. Minimum two fifth of the exempted income should be be reinvested.

Industrial units will get accelerated depreciation facility at the rate of 100 percent in the first year. In addition to this, tax holiday receiving industrial units will get 80 percent depreciation in the first year and 20 percent in the second year for their extended unit’s plants and machinery.

Reduced rate might be considered if the tax holiday benefit are not provided to the newly established industries. Industries formed between July 2002 and June 2005 will get a reduced rate of 20 percent as an alternative to tax holiday. Industrial units involved in the manufacture of RMG sector will get the benefit of reduced rate at 10 per cent, jute goods 15 percent, and textile industries will also get 15 percent on their export incomes till June 2006.

So there is only three type of tax (direct) incentives suggested in the NIP 2005 namely tax holiday, and alternative to tax holiday facilities that is accelerated depreciation and reduced tax rate for some industries.

4.3.2 National Industrial Policy (NIP) 2010[10]

To celebrate the golden jubilee of the independence of Bangladesh in the year 2021 and to make a middle income country by that year govt. has set a vision 2021. In this context govt. has set a target to increase the industrial sectors contribution to GDP from existing 28% to 40% and increase the employment of labor force from existing 16% to 25% in this sector. To achieve this target govt. will play the role of facilitator and will take coordinated effort for the balanced growth of the sectors. This policy will play as a medium and long term policy instrument for the industrial sector and will also evaluate and monitor the performance of this policy objectives.

Objectives of NIP 2010

Key objective of this policy is to deliver a policy support and arrange an institutional structure to achieve the expected industrial growth, create more employment so as to improve the living standard of the people.

Priority to be given to the private sectors to grow and flourish freely. Attract the private investment in the sectors with comparative advantage and rationalize the incentive structure for them and also rationalize the incentive structure for FDI.

Encourage women to engage in the mainstream industrialization process. Encourage labor intensive industries, cottage industries and SME sector. Special arrangement for jute industry to make it profitable. Develop and diversify export oriented industries. Comply with international norms in the field of environment, health, safety and working environment.

[10] Ministry of Industry, *National Industrial policy 2010* (Dhaka: Ministry of Industry, 2010).

Declared thrust sectors/ priority sectors in NIP 2010

1. Agriculture and agro product/food processing industry, 2. Export of human resources, 3. Ship building and eco-friendly ship breaking industry, 4. Renewable power (solar power, windmill), 5. Tourism industry, 6. Basic chemical, color and chemical goods, 7. ICT goods and ICT-based service, 8. Ready Made Garment (special priority will be given to high value added RMG enterprises), 9. Dynamic Pharmaceutical element industry and Radio Pharmaceutical industry, 10. Herbal Medicine industry, 11. Radioactive ray (radiation) application industry (for example, improve the quality of biodegradable polymer / preserve food grains/ medical equipment sterilization industry), 12. Polymer production industry, 13. Jute goods, 14. Leather and leather goods, 15. Health care, 16. Car, 17. Plastic industry, 18. Fittings, 19. Handicrafts, 20. Energy efficient appliances/ electronic equipment making industry/electronic material development, 21. Frozen fish industry, 22. Tea industry, 23. Home textile 24. Ceramic (ceramic utensils, ceramic tiles and sanitary goods), 25. Tissue joining and biotechnology, 26. Jewelry, 27. Toy, 28. Container Service, 29. Warehouse, 30. New innovation and import substitute industry, 31. Cosmetics and toiletry, 32. Lite engineering industry.

Tax (direct) incentives suggested in NIP 2010

To attract investment in industrial sectors and to increase investment following incentives and facilities will be given. In course of time Government may change those incentives and rebates. From NIP 2010 suggested incentives are categorize into three section as 1. Tax holiday and depreciation 2. Incentives for non resident Bangladeshi and 3. Other incentives.

Tax Holiday and Depreciation

1. In future there will be extension/ update of the already tax benefit receiving a) industries, b) infrastructures, and c) projects/units of tourism industries in addition to those, import substituted industries will be included in this facilities under Income Tax Ordinance 1984.

2. Area-wise tax holiday facilities will continue for stipulated time period; industrial units start commercial production by 30/06/2011 will get following tax holiday benefits:

a) Other than three hill districts, industries of Dhaka and Chittagong division will get 100% tax holiday on first two years income and 50% tax holiday on next two years income and 25% tax holiday on last year's (5th year) income.

b) Industries established in Rajshahi, Khulna, Barisal, Rangpur division and in three hill districts will get tax holiday for first three years 100 percent, for following three years 50 percent for last year it is 25 percent.

3. Accelerated depreciation will continue.

Incentives for Non-resident Bangladeshi (NRB)

1. Investment by NRBs will be treated as direct foreign investment and it is fully repatriable among other incentives to NRBs.

Other Incentives

1. Measures may be taken to avoid double taxation in light of agreement for avoiding double taxation with concerned country in case of fees received by any foreign associate, firm, company, and expert for royalty, technical knowhow etc.

2. Govt. may consider tax exemption if necessary, to the other parties even if there is no agreement for avoiding double taxation.

3. Private sector power generation companies starting production by the month of June 2012 will get tax exemption on their profit up to 15 year starting from the date of manufacture. Besides this other inducements will be given to the private sector entrepreneurs (IPP, SIPP) under private sector energy generating policy of Bangladesh. Necessary adjustments will be done if there is any change in the Power Policy.

4. Special tax rebate will be given to the capital gain ascending from transfer of share by stock exchange listed companies.

5. Special benefit and risk fund facility will be given to the export oriented industries of priority sectors.

6. Assist of small, medium, and cottage industries, protect loom industries, establish silk *polli* like *beneroshi* and *jamdani polli* and special incentives will also given to blacksmiths, kumar, pottery industry ,bamboo industry, bet, brass, *kansa* and *pati* industries.

7. Special incentives will be given to environment friendly industries, industries which use energy from biomass, solar energy and wind mill, and industries which have own power generation system will be given special incentives within the existing legal framework.

8. Incentives will be given to import substitute industries which have internal demand, decrease import dependency and produce quality product in a cost effective way.

9. Special arrangements will be given to maintain quota to the women entrepreneurs in the EPZ after verifying the viability of their proposals.

10. There will be no discrimination in imposing duty and taxes for homogeneous industries established by any local or foreign investors or industries established in public or private sector.

4.3.3 National Industrial Policy (NIP) 2016[11]

Vision of this policy is to enhance the role of industrial sectors to GDP, expedite industrial development and create huge employment for expected development of the country. To celebrate the golden jubilee of the independence of Bangladesh in the year 2021 and to make a middle income country by that year, govt. has set a vision 2021. In this context govt. has set a target to increase the industrial sectors contribution to GDP from existing 29% to 35% and increase the employment of labor force from existing 18% to 25% in this sector.

In NIP 2016 definition and classification of industries are widened and there is an elaborate program schedule to implement and monitor the performance of NIP

[11] Ministry of Industry, *National Industrial policy 2016* (Dhaka: Ministry of Industry, 2016).

2016. If any confusion arise regarding definition and classification of industry, NIP 2016 will prevail.

Objectives of NIP 2016

There is ten stated objectives in the NIP 2016. Some are new and some are consistent with the NIP 2010. Those are as follows:

Govt. will play the role of facilitator to achieve the expected industrial (both manufacturing and service) growth and create a dynamic private sector to increase productivity and competence.

Protecting local industries, developing and flourishing them to create local entrepreneurship. Small, cottage and medium industries will be the main driving force of this sector. Establish and develop specialized industries by utilizing locally produced natural, agricultural, marine and forestry asset. Increase industrial production's quality and increase the marketing capacity.

Establish export oriented industries and diversify them. Ensure ecofriendly sustainable industrial development. Building capacity to participate in the international competition by developing IT and participating in regional and international network. Encourage women entrepreneurs in the process of industrialization. Give legal and infrastructural support for attracting FDI.

Declared thrust sectors/ priority sectors in NIP 2016

High priority sectors:

1. Agro product/food processing and agricultural equipment producing industry, 2. Ready Made Garment 3. ICT/ software industry 4. Pharmaceutical industry 5. Leather and leather goods, 6. Lite engineering industry 7. Jute goods.

Priority sectors:

1 Plastic industry 2. Foreign employment 3. Shipbuilding industry 4. Environment friendly ship breaking industry 5. Tourism industry 6. Frozen fish industry 7. Home textile goods 8. Renewable power (solar power, windmill), 9. Active Pharmaceutical ingredient industry and Radio Pharmaceutical industry, 10. Herbal Medicine industry, 11. Radioactive ray (radiation) application industry (for example, improve

the quality of biodegradable polymer / preserve food grains/ medical equipment sterilization industry), 12. Polymer production industry, 13. Hospital and clinic, 14. Automobile making and repair, 15. Handicrafts, 16. Energy efficient appliances (LED, CFL bulb)/ electronic equipment making industry/electronic material development, 17. Tea industry, 18. Seed industry 19. Jewelry 20. Toy 21. Cosmetics and toiletry 22. Agor industry 23. Furniture 24. Cement.

Tax (direct) incentives suggested in NIP 2016

Tax holiday and depreciation:

1. Separate incentive scheme will be given to high priority and priority sectors to expedite the sustainable industrial growth. In this regard NBR, BIDA, BB and concerned govt. agencies will take necessary measure.

2. Tax holiday and accelerated depreciation will continue under the provisions of income tax laws.

3. For priority sectors special incentives and financial assistance like duty/tax exemption, avoidance of double taxation and taxed at a reduce rate will be given under the existing provision of the income tax ordinance, customs act and VAT act. For such benefits high priority sectors will be given preference.

Incentives for NRBs:

1. NRB investors will get same benefit like foreign investors.

2. Full repatriation of invested capital and earned dividend will continue and reinvestment of profit will be treated as new investment.

3. Quota facility for IPO will be continued.

4. Giving of CIP status for NRB will continue.

5. A mutual fund for NRB will be formed with ICB.

Other incentives:

1. Measures may be taken to avoid double taxation in light of agreement for avoiding double taxation with concerned country in case of fees taken by any overseas associate, firm, company, and expert for royalty, technical knowhow etc.

2. Govt. may consider tax exemption if necessary, to the other parties even if there is no agreement for avoiding double taxation.

3. There will be no discrimination in imposing duty and taxes for homogeneous industries established by any local or foreign investors or industries established in public or private sector.

4. To expedite the development of local industry 'President's industrial development prize' will be given each year for extraordinary contribution to this sector.

4.3.4 Changing Pattern of NIPs: 2005 to 2016

By reviewing the above mentioned three NIPs of Bangladesh the researcher find out some shifting pattern of NIPs in the field of objectives, priority sectors and suggested tax incentives as follows:

In the objectives:

In NIP 2005 main features were, realize the importance of private sectors as the main driving force of the economy. Set the role of govt. as the facilitator not as the controller. One common objectives among others is augment industrial sectors contribution to GDP. Recognize female entrepreneurs in the course of development.

Some new feature were included in NIP 2010 like— priority to be given to labor intensive industries to create more employment. Attract private investment in the sectors with comparative advantage and rationalize incentive structure for both local and foreign investment. Diversify export oriented industries and comply with international norms for better competition in the international level.

NIP 2016 is more inclusive than previous two, there is a programme schedule to evaluate and monitor the performance of NIP 2016. Priority sectors are classified into two one is high priority sectors and another is priority sectors. Priority on technology oriented industry, physical infrastructure development, power generation and on sustainable industrial development were dominant among other common objectives.

Objectives in the NIPs were consistent over the time. Some objectives are expanded and some are newly incorporated in the NIPs to fulfill the need of the expected industrial development.

In the priority sectors

There is 33 priority sectors in NIP 2005 and 32 in 2010 and there was no sub divisions in the priority but in the NIP 2016 there is 7 high priority and 24 priority sectors. Though some sectors has been included in the priority and some are eliminated from the priority but priority sectors were almost consistent over the period. The researcher consider the NIP 2005 as the baseline for comparison in this study. By analyzing the priority sectors of this three NIPs the researcher observe the following shifting pattern:

Common in all the three NIPs: Agro-based industries (food, equipment), RMG, Pharmaceutical, Home textile goods, Jute and jute goods, ICT and software industry, Leather and leather goods, Ceramics, Lite engineering, Electronics, Tourism, Handicrafts, Frozen fish, Cosmetics and toiletries, Tea industry, Furniture, Jewelry, Toy, Herbal medicine, Automobile making and repairing.

Industries newly included in the priority in 2010 and 2016: Plastic industry, Foreign employment, Shipbuilding industry, Environment friendly ship breaking industry, Active Pharmaceutical ingredient industry and Radio Pharmaceutical industry, Radioactive ray (radiation) application industry (for example, improve the quality of biodegradable polymer / preserve food grains/ medical equipment sterilization industry), Polymer production industry, Renewable power (solar power, windmill), Seed industry Agor industry, Cement Energy efficient appliances

Industries eliminated from the priority by NIP 2016: Non-natural flower production, Combined shrimp farming, Infrastructure, Oil and gas, Silkworm and silk industry, Basic chemicals/raw materials used in industries, Color and substances used in cloths industry, Ophthalmic frame, Luggage fashion-based goods, CR coil, Writing materials, Commercial plantation, Horticulture, Hospital and clinic, Skin implanting and biotechnology, container service, storage facility, new innovation and import supernumerary industry.

In the suggested tax incentives

NIP 2005 suggested some tax incentives like—tax holiday facilities based on the location of industries and condition for reinvestment. Accelerated depreciation were available for tax holiday availing and non-tax holiday availing units. As an alternative to tax holiday reduced rate for some sectors like RMG, jute goods production and textile industries were available.

NIP 2010 first categorize the incentives in three category as 1) tax holiday and depreciation, 2) incentives for NRBs and 3) other incentives. Emphasize on location based tax holiday facility. Tax holiday facility for private sector energy generating companies for 15 years from the date of commercial operation and continuation and expansion of some already given tax incentives.

In NIP 2016 there is recommendation for special incentives for the high priority sectors. Other tax incentives like tax holiday, accelerated depreciation and reduced rate were as 2010 under the ITO 1984.

4.4 Different Aspects of Tax Incentives

Generally tax incentives are used to attract both local and foreign investment among other objectives. Effectiveness of the tax incentives are depends on many factors like cost effectiveness, design issues, execution and monitoring capacity of that jurisdiction etc.[12] Generally tax incentives are economic actions such as tax deductions, exclusions or exemptions announced by government to diminish the tax liability of a company when it invests in a particular project.

United Nations Conference on Trade and Development (UNCTAD) in 2003 defines an incentive as ‘any quantifiable benefit rendered to particular initiatives or groups of initiatives by or at the direction of the government’. The purport of this definition is that, a sharp decrease in corporate tax rate is not an inducement scheme

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[12]Alex Easson and Eric M. Zolt. *‘‘Tax incentives’’* Paper prepared for World Bank course on practical issues of tax policy in developing countries: (28 April – 1 May, 2003): 34.
http://siteresources.worldbank.org/INTTPA/Resources/EassonZoltPaper.pdf, (accessed 6/2/19).

even though it could lead to rise corporate investment. Dropping corporate taxes to companies locating in a particular region, or producing particular goods or services, is an incentive scheme.[13] Perhaps the most complete definition of tax incentives, as delivered by Zee, Stotsky and Ley in 2002 speaks as follows: Tax incentives are-

"Special tax provisions granted to qualified investment projects that has the effect of lowering the effective tax burden on those projects, relative to the effective tax burden that would be borne by the investors in the absence of the special tax provision".

In summary, tax incentives can be described as approaches used by government to lessen the tax load of companies by means of a deduction, exclusion or exemption from a tax liability, in order to persuade them to invest in particular projects or sectors for a certain period.

4.4.1 Justification for Tax Incentives

Different categories of tax inducements are offered to entice additional investment by most of the countries. If the key objective is to rise domestic and foreign investment it is suggested to use an investor welcoming standard tax system. But tax incentives are grant not only for additional investment but also for other economic reasons. To get incentives, investing entity have to fulfill some criteria set by the tax authority.

Most of the times justification for tax incentives are mentioned as 'market failure' regarding the investment decision. Due to market failure too much or too small investment may occur. To overcome this problem government intervene with some special tax incentives scheme.[14] Some form of market failure mentioned in the tax incentive literature are follows:

Externalities: It is the unperceived result of some economic decision. This may be positive or negative. Some sectors have higher positive externalities and some have negative externalities. Where negative externalities occur there should be more tax

[13] Danie Jordaan. *''An overview of incentives theory and practice: A focus on the agro-processing industry in South Africa.''* Directorate of Agro-processing Support, Pretoria (2012):i.

[14] Paul Barbour, *"An Assessment of South Africa's Investment Incentive Regime with a Focus on the Manufacturing Sector",* ESAU Working Paper 14, (2005), Overseas Development Institute, London.

burden and where positive externalities occur there should be more subsidy to keep it going. Example of positive externalities may be ICT sector and example of negative externalities may be tannery sector. So there should be some scheme to overcome those externalities.

Infant industry: Market failure may occur in case of infant industries. Infant industries are not in the competitive edge because they are learning by doing and it take some time to be a profitable one other than that equity markets are weak in developing countries and sometimes unwilling to finance new companies. So tax incentives are necessary to overcome start up barriers as well as make those companies profitable.

Information asymmetries and uncertainty: Capital suppliers and users are sometimes hurt from getting flawless information. For that reason some projects are not financed or undertaken by the the investors though these projects have positive net present value. Another dimension of information asymmetry is risk related information of particular sectors are not perfect and there is also some disadvantage of the first mover to certain new sector or location. So there is some inherent uncertainties regarding investment and financing. To remove those barriers some incentive scheme are necessary to adopt.

Besides market failures, some other justification for tax incentives are follows:

Equity: Sometimes it also considered as market failure. Market forces determine the allocation of capital to the lucrative sectors or places from where it can get expected return. There is some remote location where it is costlier to carry inputs and outputs and also to attract labor. In such cases equity are not ensured by the capital allocation systems. So government should intervene with some incentives to bring equity to overcome those situations.

Political Economy: Politicians are elected to represent a particular geographic location. Sometimes they make justification for incentives for their region even if there is no urgency for incentives. So there is question of support politically connected interest group without any economic justification.

4.4.2 Forms of tax incentives

Choosing the forms of tax incentives mainly depend on which type of investments are desirable for that economy. For that firstly select those type of investments and then carefully design the incentive scheme. Different type of incentive forms are mentioned in the tax incentives literature to entice local and foreign investment. Tax incentives can be classified into a number of categories in the following names:[15]

Different methods of tax inducements are available. some commonly used tax incentives are: (1) lower tax rate; (2) tax holidays ; (3) tax allowance for investments; (4) tax credit accounts; (5) capital allowance for assets in higher rate; (6) encouraging deduction guidelines for particular types of expenses; (7) benefit for reinvested incomes; (8) reduce personal income tax for managers and staffs; (9) reductions in indirect taxes; (10) reduced import taxes and customs duties; (11) property tax reductions; (12) creation of special ‘‘zones.’’[16] For the purpose of this chapter the researcher has discussed only tax (direct) incentives under the provisions of ITO 1984.

4.4.3 Benefits and drawbacks of tax incentives

Advantages: Some advantages of tax incentives are- a) it is relatively easier to provide; b) there is no direct fund out lay; c) have some discretion to implement; d) enhance capital formation; e) promote technological advancement; and f) ensure equity etc.

Disadvantages: If tax incentives are not properly designed and implemented it may be costly for the economy. Some costs involved with the tax incentives are revenue cost, resource allocation cost, cost related with corruption and transparency and cost involve with monitoring and administering those schemes. So it is suggested to do a proper cost benefit analysis to adopt or retain an incentive scheme.[17]

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[15] David Holland and Richard J. Vann, ‘‘Income Tax Incentives for Investment.’’ in *Tax Law Design and Drafting*, vol. 2, ed. Victor Thuronyi. (International Monetary Fund: 1998.).

[16] Alex Easson and Eric M. Zolt. ‘‘Tax incentives’’ Paper prepared for World Bank course on practical issues of tax policy in developing countries: (28 April – 1 May, 2003): 18-19 http://siteresources.worldbank.org/INTTPA/Resources/EassonZoltPaper.pdf (accessed 6/2/19).

[17] Ibid.

4.4.4 Features of Effective Tax Incentives

Which incentive will work depends on many aspects like— conditions of the economy, the capability of the tax management, the sort of investment being targeted and the financial restrictions of the government. Barbour in 2005 describe some broad based general features surrounding the incentive policy regarding the efficacy of the incentive schemes.[18] Some features of effective tax incentives are mentioned below:

- It encourages all type of investment in the preferred industry segment or place;
- It is with least possible leak and least possible opportunity for tax planning;
- It is transparent, easily understandable, and having legal base;
- It is almost certain for a stipulated time period;
- Design and implementation by single agency;
- Cost effective for both government and companies;
- Mechanism for evaluation and monitoring;
- Having sunset clause; and
- Is non-discretionary with a set of stated criteria.

4.5 Tax (direct) incentives in Bangladesh

Focus of this chapter is on income tax incentives provided under the authority of Income Tax Ordinance 1984 for the manufacturing sector of Bangladesh. There is many other indirect tax incentives provided under the authority of customs act and VAT act and there is also some other direct financial incentives provided through fiscal measures in Bangladesh. There is a chapter in the ITO regarding exemption and allowances and there is seven section starting from sec 44, 45, 46, 46A, 46B, 46C and sec 47 (up to July 2018), S.R.O.s issued by income tax authority time to time is the legal base for providing tax incentives. Other than those part A and B of the 6th

[18] Paul Barbour, "An Assessment of South Africa's Investment Incentive Regime with a Focus on the Manufacturing Sector", *ESAU Working Paper* 14, (2005), Overseas Development Institute, London.

schedule, provisions for accelerated depreciation in the 3rd schedule constitute the direct tax incentive structure of Bangladesh.

4.5.1 The Statutory tax rate for the publicly traded companies

There are two methods to tax the foreign source income of a corporation. These two are credit method and exemption method. In the credit method they will get tax credit in the domestic country for the tax paid in outside countries and in the exemption method only local income are taxable whereas foreign income are exempted from total income.[19] Bangladeshi companies are liable to pay tax on income from all sources including foreign source income after deducting all allowable deductions under the provision of ITO and tax credit is provided for tax paid in foreign jurisdiction. Companies also pay tax on capital gains and dividend payable under the provision of ITO. Following are the general tax rate (according to FA 2018) applicable for business income, capital gains and dividend:

4.5.1.1 Statutory tax rate for business income

Corporate tax rate for publicly traded companies i.e. companies listed with any stock exchange in Bangladesh. Following tax rates are for the companies those belongs to the other category mentioned in the rate schedule of each years Finance acts.													
2018-19	2017-18	2016-17	2015-16	14-2015	2013-14	2012-13	2011-12	2010-11	2009-10	2008-9	2007-8	2006-7	2005-6
25%	25%	25	25	27.5	27.5	27.5	27.5	27.5	27.5	30	30	30	30

Source: Finance Act (FA) and Finance Order (FO) 2005 to 2018.

4.5.1.2 Tax rate for Capital gains

According to finance act 2018, for handover of stocks and shares of listed companies excluding Govt. securities: for resident companies it is 10 percent and for non-resident companies, capital gains tax is 15 percent for transfer of share of non listed companies.

4.5.1.3 Tax rate for Dividend

According to finance act 2018, a dividend paying company will hold back tax at the rate of 20 percent on dividend due to a corporation and at 10 percent (if he/she has

[19]Alex Easson and Eric M. Zolt. ‘‘Tax incentives’’ Paper prepared for World Bank course on practical issues of tax policy in developing countries: (28 April – 1 May, 2003): 7. http://siteresources.worldbank.org/INTTPA/Resources/EassonZoltPaper.pdf (accessed 6/2/19).

12 digit TIN number) or 15 percent (if there is no TIN) on dividend due to a resident individual and it is 30 percent for a non resident individual. Where there is tax treaty it will be according to the treaty.

4.5.2 Tax incentives Incentives for manufacturing sector: Currently Available (up to FA 2018)

Eight sectors have been selected by the researcher from the DSE listed manufacturing companies and there is 52 companies in the sample. The selected industry sectors are Cement, Ceramics, Engineering, Food and Allied, Fuel and power, Pharmaceuticals and chemicals, Tannery, and Textile. In this part we will discuss the incentives provided by the ITO 1984 for the manufacturing sector in Bangladesh and try to find out the shifting pattern of the incentives. Different types of tax incentives are provided under the purview of ITO, more specifically it is provided under the authority of sections 45, 46, 46A, 46B, 46C, different SROs issued by NBR time to time and under the provisions of sixth schedule and accelerated depreciation are provided under the provision of third schedule of ITO 1984. We can categorize the tax incentives like full exemption, partial exemption, reduced tax rate, accelerated depreciation, tax credit, and tax rebate and tax relief for investing in specific location or in specific type of investment or fulfilling some other criteria to avail those incentives.

4.5.2.1 Tax holiday

Full and partial exemption under the provision of 46B & C and under S.R.O.s and under the provision of 6th schedule are the tax holiday facilities for this research. Tax holiday are given to investment make in the specific location or in the specific type of industries under the provision of ITO. Some tax holiday benefit effective in Bangladesh up to purview of FA 2018 are given below:

4.5.2.1.1 Tax holiday under section 46B &46C

1. Tax exemption for newly established industrial undertaking u/s 46B:

Industrial enterprise setup between July 2011 and June 2019 and going into commercial production within those date will be permitted to apply for yielding tax exclusion for their business income as follows: (This section is 1st inserted by FO 2008 and substituted by FA 2011 and also substituted clause i and ii is by FA 2013)

1. For Dhaka, Mymensingh and Chattagram division without Dhaka, Naryanganj, Gazipur, Chattagram, Rangamati, Bandarban and Khagrachari districts. In the 1st and 2nd year 100 percent, 3rd year 60 percent, 4th year 40 percent, 5th year 20 percent.

2. Excluding the city corporation areas of Rajshahi, Khulna, Sylhet, Barisal and Rangpur divisions and Rangamati, Bandarban and Khagrachari districts. In 1st to 2nd year 100 percent, 3rd year 70 percent, 4th year 55 percent, 5th year 40 percent, 6th year 25 percent, 7th to 10th year 20 percent.

Detail definition of ‘industrial undertaking’ and some conditions are mentioned in the ITO 1984. Expansion of existing industrial undertaking will not be included in the industrial undertaking.

2. Tax exclusion for freshly established physical infrastructure facility u/s 46 C (This sec inserted by FA 2011 and clause i and ii is sub. by FA 2013)

Succeeding physical infrastructure facilities setup amid July 2011 and June 2019 and has started commercial operation within those date will be allowed to apply for yielding tax exclusion. Tax exemptions of diverse sizes will now be allowed for ten years if that physical undertaking are setup in any region of Bangladesh in the following manner:

In 1st and 2nd year it is 100 percent, in 3rd year it is 80 percent, in 4th year it is 70 percent, in 5th year 60 percent, in 6th year 50 percent, in 7th year 40 percent, in 8th year 30 percent, in 9th year 20 percent, and in 10th year 10 percent of income will be exempted from tax.

Detail definition of ‘physical infrastructure facility’ and some conditions are provided in the ITO 1984.

4.5.2.1.2 Tax holiday under S.R.O.s

1. Tax benefit for investment in Special Economic Zone (SEZ) and Hi-tech park zone: these benefits are given in two category as follows from the year 2015 (under

SRO 226 ain/ aykar/2015(for SEZ) dated 8-7-15 and SRO 228 ain/ aykar/2015, (for Hi-tech park) dated 8-7-15)

a. Tax benefit for investment in SEZ and Hi-tech park zone:

The commercial income is relieved from income tax for next ten years since the date of profitable operation in the following style:

In 1st, 2nd and 3rd year it is 100 percent, in 4th year 80 percent, in 5th year 70 percent, in 6th year 60 percent, in 7th year 50 percent, in 8th year 40 percent, in 9th year 30 percent, and in 10th year 20 percent.

b. Tax benefit for developing unit in SEZ and Hi-tech park zone:

The corporate income will be excluded from income tax for next 12 years after the date of profitable operation in the following style: (under SRO 227 ain/ aykar/2015(for SEZ) dated 8-7-15 and SRO 229 ain/ aykar/2015, (for Hi-tech Park) dated 8-7-15). In 1st to 10th year 100 percent, in 11th year 70 percent and in 12th year it is 30 percent.

Furthermore, capital gains ascending from transfer of stock, royalty, technical knowledge, and technical support pay and dividend paid by such companies are 50 percent excused from income tax for next ten years since the date of profitable maneuver.

2. Incentives for private sector power generation companies (other than coal based)

- Starting commercial maneuver within 31st December 2019 will exempt corporate tax for 15 years for income from power generation from the date of commercial operation. (SRO 211 ain/aykar/2013 starting commercial production (C.P.) within 31-12- 2014 and SRO 354 ain/2013 (starting C. P. within 30-6-2016) by SRO 246/ain/2016 (starting C. P. within 31-12-2019)
- Starting commercial operation after 1st July 2016 will get corporate tax exemption only for income from power generation for 10 years as follows: (S.R.O. No. 212/ain/aykar/2013, S.R.O. No. 355/ain/2013.) In first 5 years from the date of profitable generation it will get 100 percent tax exemption,

up to next 3 years 50 percent, and up to next 2 years it will get 25 percent exemption.

3. Incentives for private sector power generation companies (coal based)

Companies entering into agreement for establishing power plant within 30th June 2020 and will starting commercial production within June 2023 will exempt from corporate tax on income from power generation for a period of 15 years from the commencement of commercial production. (S.R.O. No. 213/ain/aykar/2013).

Other tax-exempted incomes are: (a) Income of the foreign persons employed in the company for 3 years from the date of their arriving into Bangladesh; (b) Interest due on overseas loan taken by the company (c) Royalties, technical knowledge and technical support pay owed by the company, and (d) capital gain ascending from transfer of the stock of the company.

4. Tax exemption for 'public private partnership (PPP) projects: (SRO 208 ain/aykar/2017, date 21-7-2017) Govt. has introduced this in the year 2017 in the following manner:

a. Companies working in the PPP scheme are entitled to get full exemption of their business income for following ten years since the date of commencement of maneuver.

b. other than business income full exclusion will get for capital gain generated from share transfer, payment for royalty, technical knowledge and technical supports for following ten years from the date of starting business operation.

c.fifty percent tax exclusion for overseas experts hired in PPP venture corporation for subsequent three years from the date of hiring depending on such companies does not passed five years since the date of profitable maneuver.

5. Export Processing Zone (EPZ): (S.R.O. No. 219 ain/aykar/2012)

According to the above mentioned S.R.O. export processing zones will get the following tax exemption benefits:

1. For Dhaka, Mymensingh and Chattagram division excluding Dhaka, Naryanganj, Gazipur, Chattagram, Rangamati, Bandarban and Khagrachari districts. In first and

second year hundred percent, third and fourth year fifty percent, fifth year twenty five percent; and

2. except city corporation areas of Rajshahi, Khulna, Sylhet, Barisal and Rangpur divisions and in three hill districts. In first, second and third year hundred percent, fourth, fifth and sixth year fifty percent, seventh year twenty five percent.

To reach overhead exemptions of industries in EPZ, appropriate books of accounts have to be kept and must submit income tax return as per sec 75 of ITO 84.

6. Incentives for production oriented industries (S.R.O. No. 185/law/income tax/2014): Industrial units will get following tax rebate (**publicly traded companies will not get this benefit)**

1. Industries starts commercial operation between July 1, 2014 and June 30, 2019 outside the city corporation area will get 20 percent tax rebate for ten years since such profitable maneuver;

2. Recognized firm shift maneuver and begins profitable maneuver outside the area of any city corporation between 1st July 2014 and 30th June 2019 will get 20 percent tax rebate for ten years since the relocation and profitable maneuver; and,

3 Established corporation outside the extent of any city corporation will get 10 percent tax rebate up to 30th June 2019.

4.5.2.1.3 Tax holiday under sixth schedule

1. According to para 33, part A of the sixth schedule of ITO 1984, revenue from the business of software development or nationwide telecommunication transmission network (NTTN) and information technology enabled services (ITES) will be fully exempted from tax up to June 2024. But those exemption enjoying entities must file their tax return each year revealing the income accompanied by income from all other sources.

2. Income from exports: According to para 28, Part A of the 6th schedule, fifty percent income resulting by any tax payer from business of export will be relieved from tax, excluding for a company not formed in Bangladesh and corporation does not enjoying exemption of tax or a reduced rate.

3. Exclusion of income from production of rice bran oil: According to para 45, part A of the 6th schedule, any income generated by a manufacturing unit beginning commercial maneuver by June 2019 has been allowed tax exemption as specified below:

1. For Dhaka, Mymensingh and Chattagram division excluding Dhaka, Naryanganj, Gazipur, Chattagram, Rangamati, Bandarban and Khagrachari districts. In 1st and 2nd year 100 percent, 3rd and 4th year 50 percent and 5th year 25 percent.

2. Excluding city corporation areas of Rajshahi, Khulna, Sylhet, Barisal and Rangpur divisions and in three hill districts. In 1st, 2nd and 3rd year 100 percent, 4th, 5th and 6th year 50 percent and in 7th to 10th year 25 percent.

4. Donation to any fund established under 'Trust of prime minister Education assistance Act 2012': Exclusion boundary for a company is lower of twenty five percent of income or Tk. 80 million. (Para 47(a), Part A, Sixth schedule).

5. Exemptions of capital gains tax from sale of stock of listed corporations for non-resident. (Sixth Schedule, part A, Para 43)

4.5.2.2 Capital allowance under Third Schedule

Substitute to the tax holiday benefit stated for the manufacturing unit's u/s 46B, accelerated depreciation allowances is restored on machinery and plant for new industrial entrepreneurs between July 2014 and June 2019 as follows:

Fifty percent for 1st year, thirty percent for 2nd year and twenty percent for 3rd year. Capital allowance is not permitted for physical infrastructures under section 46C. Tax holiday and accelerated depreciation are mutually exclusive [paragraph 7(2) (d) and paragraph 7A (1) (a) and 7B (2) (d) of Third Schedule].

4.5.2.3 Reduced rate of corporate tax

Relevant to certain industrial company (under the provision of different S.R.O.s issued time to time by NBR)

Companies	Rate % (FA 2018)
Textile industries (time prolonged up to 30th June 2019)	15
Jute industries (time prolonged up to AY 19-20)	10
Knit wear and woven garments manufacturer and exporter	15

Knit wear and woven garments manufacturer and exporter(publicly traded)	12.5
Knit wear and woven garments manufacturer and exporter with internationally recognized factory with 'green building certification'	12

4.5.2.4 Tax Rebates and Tax Relief

(A) Tax rebate

1. Tax rebate for Corporate Social Responsibility (CSR) activity: (under (S.R.O. 229/Ain/Aykar/2011 and S.R.O. No. 223 Ain/Aykar/2012 S.R.O. No. 186/law/income tax/2014).

Any company would get 10% tax rebate on investing in CSR activities under some condition and area specified in the SRO. The limit for investment in CSR is twenty percent of income of the company or Tk. 120 million whichever is lower.

2. If any non-publicly traded company transfer its minimum 20% share through IPO, then also get 10% tax rebate. (FA 2017, 18)

3. Tax rebate for higher dividend by publicly traded companies: according to finance act 2005 and 2006, listed manufacturing firms are permitted to ten percent tax rebate if they announce dividend at more than twenty percent.

(B) Tax Relief

Relief from double taxation: When any income is already taxed but non-assessable, then pretax amount of the income will be included in total income, a tax relief will be allowed at a rate lower of the two rates – Bangladesh tax rate and the tax rate at which the income is taxed. This relief is typically permissible on foreign income under seventh schedule. [section 144].

4.6 Evaluation of Bangladesh's tax incentive regime

Government of Bangladesh has emphasized on privatization from the last decade and take the role of facilitator for private sectors growing. Tax policy was consistent over time in Bangladesh and resulting tax collection almost double in the last decade and direct tax collection exceed the target in six consecutive fiscal year from 2007-08 to

2012-13. Contribution of direct tax's proportion to total tax collection is also increasing over the years.

Governments frequently pick tax inducements over other types of government action is not unexpected. It is far easier to provide tax benefits than to correct lacks in the legal system or to radically improve the transportations system in the country. Other than that, tax inducements do not need a real outlay of moneys by the government.[20]

4.6.1 Tax structure and incentives

Bangladesh has a comparatively simple and broad-based tax system and a good quantity of direct tax incentives exists among other tax and non-tax incentives. By reviewing currently available tax incentives the researcher reveals some observations as follows:

- There is different types of incentives for different types of investment under sections, S.R.O.s and under 3rd and 6th schedule.
- Incentive policy were consistent over time.
- Focus has been shifted to power generation, technology oriented industry and industry in Special Economic Zone (SEZ), EPZ, and also to buildup physical infrastructure facilities for sustainable economic development.
- Corporate tax rate is decreasing over time for publicly traded companies. it was 30% from FY 2005-06 to FY 2008-9, and 27.5% from FY 2009-10 to FY 2014-15 and 25% from FY 2015-16 to FY 2018-19.

4.6.2 Evaluation of Bangladesh direct tax incentives: international best practice

The following are the some positive feature of the direct tax incentives in Bangladesh:

- Current corporate tax rate for publicly traded company is 25% which is analogous with other countries in the region and other developing market economies. But tax on divided paid to companies is 20%, to resident individual it is 10% or 15% and 30% to non-resident individual pushes Bangladesh into the top tire of income tax countries with its peer.

[20]Alex Easson and Eric M. Zolt. *''Tax incentives''* Paper prepared for World Bank course on practical issues of tax policy in developing countries: (28 April – 1 May, 2003): 10 http://siteresources.worldbank.org/INTTPA/Resources/EassonZoltPaper.pdf (accessed 6/2/19).

- Govt. has rationalized tax holidays one of the minimum effective tax incentives.
- Maximum inducements are well intended, well targeted and have a particular policy objective. Textile, jute and RMG sector has reduced tax rate which is well targeted.
- Accelerated depreciation schedule is effectively designed and targeted for additional capital investment.
- Export oriented industries get many tax exemptions and reduced rate facility. If any export industry does not get any exemption or reduced rate or accelerated depreciation it will get 50 percent of its export income excluded from tax. Incentives directed specifically to export earning investments are likely to be more effective than many other forms of tax incentives, because of the upper grade of movement of those investments.[21]
- Priority has been shifted from EPZ to SEZs and Hi-tech parks, private sectors power generation companies and physical infrastructure building. Tax exemptions are continuing for some other traditional sectors like RMG, textile and jute and agro based industries.

The following are the some negative features of the direct tax incentives in Bangladesh:

- Tax inducements often eat away the tax base without giving any considerable impact on the degree of investment.[22] Representatives of the World Bank and the IMF have usually instructed against the use of tax incentives.[23] In some countries, the IMF has requisite for abolition of particular tax incentives schemes as a condition for getting extra funding.
- Claim and endorsement process are unduly bureaucratic and difficult. Business view the costs of applying as sometimes higher than the benefit provide.

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[21]Alex Easson and Eric M. Zolt. *''Tax incentives''* Paper prepared for World Bank course on practical issues of tax policy in developing countries: (28 April – 1 May, 2003): 18 http://siteresources.worldbank.org/INTTPA/Resources/EassonZoltPaper.pdf (accessed 6/2/19).

[22] Shah (ed.), *Fiscal Incentives for Investment and Innovation*, (1995):1-30.

[23] Chua, *Tax Incentives*, in Tax Policy Handbook, (1995):165-68.

- Bangladesh has a comparatively low price structure and is fully compliant with its WTO obligations. The World Trade Organization (WTO) has some role on on designing and using of some tax incentives. It will discharge its duty as a forum to resolve disagreements between countries relating to unfair trade practices. Some of them are granting prohibited export subsidies and some tax incentives. It will also impose conditions for admission to WTO like- reduction or elimination of certain kind of subsidies and tax incentives.
- Bangladesh also suffer from intersecting govt. organizations, each with a degree of responsibility for designing, budgeting and implementing incentives. The ministry of finance emphases on cost and forgone revenue, whereas BIDA is more focused on marketing Bangladesh as an investment destination. NBR is most concerned with administrative simplicity. Some other govt. agencies and trade body also have some role in the process of incentives designing.
- Too many incentives are applied in a discretionary manner. This complicate and slowdown the approval process and add the level of uncertainty faced by the company.

4.7 Industrial policy and tax incentives: Seeking the congruence

One may think that industrial policy suggested priority sectors, tax incentives and tax incentives provided by the tax authority to the industry sectors will be congruent in many aspect if there is coordination among the govt. agencies. To justify this common sense observation, the researcher review the industrial policy 2005/2010 and 2016 by considering policy objectives, suggested tax incentives among other incentives and priority sectors to know the shifting pattern of priorities over time. Some other macro policies has also been discuss to know the national development goal and economic direction of the country. And in the incentives part the researcher have reviewed the total direct tax incentives available to the manufacturing sector of Bangladesh, their category, justification, strong and weak points and the trend and pattern of direct tax incentives provided under ITO 1984. Now the researcher will seek congruence between industrial policies and tax incentives in the field of priority sectors, incentives by reviewing the above mentioned aspects and will validate the congruence with the private sector’s growth and investment scenario.

4.7.1 Congruence in priority sectors

4.7.1.1 Declared priority sectors by NIPs

There is 33 priority sectors in NIP 2005 and 32 in 2010 and there was no sub divisions in the priority but in the NIP 2016 there is 7 high priority and 24 priority sectors. Though some sectors has been included in the priority and some are eliminated from the priority but priority sectors were almost consistent over the period. The researcher consider the NIP 2005 as the baseline for comparison in this study. By analyzing the priority sectors of this three NIPs the researcher observe the following shifting pattern:

Common in all the three NIPs: Agro-based industries (food, equipment), RMG, Pharmaceutical, Home textile goods, Jute and jute goods, ICT and software industry, Leather and leather goods, Ceramics, Lite engineering, Electronics, Tourism, Handicrafts, Frozen fish, Cosmetics and toiletries, Tea industry, Furniture, Jewelry, Toy, Herbal medicine, Automobile making and repairing.

Industries newly included in the priority in 2010 and 2016: Plastic industry, Foreign employment, Shipbuilding industry, Environment friendly ship breaking industry, Active Pharmaceutical ingredient industry and Radio Pharmaceutical industry, Radioactive ray (radiation) application industry (for example, improve the quality of biodegradable polymer / preserve food grains/ medical equipment sterilization industry), Polymer production industry, Renewable power (solar power, windmill), Seed industry Agor industry, Cement Energy efficient appliances

Industries eliminated from the priority by NIP 2016: Artificial flower production, Integrated shrimp cultivation, physical structure, petrochemical, silkworm and silk industry, basic substances/raw materials used in industries, color and substances used in textiles industry, ophthalmic frame, luggage fashion-based goods, CR coil, stationery goods, commercial plantation, horticulture, tissue implanting and biotechnology, container service, silo, new innovation and import substitute industries.

4.7.1.2 Priority sectors mentioned in the ITO 1984

Section 46A: The list of industrial undertakings mentioned in this section are— an industry doing business in the manufacture of fabric , cloth machines, costly clothes, medications, melamine, plastic products, porcelains, hygienic ware, steel from iron rocks, manure, insecticide & pesticide, computer equipment, petrochemical, rudimentary raw materials for medicines, substances and medicines, agricultural appliance, ship building, boiler, compressors and other category of industrial undertaking the govt. declared by the official gazette. (This definition has been inserted by FA 2005.)

U/s 46B: ‘‘industrial unit means an industry involved in the manufacture of - (This section has been inserted by FO 2008)

(a) active pharmaceutical element industry and radio pharmaceutical industry; aa) auto manufacturing industry (inserted by FA 2015); (b) blockade contraceptive and latex; (c) rudimentary substances or color and substances; (d) rudimentary elements of electronic industry (e.g. resistance, capacitor, transistor, integrator circuit); (dd) bi-cycle manufacturing industry (inserted by FA 2015); (e) bio-fertilizer; (f) bio-technology; (g) boiler; (gg) brick made of automatic Hybrid Hofmann Kiln (inserted by FA 2015) or tunnel kiln technology (inserted by FA 2014); (h) compressors; (i) computer hardware; (j) energy efficient appliances; (k) insecticide or pesticide; (l) petro-chemicals; (m) medications; (n) processing of locally produced fruits and vegetables; (o) radio-active (diffusion) application industry (e.g. developing quality or decaying polymer or preservation of food or disinfecting medicinal equipment); (p) textile machineries; (q) tissue implanting; (qq) tyre manufacturing industry; (inserted by FA 2015); or (r) any other category of industrial undertaking as the govt. may by notification in the official gazette specify.

Industries in the Special Economic Zone (SEZ), Hi-tech Parks, (10-12 years) private power generation companies (coal and non-coal based it is 10 to 15 years), industries in the EPZ (5 to 7 years), companies engaged in building physical infrastructure facilities [u/s 46C (2) for 10 years].

By observing the above mentioned sectors mentioned in NIPs and in the definition of industrial undertaking in the ITO 1984, we can say that these sectors are almost similar by name. So this aspect of NIPs and tax incentives receiving industries are congruent. It also imply that coordination among ministry of industry and tax authority are satisfactory.

4.7.2 Congruence in the tax (direct) incentives

4.7.2.1 Incentives suggested in NIPs

NIP 2005 suggested some tax incentives like—tax holiday facilities based on the location of industries and condition for reinvestment. Accelerated depreciation were available for tax holiday availing and non-tax holiday availing units. As an alternative to tax holiday reduced rate for some sectors like RMG, jute goods production and textile industries were available.

NIP 2010 first categorize the incentives in three category as 1) tax holiday and depreciation, 2) incentives for NRBs and 3) other incentives. Emphasize on location based tax holiday facility. Tax holiday facility for private sector power generation companies for 15 years from the date of commercial production and continuation and expansion of some already given tax incentives.

In NIP 2016 there is recommendation for special incentives for the high priority sectors. Other tax incentives like tax holiday, accelerated depreciation and reduced rate were as mentioned in NIP 2010 under the provisions of ITO 1984.

4.7.2.2 Incentives actually provided by ITO 1984

Tax holiday: There is a good number of tax holiday schemes available in Bangladesh under ITO 1984. We can categorize these incentives as: a) tax holiday under sections 45, 46, 46A, 46B and 46C and b) tax holiday under S.R.O.s. Full and partial exemptions are available for a stipulated time period with specified rate.

Accelerated depreciation: it is provided through the provisions of different paragraph of the third schedule. It is also congruent with the NIPs suggested tax incentives. It is an incentive alternative to tax holiday.

Reduced Rate of Corporate tax: This tax incentive is applicable to certain industrial sectors like textile, jute and RMG etc. (under the provision of different S.R.O.s issued time to time by NBR).

There is other type of tax incentives like exclusions/deductions from business income, tax rebate for CSR activities and double taxation relief under agreement between countries.

By analyzing the incentives suggested in the NIPs and incentives actually provided under ITO 1984 we can say that almost all the tax incentives are mentioned in the NIPs suggested tax incentives part.

4.8 Impact of Tax Incentives on Local Private Investment and GDP

Tax incentives are generally used to attract local and foreign investment, nurture infant industries, and face regional tax competition and correct externalities (Barbour, 2005). Previous studies have shown that tax incentives can increase the FDI as well as local investment. Increased investment can expedite the industrial growth in many ways. In some recent studies mentioned in the literature review, have also shown that there is some spillover effect of FDI on local private sector development. In the following subsections the researcher has analyzed some economic data by line and bar charts to understand the impact of tax incentives on industrial development. Firstly the investment structure of Bangladesh has been shown to see the trend of local investment and FDI over total investment and then sectoral distribution of local investment are shown to see the growth and trend of manufacturing sector's investment and finally contribution of manufacturing sectors to GDP are presented to show the indirect and partial impact of tax incentives to the national development.

4.8.1 Private Investment scenario: Local, FDI and Total

In Bangladesh investment structure comprises of local investment and foreign direct investment. Of them local investment is playing a vital role. Following graph has shown the investment structure of Bangladesh.

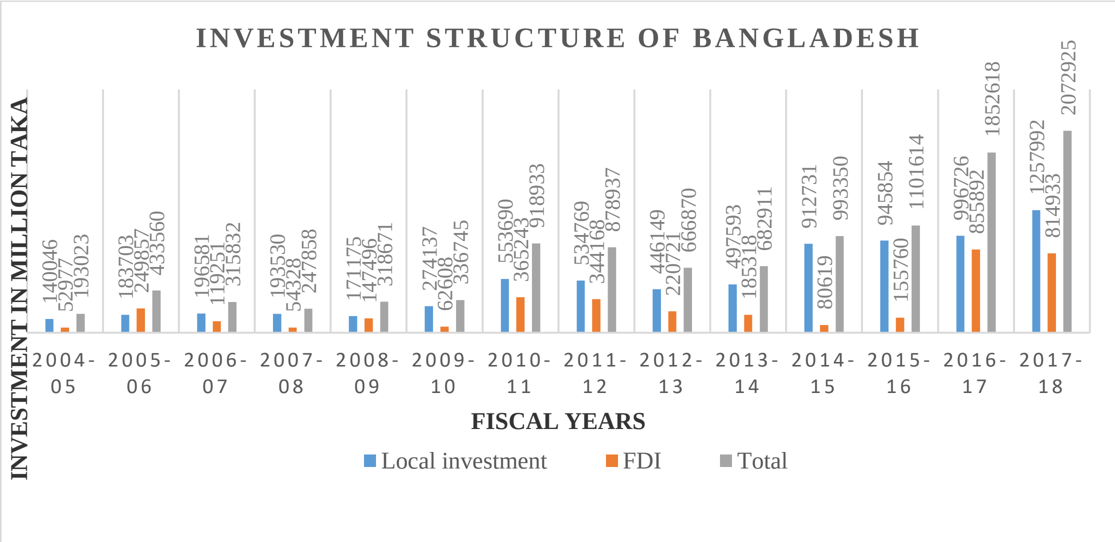

Figure 4.1 Investment Structure of Bangladesh

Source: Bangladesh Economic Review 2005-2018 and BIDA website

From the above chart we can comprehend the dominance of local investment over FDI. We also see the amount of investment was not so big up to 2009-10 fiscal year it was only 336 billion taka. But from 2010-11 fiscal year it was all most triple of previous year. Arithmetic average of local investment over total is 67.38 per year. In recent years it showed a very sharp increase in the total investment. It may be due to the liberalized incentive structure or peaceful political environment. Another reason of increase in investment are due to the implementation of NIP 2010 and 2016.

4.8.2 Sector wise Distribution of Local Investments

From the above graph it has known that local investment was the major contributor to the total investment. Now it need to know the sectoral distribution of those investments to know the trend of the most invested sectors. Following line chart has shown the sectoral distribution of local investments:

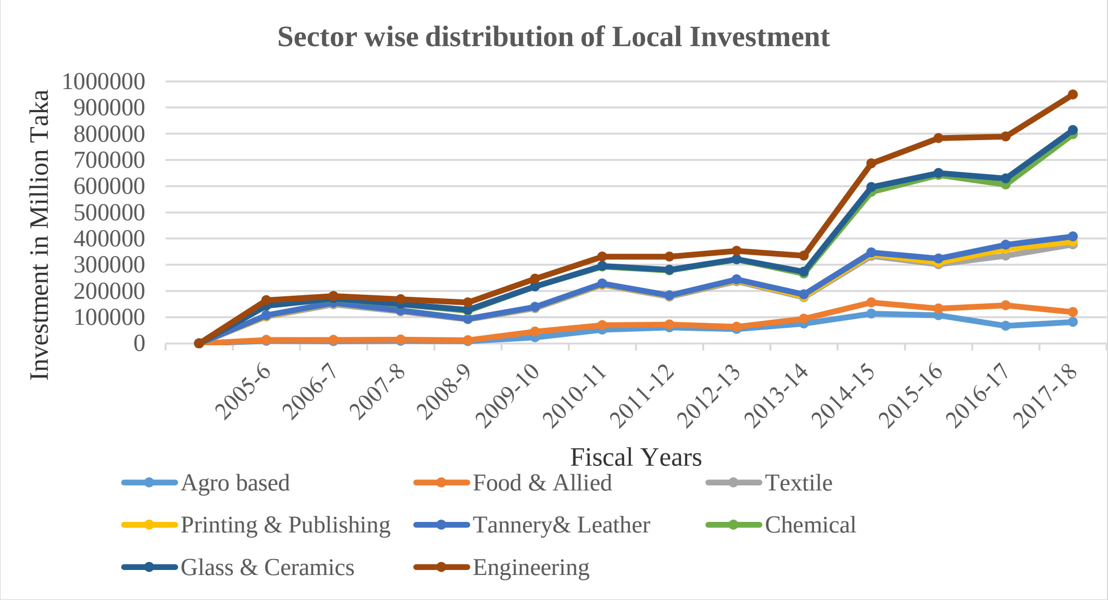

Figure 4.2 Sectoral Distribution of Local investment

Source: Bangladesh Economic Review 2005-2018.

From the above line chart it is seen that there was consistent growth up to 2013-14 but from 14-15 there was a sharp increase in some sectors. The reason for these sharp increase might be due to the NIP 2010 and 2016 and the revised incentive structure of the tax authority. In some sectors like agro based and food and allied sectors have shown some negative growth due to the shifting priorities to the infrastructure, power and ICT. In this analysis two sectors has been excluded they are miscellaneous sector and service sector.

4.8.3 Trend of the manufacturing Sectors Contribution to GDP

In the previous chart sectoral distribution of the manufacturing sectors are presented to know the investment trend of those sectors. Now it is necessary to know the contribution of manufacturing sectors to the GDP of Bangladesh to fulfill the objective of this study.

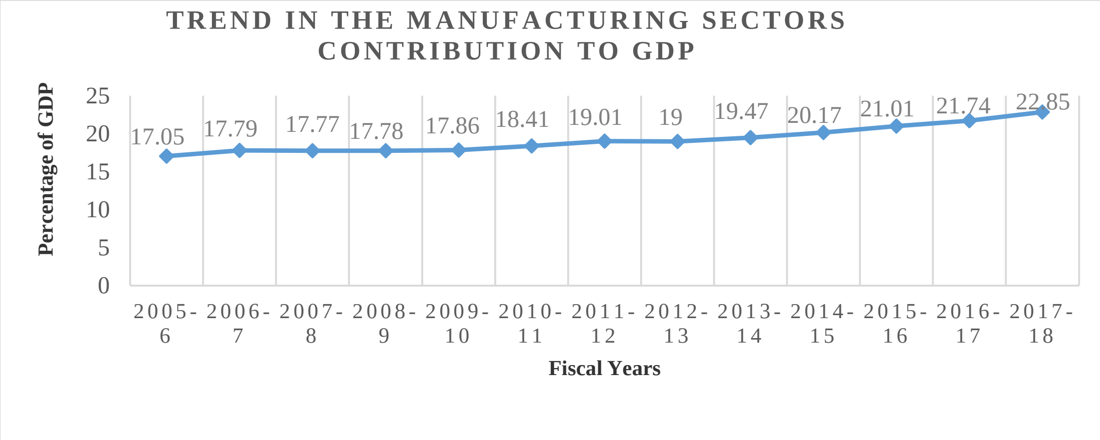

Figure 4.3 Trend in the manufacturing sectors contribution to GDP

Source: Bangladesh Economic Review 2005-2018

From the above line chart it has shown a consistent and increasing contribution of manufacturing sectors to the GDP. So there is a significant and steady contribution of manufacturing sectors to the development of Bangladesh.

4.9 Conclusion

Tax incentives and industrial policies have been thoroughly reviewed and then asserted the impact of those incentives and policies on corporate tax revenue. The priority sectors in the NIPs and incentives provided to the priority sectors under different sections of the tax code and S.R.O.s have remained steady over time. It was also visualized that in what manner priority has been changed over time in the NIPs and in the tax incentive structure of Bangladesh. There are different types of incentives like tax holiday, reduced tax rate, accelerated depreciation, tax rebate and tax relief under the provision of ITO 1984. Tax exemption period was vary from 5 to 15 years for investing in different location and/ or in specific type of investment. Sectoral distribution of local investment projects (from 2005-18) has shown that there was consistency in the sectoral growth. Growth rate and contribution of the manufacturing sectors were steady over the period of time. Local private investment was dominant over FDI in both growth and actual amount invested. Scope of incentives have been increased over time and those incentives have attracted more investment. Those additional investments have contributed more to GDP. Thus the researcher can attribute additional GDP as the function of incentives provided by the tax authority. Some previous studies have also emphasized on non tax factor as equally important for increased investment and GDP. It is wise to say that not only the direct tax incentives but some other indirect tax incentives and non-tax factors are contributed to the increased local investment and gradual development of the industrial sectors in Bangladesh.

Chapter Five

Corporate Taxation in South Asian Region

5.1. Introduction

Corporate tax contributes a big chunk in the total direct tax collection of south Asian countries. In fiscal year (FY) 2016-17 corporate tax has contributed 57 percent[1] to total direct tax collection in India, 60 percent[2]in Sri Lanka and 60 percent[3] in Bangladesh. Corporate tax is the easiest means of direct tax revenue in both administrative and political perspectives because of the wider legal base in any country. It is essential to know the existing situation of corporate taxation in the South Asian region by reviewing some corporate taxation issues so that we can learn the relative position of corporate taxation in South Asian countries. In this chapter, researcher has reviewed different aspects of corporate tax in Bangladesh, India, Sri Lanka and Pakistan. These four countries have been selected because of their economic homogeneity. The main economic activates of these four countries are agriculture, textile, moderate industry, tourism, and manpower export. This chapter includes different aspects of corporate taxation such as a general description of tax regimes, deductible expenses, non-deductible expenses, depreciation and treatment of losses, tax rates, minimum tax, tax incentives, transfer pricing rules, anti-avoidance rules, and agreement for avoiding double taxation. All these are reviewed to know the comparative strength and weakness of the tax regimes. To achieve the objectives of this chapter content and document analysis methods have been used. Sources of data used are reports of The World Bank, KPMG, Deloitte, national and international tax hand books, economic survey reports of those countries, websites of tax authorities of particular countries and related articles. Reports of central bank of related countries and investment development authority of those countries are also consulted. The

[1] Income Tax Department Time Series Data, Financial Year 2000-01 to 2017-18, p 2. https://www.incometaxindia.gov.in/Pages/tax-payers-information/booklets.aspx (accessed in 15/4/2019).

[2] Inland Revenue department, *Performance report of the commissioner general of Inland Revenue*, 2017, Sri Lanka, p 23.

[3] NBR. *Annual report 2016-17*, Dhaka: NBR. (2019):80, Table 38.

design of this chapter is— at the outset to give an overview of south Asian economy in brief and then rationale for corporate tax and than corporate tax related aspects mentioned above are discussed in an analytical manner to know the relative positon of the countries, and finally make some concluding remark.

5.2 South Asian Economy: An Overview

The South Asian region consist of eight nations. This is one of the most tightly populous and poorest areas in the world. It has twenty three percent of the world's populace and about 40 percent of Asia and a sheer two percent of world production.[4] Political system of south Asian countries are different country wise. Of them Bangladesh practice parliamentary democracy, India and Pakistan are federal states and Sri Lanka is a republic and has presidential system of government. Each country in south Asia has their specific election process for choosing their political leaders. Most of the case the term is 5 years but for Sri Lanka it is 6 years. This region is almost stable except some disturbance in Afghanistan, Pakistan and between India and Pakistan.

Every country in the world wants to realize a greater rate of growth of GDP per capita. The states in the west were fruitful in attaining higher growth up to 1980s, the growth end has now slowly shifted towards the countries in emerging Asia including the countries of South Asia.[5] Economic situation is changing nowadays rapidly in this region. Now South Asia is the fastest growing region and even extend its lead over East Asia and the Pacific. Growth in this region has been forecasted to reach up to seven percent in fiscal year 2018-19 and more than seven in 2019-20. This steady growth represent the economic comprehensive stability and capability of this region.[6]

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[4] https://web.archive.org/web/20081121043924/http://www.sardeg.org/marketana.asp (accessed 27/3/19).

[5] Keshab Raj Bhattarai, ''Economic Growth and Development in India and SAARC Countries'' *Business School, University of Hull, UK, p 5.* https://www.aeaweb.org/conference/2017/preliminary/paper/QsAdifR3 (accessed 15/4/19).

[6] The World Bank in South Asia, http://www.worldbank.org/en/region/sar/overview (accessed 27/3/19).

Table 5.1 Real GDP growth rate in the selected South Asian Countries[7]

Countries/FY	2016	2017	2018
Bangladesh	7.1	7.3	7.9
India	8.2	7.2	7.2
Pakistan	5.5	5.7	5.4
Sri Lanka	4.5	3.3	3.2

Source: The World Bank

On sustainable development viewpoint development views as development of present generation without jeopardizing the development prospect of future generations. On this ground now a day's development means continuous effort in increasing some economic and social indices like ‘Human Development Index’ (HDI), doing business index, CPI, economic freedom index etc. other than some traditional measure of economic development indicators like GDP per capita. Of them HDI is the dimension of national attainments in healthiness, schooling and income and ease of doing business dealing different issues of business rule and their effects for businesses setting up and maneuvers. HDI and Doing Business rank of the selected four countries of South Asia in 2018 are presented below:

Table 5.2: HDI ranking 2018 for selected four South Asian countries[8]

Name of the Country	HDI Rank in 2018	HDI Value	Life expectancy at Birth
Bangladesh	136	0.608	72.8
India	130	0.640	68.8
Pakistan	150	0.562	66.6
Sri Lanka	76	0.770	75.5

Source: UNDP website.

[7] The World Bank. South Asia Economic Focus, Export wanted, (spring 2019) 73-93. http://www.worldbank.org/en/news/video/2019/04/07/south-asia-exports-wanted (accessed 14/4/19).

[8] UNDP, Report, *Human Development Indices and Indicators:* 2018 statistical update, 22-25. http://hdr.undp.org/en/2018-update (accessed 16/4/19).

Table 5.3 Ease of Doing Business Ranking- 2018 in South Asian countries[9]

Name of the Country	Rank in 2018	Score	Change in score
Bangladesh	177	40.99	+0.15
India	100	60.76	+4.71
Pakistan	147	51.65	+0.71
Sri Lanka	111	58.86	+0.13

Source: The World Bank Website.

In terms of real GDP growth rate Bangladesh is consistent and then India, Pakistan and Sri Lanka. In the HDI rank Sri Lanka is in better condition and then India, Bangladesh and Pakistan but in life expectancy indicator Bangladesh just below Sri Lanka. In the ease of doing business rank, India is leading in this region and then Sri Lanka, Pakistan and Bangladesh. Other than GDP growth rate Bangladesh have poorly scored in other development indicators.

5.3 Rationale for Corporate Income Tax

According to the tax law, all the companies including publicly traded companies are subject to pay corporate income tax. Companies are paying their income tax by calculating net income accordingly and then apply the statutory tax rate to reach the tax amount to be paid. Companies also pay dividend to their shareholders and this dividend also taxable at the personal rate in the individual level. There is some theoretical justification for corporate tax by scholars but there is hardly any justification for double taxation of corporate profit. Some justification of corporate tax are discuss below:

A. Entity Theory

The accounting entity assumption is the main basis for charging corporate income tax separately. In contemplation of law companies are treated as artificial legal person. For that reason companies are entitled to get almost all legal rights which are available for human being. Other than those legal rights companies also enjoy some extra

[9]The World Bank, Doing Business Report 2018, p 4, http://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2018-Full-Report.pdf (accessed 16/4/19).

privileges like— benefit of perpetuity and limited liability. So all the facilities companies enjoy are like the individual human being.

Companies use state facilities like— output of the education system as trained working people, use judiciary systems, use transportation infrastructure and security facilities from the state. General people are paying for using the above mentioned facilities. So companies should contribute to fund all those facilities just as general people do. Another logic for taxing corporate profit is, corporations are paying taxes for purchasing goods and on owning the property, so they should pay tax on the profit they are making.

B. Rational Populism

Another popular explanation of corporate consider this tax as a tax on capital. General people view in this regard is, they support this tax because they think that it is on the owner of the capital and they do not own substantial amount of capital. So they sense that capitalists should be taxed through corporate tax.

C. Political Convenience and Hidden Taxes argument

Some observers have claimed that the corporate tax continues because it helps political objectives. This tax is administratively easier way to raise revenue, because it has wider legal base and another tricky reason is that public does not understand they are paying the final burden of the tax.

Hidden tax argument claims that taxpayers consider them as capital owner but they cannot perceive, as shareholder they are paying the corporate income tax. Some experts claims that corporate tax may shift sometimes partly or wholly to other taxpayers in the form of cheap pays and higher prices of goods and services.[10]

D. Most progressive tax

Stock ownership data has shown that most wealthy people have more stock than poorer one. A study in 2007 in the US has shown that wealthiest one percent American hold about half of the corporate stock whereas ninety percent American hold only ten

[10] Jennifer Arlen and Deborah M. Weiss, *''A* Political Theory of Corporate Taxation.'' *the Yale Law Journal* Vol 105 (1995), 328-333.

percent stock.[11]This is an indication for progressivity because corporate tax falls on the owner of the capital at the corporate level and as dividend tax when distributed as dividend.

E. Backstop to the personal income tax

If there is no corporate tax, income of rich people will not be taxed. This would happen because they will then put all their income in the corporations to get rid of personal income tax.[12]

5.4 Review of Corporate Taxation Issues

Corporate tax is on of the major component in the direct taxation. Some issues directly related with corporate tax will be reviewed in this part. The selected issues are categorized as general issues regarding the overall taxation system and then solely corporate tax related issues are to be discussed. For this section, data have been extracted from the county specific tax guide by KPMG and Deloitte and from the world wide corporate tax guide 2018. Economic survey of the selected countries and the website of the tax authorities are also explored for some information. This section has been segregated as two- first one is about general issues regarding the tax regime and the second part is solely about corporate tax related issues:

5.4.1 General Issues

5.4.1.1 Background of Direct taxation in Subcontinent

The history of income tax law in Indian Subcontinent goes back to the year 1860, when income tax was imposed for the first time in the then British India. It was discontinued and re-imposed several times. It took a final stable shape in the form of the Income tax Act, 1922. However many changes were made in this law during the course of subsequent year. India and Pakistan both inherited this law at the time of the partition of the sub-continent in 1947. In the year 1961 the Indian government has replaced the Income tax Act 1922 with a newly formulated Income tax Act 1961

[11] The ITEP guide to fair state and local taxes. Chapter 6, corporate income taxes pp 44-45. https://itep.org/wp-content/uploads/guide6.pdf (accessed 17/4/19).

[12] Ibid.

which is still in effect. In the year 1979 the Pakistan has replaced the Income tax Act 1922 by putting in effect the Income tax Ordinance 1979. The income tax Act 1922, however continued to be in force in Bangladesh after Bangladesh's liberation in 1971. It was only in 1984, that this task was completed. The Income tax Act 1922 was thus replaced and the Income tax Ordinance, 1984 came into force on the 1st July, 1984. Sri Lanka has introduced income tax in the year 1932. First assessment year in Sri Lanka was 1931-32. The income tax department was established in the same year to administer this tax.[13]

5.4.1.2 Existing legal instruments for direct taxation

Legal framework of corporate taxation constitutes the direct tax act/ ordinance, direct tax rule, SROs, circular by tax authority and court verdict. For Bangladesh there is Income Tax Ordinance 1984, Income Tax Rule 1984, SROs issued by NBR, Circulars and explanation by NBR. In India, Income Tax Act 1961, Income Tax Rules 1962, circulars and notifications are the main legal instruments for direct taxation. In Pakistan, Income Tax Ordinance 2001, Income Tax Rule 2002, SROs, circulars are main instruments of direct taxation among other provincial tax instruments. In Sri Lanka, Inland Revenue Act 2017, gazette notification, circular, interpretations and ruling are main legal base for direct taxation. India and Pakistan are federal state for that reason some tax are collected by central govt. and some are collected by provincial govt. according to the law of the land.

5.4.1.3 Tax administration

Main responsibility of any tax administration is implementing fiscal acts and collecting expected revenue for the government. Another duty is continuous evaluation of tax policies and tax laws to frame and apprise tax laws. Ministry of finance and its relevant divisions of every country are spearheading the tax administration and some other autonomous and semi-autonomous body discharge the administrative functions. In Bangladesh, National Board of Revenue (NBR), in India the Central Board of Direct Taxes (CBDT) in Pakistan Federal Board of Revenue

[13] Md. Jehad Uddin, *Bangladesher Aaikor Aiyan,* (Dhaka: Bangla Academy, 2010), 1-4.

(FBR) and in Sri Lanka Inland Revenue Department (IRD) are the main tax authorities. Country wise brief description of tax administration are presented below:

Bangladesh: The NBR is the main authority for tax management in Bangladesh. It functions under the control of internal resources division of the ministry of finance of Bangladesh. Main responsibility of NBR is to formulate tax policy, continuous evaluation of the tax policies, and give necessary correction in the tax code if needed. Other functions of NBR are to collect different types of direct and indirect taxes through the machineries of NBR; negotiating tax agreements with foreign governments, and take part in the meetings of different ministries regarding fiscal issues.

India: The Central Board of Direct Taxes (CBDT) is an administrative department of revenue in the ministry of finance. It has been formed under the central board of revenue act 1963. It provides the policy inputs for direct tax policy through continuous evaluation and monitoring. Main responsibility of this board is managing direct tax administration through income tax department. Top management of CBDT including chairman and members are selected from the Indian revenue service and members of CBDT run the top management of income tax department.[14]

Main responsibilities of IT Department are to implement different direct tax laws, among these are the Income-tax Act, 1961, to collect revenue for government of India. It also implements other fiscal laws like the Benami Transactions (Prohibition) Act, 1988 and the Black Money Act, 2015.

Pakistan: Federal Board of Revenue (FBR) is the main tax authority of Pakistan. It is the top tax authority for Pakistan for formulating and implementing tax policies. Main functions of FBR are formulating tax policy, evaluating and monitoring tax policy, collecting all type of direct and indirect taxes and performing quasi-judicial function regarding tax cases. It mainly functions through its main collection arms

[14] https://www.incometaxindia.gov.in/Pages/about-us/history-of-direct-taxation.aspx (accessed 12/7/2019).

containing regional tax offices (RTOs) and large taxpayer units (LTUs) across the country.[15]

Sri Lanka: Inland Revenue Department (IRD) is the Sri Lanka's main tax authority. It works under the supervision of ministry of finance. Commissioner General of Inland Revenue is the chief of Inland Revenue department. Main responsibility of this department is to formulate tax policies and to monitor and evaluate those policies and to collect all sorts of direct and indirect revenues. Some other functions of IR is negotiating tax agreements with foreign governments and taking part in meeting with different government agencies having some relation to fiscal issues.

5.4.1.4 Tax-GDP ratio

The tax-GDP ratio is a proportion of a country's tax revenue to its gross domestic product (GDP). It is an indicator to understand the strength of the taxation system of that country as it tells the story of the efficient and effective execution of the fiscal policies. According to a report from Organization for Economic Cooperation and Development (OECD) in 2018, the tax-GDP ratio for the United States was 27.1% in France 46.2 percent in Denmark 46 percent in Belgium 44.6 percent and in England 33.2 percent and the OECD average was 34.2 percent.[16] It shows that average tax-GDP ratio in developed countries are above 34 percent but this region is far behind of those average and much more can be done to improve the tax-GDP ratio.

Table 5.4 Tax-GDP ratio in selected South Asian countries

Countries	**2016**	**2017**	**2018**
Bangladesh	8.8	9.1	10.4
India	15.2	15.9	16.1
Pakistan	12.6	12.4	13.7
Sri Lanka	12.3	12.6	11.9

Source: Economic survey of selected countries 2017-18

[15] https://www.fbr.gov.pk/introduction-fbr/131167/57 (accessed 15/7/2019).
[16] https://www.oecd.org/tax/revenue-statistics-united-states.pdf, (29/4/2019).

5.4.1.5 Fiscal years

Bangladesh and Pakistan's fiscal year runs from 1st July to 30th June. India and Sri Lanka's fiscal year runs from 1st April to 31st March.

5.4.2 Corporate Taxation Issues

Some corporate tax related issues like tax rate, deductible and non-deductible expenses, minimum tax, tax incentives, transfer pricing rules, treatment of losses, anti avoidance rules, thin capitalization rules and double taxation avoidance agreement has been discussed here in a manner so that relative position of the selected countries are to be known regarding these issues. Following paragraphs are the brief discussion of the above mentioned topics: (all data in this regard are collected from the source mentioned in the first paragraph of section 4).

5.4.2.1 Corporate Tax rates

Corporate tax rate vary from country to country as publicly traded or non-publicly traded, industry wise and income/turnover wise. In Bangladesh it differ in publicly and non-publicly traded and industry sector wise. In India it varied domestic and foreign company wise and turnover wise, in Pakistan it varied according to company class and size wise. In Sri Lanka it varied as flat general rate and reduced and higher rate for some specific industry sectors. Country wise brief description of the corporate tax rates are presented below:

Bangladesh: Corporate tax rate is 25 percent for publicly traded companies and is thirty five percent for non-publicly traded companies. For banks, insurance and other financial institutions, the corporate tax rate is thirty seven and half percent if publicly traded and 40 percent for non-publicly traded companies. For merchant bank corporate tax rate is 37.5 percent. For tobacco manufacturers and mobile phone operators, the corporate tax rate is 45 percent.[17]

India: The corporate tax rate for local companies with turnover up to Indian Rupee (INR) 2.5 billion is 25 per cent and corporate tax rate for local corporations with gross revenue more than INR 2.5 billion is 30 per cent. Further, local companies incur a

[17] GoB, Finance act 2018, Ministry of Finance.

surcharge of 7 per cent on income over INR 10 million and 12 percent on income over INR 100 million. Foreign companies are taxed at 40 per cent and sustain a surcharge of two per cent on income over INR ten million and five percent on income over INR hundred million. An extra four per cent education cess is payable on corporate income taxes including surcharge. [18]

Pakistan: The general corporate income tax rate is 30 percent for tax year 2018 and onwards. Banking companies are subject to a 35 percent corporate income tax but small companies are subject to a 25 percent corporate income tax. Local companies are subject to a minimum income tax equal to 1.25 percent of turnover in most cases if the tax payable would otherwise be less than 1.25 percent of turnover. Pakistan has an alternative corporate tax regime, under which tax liability is greater of 17 percent of book income or total corporate tax payable including minimum tax and final taxes.

Sri Lanka: The regular corporate tax rate is 28 percent in Sri Lanka. Certain industries are taxed at a reduced rate of 14 percent, if engaged primarily in the said industry. Industries involved in liquor, tobacco and betting & gaming are taxed at a higher rate of 40 percent.[19]

The trend of corporate tax rate in this region is diminishing. Country wise and region wise corporate tax rate related data are presented below to know the trend of the corporate tax rate:

Table 5.5 Last six years corporate tax rate and average rate of selected four countries

Countries/Years	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**Average**
Bangladesh	27.5	25	25	25	25	25	25.41
India	33.99	34.61	34.61	34.61	35	30	33.80
Pakistan	34	33	32	31	30	30	31.66
Sri Lanka	28	28	15	28	28	28	25.83

Source: KPMG website

[18]https://home.kpmg/xx/en/home/services/tax/tax-tools-and-resources/tax-rates-online/corporate-tax-rates-table.html (accessed in 18/4/2019).

[19] Ibid.

Table 5.6: Global and regional average of corporate tax rate in 2019

Regions/ Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Global average	23.88	23.77	23.62	24.06	24.02	23.79
Asia average	22.00	21.98	21.41	21.08	21.21	21.09
Europe average	20.42	20.05	19.97	19.53	19.48	19.37
Latin America average	27.31	27.16	27.29	27.98	28.05	27.24

Source: KPMG website

Average tax rate of the selected countries are higher than the global and Asia average. Though in selected countries the tax rate is lower in Bangladesh but in the field of progressivity Bangladesh is less progressive because 25 per cent is general rate irrespective of small and big companies or turnover but in India, Pakistan and Sri Lanka it is more progressive due to company size and turnover consideration.

5.4.2.2 Deductible and non-deductible expenses[20]

Expenses incurred in the creation of business and investment income may be deducted from corresponding income. Expenses of capital nature are not allowed for deductions. In the selected countries, Bangladesh has implemented listed method of deduction on the other hand India and others have implemented the overall system. In the listed method, the deductible items are stated in the tax law, and no deduction is permitted unless an expense is exactly included in the list of deductible expenses.[21] Conversely, in the general deduction method, taxpayers are permitted to deduct all applicable business expenses experienced during the income year to attain the taxable income. In general, south Asian countries do not allow deduction for certain expenses, such as capital expenditure, non-trading expenses, personal and domestic expenses, fines, penalties and bribes, and expenses experienced in stemming exempt amounts, ultimate withholding tax expenses, entertainment expense, and provision for bad debt.

Country wise brief description regarding deductible and non-deductible expenses are presented below:

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[20]EYGM Limited, *Worldwide Corporate Tax Guide 2018,* Bahama: EYGM Limited, 2018. https://www.ey.com/Publication/vwLUAssets/EY_Worldwide_Corporate_Tax_Guide_2018/%24File/EY-2018-worldwide-corporate-tax-guide.pdf. (Accessed in 29/4/2019).

[21]Khadka, Rup. ‘‘Corporate Income Tax in the SAARC Region.’’ http://therisingnepal.org.np/news/544. (Accessed 24/6/2019).

Bangladesh: All relevant business expenses of income year are permissible as deduction. Depreciation expense is deductible under the prescribed rate of the third schedule of income tax ordinance 1984 but no depreciation is permitted on cost of land. The entertainment expense and expenses for free samples are allowable deduction. The rate of deduction are based on profit and turnover correspondingly or the real expense whichever is lesser. Particular provisions for accrued expenses in the applicable income year are permissible as exclusions. Expenditures paid in advance can be carried forward and admissible as a deduction in the applicable accounting year.

Provision for bad debt is not allowable as deductions. Certain payments are not permitted for tax purposes as follows: Payment of salary if it is not tax deducted. Head office expenses shown beyond ten percent of net income revealed in the financial statement. Payment of royalty, technical knowledge fee and technical support pay in beyond ten percent for first three years and eight percent for following years of net income revealed in the income statements.

If salary and remuneration has been done other than banking channel to an employee taking monthly total pay of Tk. 15000 or more. Any outlay as an incentive bonus beyond 10 percent in total of the net profit revealed in the statements of accounts. Any spending as foreign travelling surpassing 1.25 percent of the revealed turnover. Any expense in the name of commission paid or discount made to its shareholder director by a company.[22]

India: A number of deductions are taken into account in calculating taxable income, and each head of income had its particular special rule. Permissible deductions includes wages and salaries, reasonable bonuses and commission, rental, maintenances, assurance, royalty payments, interests, lease payments, particular taxes (i.e. sales tax, municipal tax, road tax, property and expenditure taxes and customs duty etc.),depreciation, expenses for supplies, expenses for scientific research and input to scientific research association and professional fees for tax services.

[22]Rahman Rahman Huq, Taxation handbook (Updated to Finance act 2018). https://assets.kpmg/content/dam/kpmg/bd/pdf/TaxationHandbookFinanceAct2018.pdf (accessed 13/3/2019).

Some non deductible expenses for companies are provision for bad debt, but there is special provision for bad debt deduction at the time of writing off. Preliminary expenses for raising share capital are not allowable because those are capital in nature. Expenses incurred for non-taxable income are not permissible. No illegal or prohibited expense like bribe are not permissible as deduction.

Amounts contributed to a benevolent organizations are deductible to the extent of 50 percent of the contribution, or 100 percent of the contribution if the company has positive taxable income. No deduction is allowed for expenses paid to a person in a day in excess of INR 10000 except paid by the banking channel.

Head office expense for general administration are deductible in a limited way. These may not go above 5 percent of annual income or the actual payment of head office expenses attributable to the Indian part of operation during the year whichever is lower. But this may be treated differently (according to the treaty) if there is a tax treaty with the country of of that company.

Pakistan: all expenses relating to the operation of business are allowable deduction i.e. expenses incurred to determine the taxable profit are deductible. Head office expenses for foreign companies are deductible according to proportion of Pakistani turnover to worldwide turnover. Provision for bad debt are not allowable for deduction but bad debt write off is acceptable if the tax official think that it is irretrievable.[23]

Sri Lanka: Other than expenses of capital nature all operating expresses to generate business and investment income are allowed for deduction from corresponding income. The deductible expenses are as follows:

Interest expenses, repair and maintenance expense, depreciation expense, research and development expense including capital portion if it is incurred by Sri Lankan institute. Starting expenses for agricultural like— explore new land for farming or animal farming, buying of livestock and farming of land.

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[23] EYGM Limited. *Worldwide Corporate Tax Guide 2018,* Bahama: EYGM Limited, 2018. https://www.ey.com/Publication/vwLUAssets/EY_Worldwide_Corporate_Tax_Guide_2018/%24File/EY-2018-worldwide-corporate-tax-guide.pdf (accessed in 29/4/2019).

Companies might claim deduction if it made donation to government or to permitted charities. Cash donations to the government are deductible in full.

Nondeductible expenses are capital expenses, personal and domestic expenses, spending experienced in stemming exempt amounts, final withholding tax payments, entertainment expense, and expenses related to source tax if it has not been paid to the Inland Revenue Department. In general, no deductions are allowed for bad debt provisions.

5.4.2.3 Tax Depreciation

Depreciation on capital assets are subtracted throughout the economic life of an asset. Bangladesh, India, and Pakistan have used the diminishing balance method of depreciation, whereas Sri Lanka have taken the straight-line method. In the straight-line method, depreciation allowance are calculated on the cost price of the asset by dividing the useful life of the asset. Equal annual allowance are found in this method. On the other hand, diminishing balance method calculate depreciation on the written-down value of the asset. So the amount of annual depreciation amount are gradually decreasing.

Bangladesh, Pakistan and Sri Lanka have implemented the listed system of depreciation where depreciable assets are listed in the depreciation table, and the economic life and rate of depreciation of each asset are specified distinctly. Alternatively, India has accepted the combined system, where depreciation rates are fixed for a class of assets.[24] The rate of general depreciation vary asset wise from 2 to 20 percent in these countries. There is also accelerated depreciation in every country as an alternative to tax holiday and the rate is 20 to 100 per cent for different industry sectors prescribed in the tax code.

Country wise brief descriptions regarding tax depreciation are presented below:

Bangladesh: in Bangladesh depreciation is calculated using the diminishing balance method and is allowed on classes of assets. Depreciation rates vary according to the

[24]Khadka, Rup. ‘‘Corporate Income Tax in the SAARC Region.’’ http://therisingnepal.org.np/news/544. (Accessed 24/6/2019).

class of assets. General depreciation rates for plant and machinery is 20 percent (and different special rates for other assets prescribed in the 3rd schedule) for buildings (other than plant buildings) general rate is 10 percent and 20 percent for factory building, for furniture and fittings it is 10 percent and for physical infrastructure facilities like bridges, roads, flyovers it is 2 percent.

Depreciation on machinery and plant for new industrial entrepreneur between 1st July 2014 and 30th June 2019 as follows: 50 percent for 1st year, 30 percent for 2nd year and 20 percent for 3rd year. Physical infrastructure facilities are not entitled to get accelerated depreciation allowance under section 46C. Tax holiday and accelerated depreciation are mutually exclusive according to the provisions of paragraph 7(2) (d) and paragraph 7A (1) (a) and 7B (2) (d) of Third Schedule.

India: Depreciation is calculated using the diminishing balance method and is permitted on classes of assets. Depreciation rates vary according to the class of assets. The general rates of depreciation for plant and machinery is 15 percent, for the purposes of rental business the rate for motor buses, motor Lorries and motor taxis are 30 percent. Motor cars used for business on hire 15 percent. Buildings and furniture are depreciated at 10 percent. Intangibles assets are also depreciable, such as technical knowledge, patents, copyrights, trademarks, licenses, franchises or other similar commercial rights. These items are depreciated using the diminishing balance method at a rate of twenty five percent.

Accelerated depreciation are also apply to certain assets, those are computer and computer software, energy saving devices, equipment for air or water purification. The rate applicable for those assets vary from 40 percent to 100 percent. Companies involved in power generation and circulation may select to use the straight-line method of depreciation at stated rates.

Pakistan: Depreciation is calculated using the diminishing balance method. The following depreciation rates are usually used. The rates of initial depreciation allowance are for building 15 percent and for other kind of assets it is 25 percent. There is some eligibility criteria for being a depreciable asset. Some of those are allowance will be given in the tax year; first use in the business of taxpaying entity;

the date for counting depreciation will be the date of beginning of commercial operation.

Other than initial depreciation there is some accelerated depreciation for tax purposes. Industrial units established in rural and less developed areas are permitted 90 percent depreciation allowance instead of initial allowance in the first year for plant, machinery and equipment and in the same manner industrial undertaking established for generating alternate energy anyplace in Pakistan are also allowed 90 percent depreciation allowance for their plant, machinery and equipment mounted for this purpose.[25]

Sri Lanka: In Sri Lanka straight line method of depreciation is used. Depreciation for buildings 5 percent, for plant and machinery or equipment, motor cars, fittings and computer hardware it is 20 percent. For intangible assets (excluding goodwill) the rate is 5 to 20 percent. Losses on the sale of a depreciable asset may be claimed as business losses.[26]

5.4.2.4 Treatment of losses

Bangladesh, India, Pakistan and Sri Lanka permit company taxpayers to carry forward business and other losses and offset them against profits in coming years, but the carry-forward period varies from country to country. In Bangladesh, any unused loss in the income year may be carried forward for six years. In India business losses may be carried forward and to be set off against taxable income resulting from business in the following eight years. In Pakistan, carry over period is 6 years for general companies but 10 years for banking companies. In Sri Lanka business losses can be subtracted in full in ascertaining the taxable income of a company. Any unabsorbed loss may be carried forward for successive six assessment years. There are some conditions like timely submission of tax return etc. for loss to be carry forwarded. In all the cases unabsorbed depreciation loss can be carried forward for limitless period and there is no provision for loss carry back.

[25] EYGM Limited. *Worldwide Corporate Tax Guide 2018*, Bahama: EYGM Limited, 2018. https://www.ey.com/Publication/vwLUAssets/EY_Worldwide_Corporate_Tax_Guide_2018/%24File/EY-2018-worldwide-corporate-tax-guide.pdf (accessed in 29/4/2019).

[26] Ibid.

5.4.2.5 Minimum tax

Some South Asian countries charge a minimum tax or minimum alternative tax as a supplement to the corporate income tax. In India and Pakistan there are minimum alternative taxes. The tax rate is 18.5 per cent in India and 17 per cent in Pakistan on accounting income. This tax is creditable against corporate income tax liability. If the minimum alternative tax surpasses the corporate income tax liability, the additional may be carried forward for seven years in India and 10 years in Pakistan. In Bangladesh minimum tax would be higher of: a) withholding tax on certain sources of income; and b) minimum tax calculated on the basis of overall gross receipts irrespective of sources of income. A minimum tax is imposed at 0.60/1/.75/or 0.10 percent on gross receipt from all sources for a company irrespective of profit or loss. In Sri Lanka there is no provision of minimum tax.

A Country wise brief description of minimum tax is given below:

Bangladesh: Section 82C: Final discharge of tax liability of ITO 1984 has been replaced with new section 82C- Minimum tax. As per new 82C, minimum tax would be greater of: a) withholding tax on particular sources of income; and b) minimum tax calculated on the basis of overall gross proceeds irrespective of sources of income.

A minimum tax is imposed at 0.60 percent on gross receipt from all sources for a company other than mobile phone operator and manufacturers of cigarettes and other tobacco products. The tax rate is 0.10 percent on gross receipts for an industrial undertaking engaged in manufacturing of goods for the first three income years from the commencements of its commercial production. Minimum tax is 1 percent on gross receipt for cigarette and other tobacco producing entities and 0.75 percent for mobile phone operator companies. Minimum tax is applicable to taxpayer that have gross receipts of more than BDT 5 million from any source. that is exempt or is subject to tax at a reduced rate is calculated based on a prescribed method.

India: Minimum alternative tax (MAT) is applied to the companies which have less than 18.5 percent tax payable calculated under the provision of the act. It is charged at a rate of 18.5 percent of accounting profit, plus surcharge and cess (the rate of surcharge is 7 or 12 percent for domestic companies and 2 or 5 percent for foreign companies, and the cess is levied at a rate of 3 percent). It is only 9 percent for the units situated in the international financial service center and arises its income uniquely in convertible foreign exchange. MAT is charged on companies only and does not apply to partnership or individuals or other persons. They are separately subject to an alternative minimum tax of 18.5 percent, plus applicable surcharge and cess.[27]

Pakistan: Resident companies and nonresident banking companies are subject to a minimum income tax equal to 1.25 percent of gross proceeds from sales of goods, services rendered and the accomplishment of contracts. It is applicable when the corporate tax payable is lower than the amount of the minimum tax.

If the corporate tax is less than 17 percent of the book income an alternative corporate tax at the rate of 17 percent on accounting income is required to pay as minimum tax. The excess of the minimum tax over the corporate tax liability may be carried forward and used to offset the corporate tax liability of the following ten tax years. The tax liabilities of a company is calculated as the greater of the alternative corporate tax or the total corporate tax payable.[28]

Sri Lanka: Minimum tax is not available.

5.4.2.6 Tax incentives

Generally tax incentives are used to attract foreign and local investment, and increased investment leads to industrial development. There are different kinds of tax incentives available in this region, such as tax holidays, tax deductions, rebates, accelerated depreciation, and investment and reinvestment allowances. All these are provided upon fulfilling some eligibility criteria set by those countries. There is a practice of setting up export processing zones (EPZ), special economic zones (SEZ) and technology parks, and providing various incentives to the industries established in those areas. Tax holiday period in those countries are vary from 3 to 15 years and the rate of exemptions are vary from 10% to 100%. Priority sectors are infrastructure,

[27] EYGM Limited. *Worldwide Corporate Tax Guide 2018,* Bahama: EYGM Limited, 2018. https://www.ey.com/Publication/vwLUAssets/EY_Worldwide_Corporate_Tax_Guide_2018/%24File/EY-2018-worldwide-corporate-tax-guide.pdf (accessed in 29/4/2019).

[28] Ibid.

power generation and distribution, information technology and agriculture. In Pakistan and Sri Lanka tax holiday facilities are rarely used but they extensively use capital allowance according to the size and location of the investment.

Bangladesh: Incentives are provided under different section of ITO 1984 and different S.R.Os issued by the tax authority. There is different type of tax incentives available in Bangladesh. Some of them are mentioned below:

- Tax incentives under newly established undertakings for five to seven years. For industrially developed areas it is for five years and for less developed areas it is for seven years. Exemption percentage vary from 20% to 100%.
- Tax exemption for newly established physical infrastructure facilities for 10 years. It is 100% in the first year and is diminishing at 10% every year up to 10th year.
- Tax benefit for investment in Special Economic Zone (SEZ) and Hi-tech park zone. these benefits are given in two form first one is for 10 years for investing in SEZ and Hi-tech parks and the rate is 100% for first 3 years and and from 4th year it is from 90% to 20%. Second one is for 12 years for the developing units in the same zones and the rate of exemption is 100% up to 10th year and 70% and 30% for the remaining two years.
- Incentives for private sector electricity generating companies (not coal based) will get 100% tax exemptions for first 5 years and 50% for next 3 years and 30% for the remaining 2 years.
- Incentives for private sector power generation companies (other than coal based). Companies entering into agreement for establishing power plant within June 2020 and will starting commercial production within 30th June 2023 will exempt from corporate tax on power generation income for a period of 15 years from the beginning of commercial production. Other Tax-Exempted Incomes in this regard are (a) Income of the foreign individuals working in the company for 3 years from the date of their entering into Bangladesh (b) Interest payable on foreign loan taken by the company (c) Royalties, technical knowledge and technical assistance fee payable by the

company, and (d) capital gain ascending from handover of the shares of the company.

- Industries in Export Processing Zones (EPZ) will get 5- 7 years tax exemptions at different rates based on different locations.[29]

India: Subject to some conditions set in the tax code, the following tax exemptions and deductions are offered to companies with respect to business carried on in India:

- A ten year tax holiday equal to hundred percent of the taxable income is offered to undertakings or enterprises involved in the developing or operating and mining, operating and maintaining infrastructure facilities. Generation or generation and distribution of power and starting transmission or distribution by putting a network of new transmission or distribution lines. Undertaking substantial renovation and modernization (at least 50% increase in book value of plant and machinery) of an existing network of transmission or distributions.
- A 10-year tax holiday equivalent to 100 percent of profits and gains from an undertaking or initiatives that begins the development of a Special Economic Zone (SEZ) subject to particular conditions.
- A 10-year tax holiday equivalent to 100 percent of taxable profits for the first 5 years and 30 percent of taxable profits for the next 5 years from the agro processing business.
- One hundred percent of the income resulting from the real estate business.
- A three-year tax holiday with respect to profits resulting from a business that involves innovation.
- A 15-year tax holiday for profits from export activities by business units that begin to manufacture or produce articles or things or provide services in SEZs.
- Accelerated deduction of capital spending (other than expenses on the purchase of land, goodwill or financial instruments) incurred, wholly and

[29] Rahman Rahman Huq, Taxation handbook (Updated to Finance act 2018). https://assets.kpmg/content/dam/kpmg/bd/pdf/TaxationHandbookFinanceAct2018.pdf (accessed 13/3/2019).

exclusively for some particular businesses in the year of the happening of such expenses.

- Weighted deduction at a rate of 150% on expenditure on agriculture extension projects and on specified sums expended on skill development projects.
- A 10-year tax deduction equal to 100% of profits derived from an industrial unit that begins the manufacturing or production of specified goods or carries on specified business in northeastern states.

Pakistan: Some of the important tax incentives available in Pakistan are described in the following paragraphs:

- Power generation schemes by private sectors entities are exempt from tax. Though, this exemption is not available to oil fired electricity generation plants set up during the period of 22 October 2002 through 30 June 2006.
- Income generated from instruments of convertible capital approved by the Securities and Exchange Commission is exempt from tax if they dispense at least 90 percent of their profits to their to their unit holders.
- Income from collective-investment scheme or real estate investment trust scheme is exempt from tax if at least 90 percent of the scheme's accounting income for the year is distributed among the unit or certificate holders or shareholders.
- Income arising from the export of computer software developed in Pakistan and related services is exempt from tax until 30 June 2019.
- 10 percent tax credit is available for industrial units investing in plant and machinery and those are installed between July 2010 and June 2019. Unused portion of tax credit can be carried forward for the upcoming two years.
- 20 percent tax credit is available for companies which have been raised their capital through 100 percent equity financing if the companies are established between July 2011 and June 2016. Any unrealized tax credit can be carried forward for up to next five years.
- Companies newly listed with the stock exchanges will get 20 percent tax credit for first two years and at the rate of 10 percent for the next two years.

- Companies established with half of the capital of foreign investment and established between July 2014 and June 2017 will get a reduced tax rate 20 percent for first five year after the starting of production.
- Two percent tax will be reduced for a company if the share of those companies are traded in stock exchanges under some specific conditions.[30]

Sri Lanka: Tax holidays are not available in Sri Lanka. Accumulated depreciation allowance and normal depreciation allowance are available in Sri Lanka for newly established industrial companies. The following are some accelerated capital allowances:

- A higher capital allowance of 200 percent and 100 percent are allowed for investment surpassing USD 3 million in property plant and equipment and on other fixed assets other than intangible assets in the Northern Province and other province respectively.
- An enhanced capital allowance of 150 percent is allowed for investment above USD 100 million in fixed assets other than intangible assets in other provinces.
- Investment above USD 250 million in the state owned companies will allowed an improved capital allowance of 150 percent.
- Some conditions relating to improved capital allowance are, it must be claimed in the year of assessment, unabsorbed loss of this allowance should be demanded in ten years. This time might be prolonged to twenty five years if the investment surpasses USD 1 billion.
- Companies having agreement regarding renewable powers with Ceylon electricity board will get a reduced rate of 14 percent if the agreement is done within November 2016.
- Research and Development (R&D) expenses are hundred percent excluded from business income.

[30] EYGM Limited. *Worldwide Corporate Tax Guide 2018*, Bahama: EYGM Limited, 2018. https://www.ey.com/Publication/vwLUAssets/EY_Worldwide_Corporate_Tax_Guide_2018/%24File/EY-2018-worldwide-corporate-tax-guide.pdf (accessed in 29/4/2019).

- Capital allowance available for investing in ICT equipment, specified depreciable assets for all over the country at the rate 200 percent and 100 percent respectively.

5.4.2.7 Transfer pricing rules

In recent years transfer pricing rules have been introduced in the South Asian countries. If significant pricing discrepancies are considered artificial, tax authorities have the discretion to determine the arms length price of those transactions. The following paragraphs are the brief descriptions regarding county wise transfer pricing rules:

Bangladesh: Transactions comprised are transaction amid related parties, either or both are non resident, form of transactions are buying, sale or lease of tangible or intangible property, services rendering, lending or borrowing, or any other transactions with implications on profit or loss or on financial positions or economic value of those enterprises.

DCT has the power to determine the transaction either it is done in arms length price or not. If it is not in arms length price he will determine the arm length price.

Persons entered into overseas transactions have to submit some document regarding these transactions those are a statement of worldwide transactions in the approved form with its tax return. The taxpayer has to provide a transfer pricing report on those transactions if those go beyond taka 30 million in total in a particular year. This report will be provided on demand of DCT and the report will be prepared by the CA and CMAs.

If any company miss the mark to submit transfer pricing report with corporate income tax return this will cause a consequence of maximum two percent on the value of global dealings. Transfer pricing rules are in effect from 1st July 2014.[31]

India: In recent years India adopted transfer pricing rules in their tax code. Mainly it has followed the OECD philosophy to formulate its own transfer pricing guideline. Arms length price is the prescribed way to deal with the international transactions

[31] http://bdlaws.minlaw.gov.bd/act-672.html (accessed 12/7/19).

among associated parties regarding incomes, expenses and payment of interest. This regulations are also used to, cost-sharing activities, particular capital-financing dealings, business reforms or restructurings and transactions in intangibles.

Pakistan: Pakistan recently includes transfer pricing provisions in their tax code. International transactions among related parties related with income, expenses, acquisition of assets and other costs related with business reorganization or restructuring amount other transactions will be treated as transfer pricing transactions. Arms length price will be applicable for those transactions. But there is requirements for documentation for such transactions according to the law of Pakistan but there is rule for mutual agreement procedure. This procedure will be applicable if a reference is received from an appropriate authority.

Sri Lanka: Under the Inland Revenue Act, if substantial pricing differences are reflected “artificial,” the tax authorities may regulate a commercially suitable price for tax purposes. Incomes and losses from dealings between related business entities are ascertained considering the arm’s-length principle. Now, transfer-pricing guidelines apply to indigenous dealings above LKR 50 million and to foreign transactions above LKR 100 million. Advance pricing arrangements may be arrived into with the Department of Inland Revenue with regard to “global dealings.” The arm’s-length price is ascertained using means set for this purpose.

5.4.2.8 Anti avoidance rules

Anti avoidance rules have been incorporated in the tax code of selected four countries recently. Generally tax law contains anti-tax avoidance instructions under which transactions not reflecting material, with no considerable economic result or dealings arrived into fulfill the objective of a tax avoidance arrangement may be ignored or given a reshape. By considering this above mentioned principle all these countries have designed their anti avoidance rules to fight avoidance schemes.

5.4.2.9 Thin Capitalization rule/Debt to equity Ratio

In the selected SAARC countries there is thin capitalization rules or debt to equity rules. In Bangladesh no directive for controlled foreign corporations (CFC) but a recommended gearing ratio 70:30 for thin capitalization for domestic firms. India does not currently impose obligatory debt-to-equity rules. Though banks and financial corporations need to comply with capital sufficiency norms. In Pakistan there is thin-capitalization rules, if the debt-to-equity ratio of a foreign company (other than a financial institute or a banking company) surpasses 3:1 then interest expense on foreign liability in excess of the 3:1 ratio is not deductible. In Sri Lanka a debt-to-equity ratio of 3:1 used to industrial corporations, and a 4:1 ratio applicable to other categories of corporations. Interest paid on debts in excess of those debt-to-equity ratios are not deductible for tax purposes.

5.4.2.10 Agreement for avoiding double taxation

Selected four South Asian countries has an inclusive tax agreement network. The accords usually offer for release from dual assessment on all sorts of income and limit the assessment of non-resident companies and defend nonresident companies from biased taxation in the host country. Currently Bangladesh has performed double taxation avoidance agreement (DTAA) with its 33 trade partners. India also has a inclusive tax treaty net and newly singed the OECD multilateral instrument (MLI) on 7 June 2017. Pakistan has settled 69 tax accords and also singed the OECD MLI on 7 June 2017. Sri Lanka has done DTAA with 45 countries including SAARC multilateral treaty.

5.5 Conclusion

Corporate tax is a vital member of the direct tax family in the South Asian countries. There are some similarities and dissimilarities in the construction and functioning of corporate tax in this region though the genesis of taxation was from the same point. It has found some homogeneity in the legal and administrative systems of all the selected countries. There is a poor tax-GDP ratio through out the region in comparison to global scenario but the tax rate is moderate and showing a decreasing trend. In case of tax depreciation and tax incentives all the countries have their unique schemes to attract investments. Selected countries have adopted recently anti avoidance rule and transfer pricing rule. All the selected countries have a comprehensive double taxation avoidance treaties with their major trade partners. In the long run, it is suggested to harmonies South Asian corporate tax regimes for effective functioning of the south Asian economies.

Chapter Six

Corporate ETR in Bangladesh

6.1 Introduction

An effective tax rate (ETR) is the ratio of tax expense to earnings before tax. It can be measured in different ways but most of the cases numerator is tax expense and tax liabilities and denominator is earnings before tax or operating cash flows. ETR has drawn attention to policy makers and academicians because it can reflects actual tax burden and can summarize the tax incentives effect of a company in a single statistic.[1] We know that accounting profit and profit calculated for taxation are not same because profit for income tax are calculated according to the provision of the tax law and accounting profit are calculated according to the international financial reporting standards. These differences are known as ‘temporary and permanent differences’. Because of this complex measurement system of tax by using statutory tax rate, effective tax rate is widely used by the reformers and academicians. There is a number of studies about corporate ETR and its determinants in many developing and developed countries but there is hardly any study in the field of corporate ETR in Bangladesh. In this chapter corporate ETR of selected Dhaka Stock Exchange (DSE) listed manufacturing companies are calculated by using current based ETR calculation method, and variability of ETR are also determined by considering some company specific characteristics. Data have been collected from selected 52 companies for 8 years starting from 2011 to 2018 and arranged, modified and analyzed in the manner prescribed in the methodology part of the introductory chapter. Different parts of this chapter are meaning and objectives of ETR, type of ETR, different measures of ETR, and analyzing different dimension of ETR calculated for our sample companies, and lastly, interpretation of the regression results to know the causes of variability of ETR.

[1]D.S. Callihan, ‘‘Corporate Effective tax rates: A synthesis of the literature.’’ *Journal of Accounting Literature* 13(1994):1-43.

6.2 Meaning and Objectives of ETR

Corporate effective tax rate (ETR) is a ratio which is used by investors as an indicator for profitability of a company. It represents the actual percentage of tax imposed on a company's profits. ETR can be higher or lower than the corporate statutory tax rate because of several adjustments to accounting profit mentioned in the tax laws of that country in order to arrive at taxable profits. Some common adjustments to arrive at a taxable profit are depreciation, impairment and non-deductible expenses among other issues. ETR is also an indicator of how efficiently companies are executing their tax planning efforts to mange its tax cost.

There are different groups who are interested in ETR. Of them mainly three groups are mentionable- a) business people, b) economists and 3) politicians and lawyers. Objectives of these three groups are different. Business people want to know the effectiveness of their tax planning efforts, they want to increase the post tax performance of their company by using different alternative tax plans. Objectives of the economists are bit different from business people because they emphasize more on pretax income. They want to show possible economic inefficiencies caused by the distortion arises out of taxation decision. Third interested groups are politicians, and they want to maximize the welfare of the people. Lawyers are involved in this process because they review the tax related judgements and seek an equitable solution to their clients. In this case they have to know the effective tax burden to evaluate the present law or enactment of new law. From this brief discussion we realize that each group have their own interest to know the actual tax burden. Some general objective for ETR are making informed decision by knowing the actual tax burden and also to know the level of competition among entities by analyzing before and after tax efficiency of the entity.[2]

6.3 Type of ETR

Two types of ETR are mostly cited in the tax literature. One is described from economic view point and and another one is from accounting view point. ETR

[2]Lothar Lammersen, ''The Measurement of Effective tax rate: Common themes in business management and economics.'' *Center for European economic research*, discussion paper 02-46, June 2002.

described from economic view point is called marginal effective tax rate (METR) and ETR described from accounting view point is called average effective tax rate (AETR). In this chapter AETR has been calculated and analyzed for achieve our objective of this chapter.

Generally effective tax rate does not specify whether it is average ETR or marginal ETR. Average ETR defined as some measure of tax over some measure of income. There are different formula used to calculate average ETR which have been described in the later part. Marginal effective tax rate (METR), measured as the change in tax for a given change in income.

6.4. Different Measures of ETR

There are different methods used in measuring ETR. Some of those methods are discussed in this section and which formula we have used to calculate ETR and what are the justifications for using this formula are also discussed in this section.

6.4.1 Methods of ETR

ETRs are usually calculated as tax expense divided by income before tax but there is sizable disagreement about the suitable definition of both the numerator and denominator to calculate ETR. Previous studies have shown different measurement methods of ETR by using different numerator and denominator. A study by Omer et al on measurement of ETR by using financial statement data showed several measures of ETR.[3] They mentioned five different measures used by the previous researchers as follows:

Table 6.1 Different formula of ETR by previous researcher

Researchers	Year	Formula for ETR
Joint Committee on Taxation (USA)	1983	Current world wide income tax expense/ before tax income minus loss form subsidiaries and

[3] Omer, T., Molloy, K. and Ziebart, D. Spring, ‘‘Measurement of effective corporate tax rates using financial statement information.’’ *The Journal of the American Taxation Association* Vol 13(1) (1991):57-72.

		discontinued operations plus income from minority interests.
Porcano, T.M.	1986	Current federal income tax expense/before tax income
Zimmerman, J.L.	1983	Total tax expense minus changes in deferred tax liabilities and investment tax credit/operating cash flow.
Shevlin, T	1987	Total tax expense minus changes in deferred tax liabilities(DTL) /Pretax income(minus changes in DTL/Statutory marginal tax rate)
Stickney, C.P., and V.E. McGee	1981	Total tax expense minus deferred tax expense/before tax income(minus deferred tax expense/statutory marginal tax rate)

Gupta and Newberry in 1997 have calculated ETR for the same purpose in two way: ETR 1: current tax expense/ net income before tax (NIBT) and another one is ETR 2: current tax expense/ operating cash flows. In that study they used world wide corporate tax as the numerator.[4] Another study by Hanlon and Heitzman in 2010 have explained the policies based on the deferred part of tax expense and said this tax don't have effect on the average ETR. Due to the effect of time value of money companies want to pay less tax in present time and defer a large portion of tax to pay in future. Companies always try to maintain this policy to keep the present tax expense as minimum as possible.[5] In this study we use only current portion of tax expense to know the actual tax burden of the company. The formula we have used and justification for using it and how we address some problems at the time of measuring actual ETRs of our sample companies are described in the following sections.

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[4] S. Gupta, and K. Newberry, ''Determinants of the Variability of Corporate Effective Tax Rates: Evidence from Longitudinal Data'', *Journal of Accounting and Public Policy,* 16 (1997): 1–34.

[5] M. Hanlon, and S. Heitzman, ''A Review of tax research'', *Journal of Accounting and Economics*, 50 (2010): 127–178.

6.4.2 Formula Used in this study and its Justification

To fulfill the objective of our study I have to calculate ETR first as it is the only dependent variable of this study. To do so, I have chosen a formula which have been used in many previous ETR research. The formula is: ETR= current tax expense divided by net income before tax (NIBT).

The justification for using this formula can be described in two way, one is justification of using this numerator and justification of using this denominator. First I use current corporate global tax expense as numerator because I have wanted this study to be compatible with several previous research on ETR by citizen for tax justice (CTJ) in USA in 1985 and 1988, Gupta and Newberry in 1997, Boudewijn Janssen and Willem Buijink in 2000 in Netherland and Rohaya et al in 2010 in Malaysia. Another justification for the numerator is using corporate global income tax expense because splitting local and overseas taxes will be difficult and sometimes may yield misleading ETR.

Justification regarding the use of net income before tax (NIBT) as the denominator may be stated in there are three alternative ways— taxable income, book income and net cash flow from operating activities. Taxable income is excluded because our objective is to reflecting the influence of tax incentives on ETR. If I use numerator and denominator both as after tax amount then any methodical variation in ETR through tax incentives will not be observed. Another justification for using NIBT as denominator because policy makers centers their attention to the financial statement amounts.[6] We use only one ETR measure in this study that is why we do not use net operating cash flow as another denominator.

6.4.3 Addressing the problems to Measure ETR

There is some problems with measuring ETR when I face negative income, tax refund and negative cash flows. Here I consider two situations one is ETR of a firm with negative NIBT and a negative current tax expense and another situation is ETR of a

[6]S. Gupta, and K. Newberry, ''Determinants of the Variability of Corporate Effective Tax Rates: Evidence from Longitudinal Data'', *Journal of Accounting and Public Policy,* 16 (1997): 1–34.

firm with positive current tax expense but negative NIBT. To address these problems I set ETR =0 for negative NIBT and ETR=1 when current tax expense is positive but NIBT is negative. I constrained the ETR of our sample companies to lie between 0 per cent and 100 per cent.

6.5 Dimensions of ETR: Analysis of Empirical Result

In this study ETR is calculated as current tax expense divided by net income before tax (NIBT). By using this formula ETRs have been calculated by using MS Excel spread sheet. Following tables are prepared to know the calculated ETR from different viewpoint and a reasonable detail regarding those values are also presented.

6.5.1 Statutory Tax Rate for Business Income

Rate for Publicly traded companies i.e. companies listed with any stock exchange in Bangladesh and belongs to the ‘Others’ category for the tax purposes mentioned in the rate schedule of the Finance acts, were 27.5 per cent for 2011 to 2014 and from 2015 it was 25 per cent and still it is remain the same.

For textile companies it is 15 per cent through out our study period. By SRO no. 218- aykor /2003 dated 19/7/2003, textile companies' tax rate determined at 20 per cent and it was sustained up to 30/6/2004 and in the same year 2004 a new SRO no. 219- ain /aykor/2004, dated 13/7/2004 was circulated with a 15 per cent tax for textile companies and this rate is still effective through different time extending SROs. The latest SRO regarding this issue was SRO no. 193 ain/ aykor/2015, dated 30/6/2015 this SRO extended the time period up to 30th June 2015. We have summarized the statutory tax rate (STR) and average STR for our sample companies in the following table.

Table 6.2 Average statutory tax rate for textile sector and other than textile sector

Sectors/Rates	For textile sector	Other than textile sector
Statutory Tax Rate (STR)	15% (as per S.R.Os throughout our study period)	27.5%(2011 to 2014)and 25% (2015 to 2018).
Average STR	15%	26.25%

Source: Finance Act (FA) 2011 to 2018.

6.5.2 Company wise ETR

Table 6.3 Company wise average ETR from 2011 -2018

SL No	Name of Company	Industry Sectors	Average ETR
1	Heidelberg Cement Bangladesh Ltd.	Cement	0.2695
2	Lafarge Surma Cement Ltd.	Cement	0.2161
3	Meghna Cement Mills Ltd.	Cement	0.3664
4	Fu-Wang Ceramic Industries Ltd.	Ceramics	0.2206
5	Monno Ceramic Industries Ltd.	Ceramics	0.2224
6	Aftab Automobiles Ltd.	Engineering	0.2161
7	Anwer Galvanizing Ltd.	Engineering	0.2352
8	Aziz Pipes Ltd.	Engineering	0.5145
9	Bangladesh Lamps Ltd.	Engineering	0.3284
10	Bangladesh Thai Aluminum Ltd.	Engineering	0.3229
11	Eastern Cables Ltd.	Engineering	0.3617
12	National Polymer Industries Ltd.	Engineering	0.2763
13	Quasem Drycells Ltd.	Engineering	0.2484
14	Rangpur Foundry Ltd.	Engineering	0.2621
15	Singer Bangladesh Ltd.	Engineering	0.2712
16	Agricultural Marketing Company Ltd. (PRAN)	Food and Allied	0.2403
17	Apex Foods Limited	Food and Allied	0.6939
18	Bangas Ltd.	Food and Allied	0.4346
19	Meghna Condensed Milk Ltd.	Food and Allied	0.8750
20	Fine Foods Limited	Food and Allied	0.0390
21	Fu Wang Food Ltd.	Food and Allied	0.2150
22	Gemini Sea Food Ltd.	Food and Allied	0.5640
23	Olympic Industries Ltd.	Food and Allied	0.2671
24	Rahima Food Corporation Ltd.	Food and Allied	0.1178
25	Bangladesh Welding Electrodes Ltd.	Fuel and Power	0.5036
26	CVO Petrochemical Refinery Ltd.	Fuel and Power	0.2440
27	Padma Oil Company Ltd.	Fuel and Power	0.2667
28	Linde Bangladesh Ltd.	Fuel and Power	0.2432
29	ACI Ltd	Pharmaceuticals & Chemicals	0.2699
30	Beximco Pharmaceuticals Ltd.	Pharmaceuticals & Chemicals	0.1972
31	GlaxoSmithKline Bangladesh Ltd.	Pharmaceuticals & Chemicals	0.2632
32	Keya Cosmetics Ltd.	Pharmaceuticals & Chemicals	0.1780
33	Kohinoor Chemical Co. (Bd.) Ltd.	Pharmaceuticals & Chemicals	0.2625
34	Orion Infusion Ltd.	Pharmaceuticals & Chemicals	0.1677
35	The IBN SINA Pharmaceutical Industries Ltd.	Pharmaceuticals & Chemicals	0.2142
36	Renata Limited	Pharmaceuticals & Chemicals	0.2172
37	Square Pharmaceuticals Ltd.	Pharmaceuticals & Chemicals	0.2355
38	Apex Tannery Ltd.	Tannery	0.2451
39	Bata Shoe Co. Ltd.	Tannery	0.2987
40	Legacy Footwear Ltd.	Tannery	0.1382
41	Al-Haj Textile Mills Limited	Textile	0.1905
42	Alltex Industries Ltd.	Textile	0.0939
43	Anlimayarn Deying Ltd.	Textile	0.1624
44	Apex Spinning & Knitting Mills Limited	Textile	0.4739
45	Desh Garmants Ltd.	Textile	0.1463
46	H.R.Textile Ltd.	Textile	0.1892
47	Metro Spinning Ltd.	Textile	0.4092
48	Prime Textile Spinning Mills Limited	Textile	0.1578

49	Rahim Textile Mills Ltd.	Textile	0.1634
50	Sonargaon Textiles Ltd.	Textile	0.8280
51	Square Textile Ltd.	Textile	0.1519
52	Stylecraft Limited	Textile	0.3596
		Average ETR	0.2894

Source: table data have been compiled and calculated by the researcher.

Company wise average ETR for our study period has been calculated by using prescribed formula mentioned above. In our study period statutory tax rate was 27.5% in the first four year and 25% in the last four year and eight years average statutory tax rate was 26.25 per cent. From the above table we have observed some unusual (very high or very low) average tax rate for some of our sample companies. The name of the companies and reason for those unusual rates are explained chronologically.

Companies with higher ETRs are Aziz pipes ltd 51%, Apex Foods Limited 69%, Meghna Condensed Milk Ltd 87%, Bangladesh Welding Electrodes Ltd 50%, Apex Spinning & Knitting Mills Limited 47%, Metro Spinning Ltd 40% and Sonargaon Textiles Ltd 82%. Reason for this higher ETRs may be for setting ‘1’ for negative NIBT with positive current tax expense. Here 1 means 100%. So we can say that, above mentioned companies have more negative NIBT and positive current tax expense from calculation perspective. Another general reason for higher ETR may be for ineffective tax planning effort by those companies.

On the other hand companies with lower ETRs are Fine Foods Limited 3%, Rahima Food Corporation Ltd 11% and Alltex Industries Ltd 9%. The reason for the lower ETRs are caused by the distortion occurred at the time of calculating ETRs. Because we set ETR= 0 for companies with negative NIBT and negative current tax expenses. Other reasons for lower ETRs may be due to the better tax planning effort by those companies.

Average ETR for our sample companies are 28.94 which is bit higher than average statutory rate 26.25 percent. But most of the cases it has seen that, the rate was within the normal range.

6.5.3 Industry sector wise ETR

Table 6.4 Sector wise 8 years average ETR

Industry sectors	No. of Companies	No. of Observations	Average ETR for all observations	Average ETR after removing '0' and '1'
Cement	3	24	0.2840	0.2963
Ceramic	2	16	0.2215	0.2215
Engineering	10	80	0.3037	0.2680
Food and Allied	9	71	0.3867	0.3164
Fuel and Power	4	31	0.3083	0.2428
Pharmaceutical and chemicals	9	72	0.2223	0.2320
Tannery	3	24	0.2273	0.2273
Textile	12	96	0.2772	0.2164
No. of Companies, observations and averages	**52**	**414**	**0.2788**	**0.2525**

Source: Table data have been compiled and calculated by the researcher.

Above table have shown data in two way one is sector wise average ETR with all observations and another one is sector wise average ETR by removing '0' and '1'. This has shown some variation in the sector wise average ETR and also in all sectors average. By removing code values, some sectors have shown more ETR because they have more '0' in the observations and some have shown less ETR due to set '1' for negative NIBT at the time of calculating ETR.

In this table ETR with all observation has shown bit lower, that is 27.88 percent due to less decimal point taken as the original average was 28.94 per cent. Average ETR by removing code values we have found 25.25 percent which was in line with the study period average STR 26.25 percent.

There was 45 observations which have 0 or 1 in the ETR value of them 1 in cement sector, ceramic sector was free from this problem, engineering sector has 8 values, food 19, fuel 4, pharma 3, tannery 0 and textile 10. So total number of observations other than '0' and '1' is 369.

6.5.4 ETR as higher and lower class

Table 6.5 ETR analysis as higher and lower

Range of ETR% and Category	**Set Values**		**Below average**			**Average**	**Above average**
	0	1	.01 to .15	.16 to .20	.21 to .24	.25 to .27.5	.28 and above
No of observations	18	27	73	44	66	101	85
As % of total observations	4.34	6.52	17.63	10.62	15.94	24.39	20.52

Source: table data have been compiled and calculated by the researcher.

We have categorized our total observations (414) in terms of set values 0 and 1, lower than average 1 to 24 per cent, average 25 to 27.5 per cent and above average 28 and above. From the above table it has found that there is total 45 observations in the set value category and representing 11 percent of total observations, in the lower than average category there is (1 to 24 per cent) there is (73+44+66) =183 observations which representing 44 percent of whole observations and in the average category there is 101 observations which representing 24 percent of entire observations and in the above average category there is (57+28) =85 observations which representing 15 per cent of total observations. Finally I can say that almost seventy percent observations of ETR belongs to the below average and average rate category.

6.5.5 Reasons for Higher ETR

Reason for high ETR may be for the accounting procedure applied by that company. Some company segregated current tax and deferred tax separately. But some company didn't separate them. In those case current tax has shown a higher amount tax expense and consequently shows a higher ETR.

In some cases there were negative numerator or denominator and we set 0 for negative current tax and negative NIBT and we set 1 for positive current tax with negative NIBT. In our total observations there is 27 observations have been set as 1 and 18 observation as 0. For that reason average ETR for our total observation has shown little bit higher value.

Another common reason for higher and lower ETR may be for the effectiveness of tax planning effort employed by the companies.

6.6 Variability of ETR

In this section variability of our ETR have been analyzed by regressing those in a manner prescribed in the methodology part in the introductory chapter of this thesis. We have set four determinants of ETR and tested those statistically to draw inference on the causes of variability of ETR in Bangladesh.

6.6.1 Research Hypotheses at a glance

Following are the four research hypothesis set to test the variability of our ETR. Related literature have been reviewed to develop these hypotheses in the first chapter of this thesis. We mentioned those hypothesis in this section to get a quick glimpse on those.

H_1: ETRs are negatively related with companies' capital intensity (CINT);

H_2: ETRs are negatively related with companies' size (SIZE);

H_3: ETRs are positively related with companies' return on assets (ROA).

H_4: ETRs are negatively related with companies' leverage (LEV);

6.6.2 Research Variables

After discussing and reviewing the relevant literature we have selected the variables for this study. In some previous studies relating to ETR have considered those variables. Some study considered only one variable but some are more. In this study we used ETR as dependent variables and size of the company (SIZE), capital intensity (CINT), return on assets (ROA) and leverage (LEV) as dependent variables.

Dependent Variable

The dependent variable is represented by ETR. In this study current based ETR has been used. Where ETR measured as: current tax expense divided by the net income before tax (NIBT).

Independent Variables

Firm-specific variables are represented by capital intensity (CINT), financial leverage (LEV), company size (SIZE) and return on assets (ROA).

Definition of these variables are:

CINT is measured as net book value of property, plant and equipment divided by book value of total assets.

LEV is measured as book value of long-term debt divided by book value of total assets.

SIZE is measured as the natural logarithm of book value of total assets.

Finally, ROA is measured as net income before tax (NIBT) divided by book value of total assets.

6.6.3 Multivariate Model

We have developed the following multiple regression model to infer the relationship between depended and independent variables:

$ETR_{it}=\alpha_0+\beta_1 CINT_{it}+\beta_2 SIZE_{it}+\beta_3 ROA_{it}+ \beta_4 LEV_{it} +\varepsilon_{it}$

Where the dependent variable, ETR_{it}, is the corporate effective tax rate for company i in time period t. The independent variables are capital intensity (CINT), leverage (LEV), company size (SIZE), return on assets (ROA) and ε_{it} is the error term. Finally, all variables are calculated on financial statement data taken from the company websites and from Dhaka Stock Exchange Ltd (DSE).

6.6.4 Empirical Results

I have shown the analysis of data and interpretation of empirical results in this section. The discussion of screening, cleaning and transformation of data and the descriptive statistics of all the variables have been presented in this part. The correlation matrix for the independent variables have been reported in order to observe the relationship exists among those variables. The regression results for the panel data of this study have been displayed and discussed thoroughly. The analysis has included the test results of our hypotheses to establish which exists among the variables of this study.

6.6.4.1 Screening of Data

The database was stored firstly in a Microsoft Excel file and then transferred to the data editor SPSS. All the data analyses were performed in SPSS using the protocols described by Andy Field.[7] The data matrix consisted of 414 cases (52 companies x 8 years less two years data were not available as two companies did not publish their annul report in 2018) in the rows and five variables— effective tax rate (ETR), company size (SIZE), capital intensity (CINT), return on assets (ROA) and leverage (LEV). All the variables were very carefully screened for missing or erroneous values to ensure they were ready to be entered for analyzing. No missing values are found.

6.6.4.2 Descriptive statistics

Table 6.6 Descriptive Statistics of all Sectors

Variables	**N**	**Minimum**	**Maximum**	**Mean**	**Median**	**Std. Deviation**	**Skewness**	**Normality P values**
ETR	414	.0000	1.0000	.2892	0.2474	.2269	2.043	p < .05*
SIZE	414	10.5659	18.9503	14.4172	14.2832	1.5104	.288	p < .05*
CINT	414	.0055	5.7406	.4398	0.4132	.4008	6.717	p < .05*
ROA	414	-.1420	.4566	.0782	0.0518	.0837	1.103	p < .05*
LEV	414	.0000	1.2272	.0959	0.0311	.1638	3.019	p < .05*
* Deviation from normality is significant at p < .05*.								

Source: Compilation from financial statements using SPSS.

The descriptive statistics for all the variables are presented in table 6.6. The descriptive statistics have been shown to define the basic characteristics of the data in the sample. Descriptive statistics show mean, median, maximum, minimum, standard deviation and skewness. The value of these measures show the average indication of variables computed from the financial statements.

The effective tax rate (ETR) is measured as current tax expense divided by net income before tax. This ratio revealed a mean 29 percent, median 25 percent and a

[7] Andy Field, *Discovering Statistics Using SPSS*, 3rd ed. (Los Angeles: SAGE Publications Ltd, 2009).

standard deviation 23 percent per cent. This result suggest that sample company's average effective tax rate is 29 percent which is bit higher than the average statutory tax rate 26.25 percent. Another variable CINT reveals a mean of 44 percent, median 41 percent and standard deviation 40 percent. This result suggest that all the sample companies have 44 percent capital in the property plant and equipment that indicate sample companies are not heavily capital intensive. ROA shows a mean 8 percent, median 5 percent and standard deviation 8 percent. The positive ROA indicates that the sample firms were on an average profitable, although some firms were being operated at a loss which is reflected by the negative minimum observed value of ROA. If the average inflation rate is taken into consideration, the picture suggests a poor financial performance and inefficiency of management in using assets of the companies during the study period. Another variable is SIZE which is the measure of natural log of total assets. It shows the value of minimum 11, maximum 19 and mean and median are holding the same value 14. It indicate that size of the sample companies are normally distributed. Another variable LEV shows mean 9 percent, median 3 percent and standard deviation 16 percent. It implies that most of the companies are less levered company.

The skewness values and P values obtained using Kolmogorov- Smirnov test for normality, have also been provided in the table. All the variables were either positively or negatively skewed (indicated by the values of skewness which are greater or less than zero). The Kolmogorov- Smirnov tests indicated that all the variables are deviated from normality ($p < .05$). The variable SIZE is almost normally distributed and dependent variable ETR is also roughly normally distributed other variables are significantly deviated from normal distribution. We know that in large samples (200 or more) the said test can be significant even when the scores are only somewhat different from a normal distribution. So we have taken the decision about normality of data based on largeness of the sample. Moreover mean and median values of most variables are almost same. Another important point is that there is no multicollinearity among the independent variables. That also goes in favor of our decision. Consequently it is defensible to perform parametric inferential statistics using our variables.

6.6.4.3 Correlation of independent Variables

Table 6.7 Pearson Correlation matrix among the variables

Variables	*SIZE*	*CINT*	*ROA*	*LEV*
SIZE	1			
CINT	-.276**	1		
ROA	.212**	-.001	1	
LEV	-.222**	.192**	-.214**	1
** Correlation is significant at the 0.01 level (2-tailed).				

Source: Compilation from financial statements using SPSS.

With the aim of assess the effect of relationship among independent variables correlation analysis has been used. It is a measure of strength of association between two variables. Correlation coefficients are used to ascertain the extent and direction of association. It is evident from table 6.7 that the correlation coefficient association of SIZE with CINT and LEV are negatively associated but with ROA it is positively associated and all the cases magnitude of the relationship is insignificant. CINT and ROA are negatively associated and magnitude of the relationship is very insignificant. CINT and LEV are positively but insignificantly associated. ROA and LEV are negatively associated and the magnitude of relationship is insignificant.

6.6.4.4 Multicollinearity

Multicollinearity happens when independent variables are associated. Connected independent variables make it difficult to make inference about the individual regression coefficients and their individual effects on the dependent variable. In practice it is nearly impossible to select variables that are completely unrelated. An overall instruction is that if the correlation between two independent variables is between minus 0.7 and plus 0.7 there is probably no problem of using both of the independent variables.[8] As shown in table 6.7 the highest correlation coefficient is minus 0.276 between SIZE and CINT. So all of the independent variables are free from serious problem of multicollinearity and capable of regression analysis.

[8] Doglas A. Lind, William G. Marchal, and Samuel A. Wathen, *Statistical Techniques in Business and Economics*, 15th ed. (New York: McGraw Hill Irwin, 2012), 535.

6.6.4.5 Regression Results

The Ordinary Least Square (OLS) regression results of the estimation of the panel data model are presenting in the following table. This table has three parts containing model summary, analysis of variance (ANOVA) and regression coefficients respectively.

Table 6.8 Regression Results

Model Summary			
R	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
0.357	0.127	0.119	0.213005
Predictors: (Constant), LEV, CINT, ROA, SIZE			

ANOVA					
Model	**Sum of Square**	**df**	**Mean Square**	**F**	**Sig.**
Regression	2.707	4	0.677	14.915	.000
Residual	18.557	409	0.045		
Total	21.264	413			

Coefficients					
Predictors	**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
	B	**Std. Error**	**Beta**		
(Constant)	.418	.111		3.749	.000
SIZE	-.004	.007	-.025	-0.503	.615
CINT	-.090	.028	-.158	-3.248	.001
ROA	-.708	.130	-.261	-5.424	.000
LEV	.211	.067	.153	3.136	.002

Above table has shown the result of regression model for testing the variability of ETR by considering four independent variables. The results are related with four research hypothesis described earlier.

From the above table it is evident that the value of R^2 (coefficient of determination that measure goodness of fit) is 0.127 and thus the independent variables account for 12.73% variation on corporate effective tax rate (ETR). The adjusted R^2 gives us some idea of how well our model generalizes and ideally we would like its value to be the same, or very close to the value of R^2. The difference between R^2 and adjusted R^2 is (0.127 - 0.119) is .008 or .8%. This small difference indicates that if the model were derived the population rather than a sample it would account for approximately .8% less variance in the outcome.

The next part of the table contains an ANOVA that tests whether the model is significant to predict the outcome variables. Here the value of F is 14.91 which is highly significant as $P<.05$. Thus the ability of our model to predict the outcome variable is significant.

The last part of the table is about the regression coefficients. Here the regression coefficients of independent variable company size (SIZE) is minus .004 and p-value is higher than .05 which reject the null hypothesis at 95% confidence level. It suggests that firm size (SIZE) has statistically significant negative effect on ETR. It indicated that larger companies faced lower ETR which supporting the political power theory rather than political cost theory.

Regression coefficient for independent variable capital intensity CINT is minus .090 and p-value is less than .05 at 95% confidence level. It suggest that CINT is negatively associated with ETR. The negative association has revealed that the companies with a larger proportion of fixed assets tend to have lower ETRs.

ROA is negatively related to ETR in this model. It shows the regression coefficients for ROA is minus .708 and p value is less than .05 at 95% confidence level. Here null hypothesis is accepted. The negative relationship indicated that more efficient and highly profitable companies faced lower tax burdens. The possible reason for such findings may be due to— profitable companies have the influence on tax related decision making to their favor.

LEV is positively related with ETR in this model. The regression coefficient for LEV is .211 and p value is less than .05 at 95% confidence level. This result has indicated that levered firm are paying more tax. This result is somewhat unusual because due to deduction of interest expense tax burden should be lower. One reason for this result may be due to no long term debt in the capital structure of some large companies in our sample.

Summary of Hypothesis Testing

Table 6.9 Summary of hypothesis testing

Independent Variables	Hypothesized Relationship with ETR	Actual Relationship found	Null Hypothesis	Level of Significance
SIZE	Negative	Negative	Rejected	5%
CINT	Negative	Negative	Rejected	5%
ROA	Positive	Negative	Accepted	5%
LEV	Negative	Positive	Accepted	5%

6.7 Conclusion

Corporate ETR is useful tool to know the actual tax burden of the companies. It is a ratio of tax expense and before tax income. This chapter has explored the ETR of DSE listed manufacturing companies of Bangladesh. The objective of this chapter was divided in two aspects one was mere calculation of ETR using our current based ETR formula and another one was to determine the variability of ETR in respect of some company specific variables. To fulfill the first portion of the objective of this chapter it has found that overall average ETR for sample companies are 28. 92 percent which is higher than the top statutory tax rate for publicly traded companies. Sector wise ETR shows that ceramic sector has lower average and food and allied sector has top average ETR. Another dimension of ETR by removing 0 and 1 from the observations it shows average ETR at 25 percent, and from the viewpoint of higher and lower ETR it shows that most of the observations belongs to the average and below average category. To know the causes of variability in ETR it has found that ETR is negatively related with SIZE, ROA and CINT but positively associated with LEV. This result supports the findings of several previous studies.

Chapter Seven

Summary, Recommendations and Conclusion

7.1 Introduction

Corporate taxation is a much-talked-about subject around the world, but in Bangladesh, it is not that much focused, though it raises a significant portion of revenue for public services, infrastructure development, and the organizations that support the rule of law and political representation. It is one of the main devices for new capital formation in any country, especially in the emerging market economies. This sector is one of the main organs for new capital formation in any country, not to talk about Bangladesh. Its efficient collection is also required to encourage tax compliance and discourage tax avoidance more broadly. There is a strong public desire to address corporate tax-related issues more efficiently. Corporate income tax is the major source of direct tax revenue and there is hardly any in depth study highlighting the corporate income tax in Bangladesh and thus, a thorough study on how corporate tax-related issues have been changing over time and what reforms have yet been initiated in this field is essential and as such, this study strives to identify the reforms that have already been done and then validate those reform efforts by explaining some outcomes of tax revenue and lastly to identify some problems and challenges of the direct tax system in Bangladesh.

Bangladesh as a rapidly growing economy should focus equally on policy and process, but it tax regime is more focused on policy than on process to serve the interest of the donor agencies. After studying the legal and administrative frameworks, we have gone into more specific areas to have deep insights into the relationship between tax incentives and industrial development in light of national industrial policies. The regional taxation scenario is an important factor for research by investors before making any investment decision in any country. In this context, four South Asian countries have been purposely selected to review corporate taxation related issues such as the legal and administrative setup, priority sectors, tax incentives, tax depreciation, transfer pricing rules, and anti-avoidance rules, etc. to have a reasonable insight into these issues. After having the regional perspective, an empirical analysis of corporate effective tax rates in Bangladesh has been done on a sample of 52 non-financial listed companies in Bangladesh to determine the ETR and the causes of its variability by testing some hypotheses developed earlier. In the following sections, we have summarized the key findings objective wise, and then implications and contribution of these research findings have been presented, and after that, limitations of the study and indications for future research and lastly, some recommendations and concluding remarks have been made.

7.2 Summary of Findings

This section summarizes, in brief, the major findings of the study according to the set objectives. The following sub-sections present the summary of legal and corporate tax reform initiatives, the relationship between direct tax incentives and industrial development, the South Asian perspective of corporate taxation, and finally, corporate effective tax rate and its variability to have a quick glimpse of the main outcomes of the study.

7.2.1 Legal and Organizational Framework of Corporate Taxation

The legal and organizational frameworks regarding corporate taxation in Bangladesh are explained in this part. The income tax ordinance 1984, income tax rule 1984, finance acts and SROs, and circulars issued by the tax authority form the main legal framework of corporate taxation in Bangladesh. It is observed from the review of the legal framework that the tax ombudsman act enacted in 2005, but repealed in 2011 without giving any reason. It explicates a lack of commitment to transparency and accountability of tax administration. The language of the tax code is very complex, cumbersome, and ambiguous. The tax code is also voluminous. In July 2019, there were 353 sections in the income-tax ordinance 1984, but in the inception, it was only 187. The tax authority has been issuing too many SROs that may have provided or may provide undue benefit to vested quarters. There is no official publication by the national board of revenue for laws, rules, SROs, circulars, orders, verdicts, etc. The draft direct tax code 2013 is under active consideration of the government for long to overcome some shortcomings of the existing tax code.

There is a lack of coordination among government agencies and professional bodies. Due to poor coordination, the vast majority of companies do not submit their annual financial statements to the tax authority with reports from qualified chartered accountants. There were 3,462 public limited companies, 161,894 private limited companies, and 860 foreign companies registered with the registrar of joint-stock companies (RJSC) till December 2018, but only 75,144 companies have submitted their tax returns on that particular income year. So, there is always a big gap between the number of registered companies and companies paying taxes. In this situation, coordination between the tax authority and professional bodies, especially NBR and RJSC, and ICAB is required to help improve tax compliance in the corporate sectors.

7.2.2 Evolution of Corporate Tax Regime in Bangladesh

Two types of changes have been taking place in the Bangladesh tax regime, one is yearly changes through Finance Act (FA) and the other one is significant structural changes in laws, process, and administration. Tax reforms in Bangladesh are very slow, though a very few comprehensive reform approaches are evident largely due to the requirements of the donor agencies. The major objectives of tax reform initiatives are to improve the tax-GDP ratio by increasing the tax base and simplify the administrative systems and functions. As of today, Bangladesh cannot generate expected revenue from direct taxes, especially from corporate income tax. The tax-GDP ratio is still very low (only around 9 percent in the FY 2016-17).

In this backdrop, the present study has reviewed the tax reform initiatives in two segments- one is the yearly changes of income tax ordinance through the finance act and another is the review of major reform initiatives emphasizing corporate issues and related administrative reforms.

The history of income tax law in Bangladesh goes back to the year 1860 when the income tax was imposed for the first time in the then British India. But, it was suspended and then again re-imposed several times. It took a final stable shape in the form of the income tax act in1922. This act was continued to be in force in Bangladesh after the freedom of the country in 1971. Over time, it has been felt that the old act became cumbersome, complex, and difficult to understand. The need for a simple, well-defined, and easy to understand income tax act has been felt imperative for long. The Income Tax Act 1922 was thus replaced by the Income Tax Ordinance 1984.

Since its independence in 1971, Bangladesh has initiated some reform initiatives. The first was the Taxation Enquiry Commission (TEC) 1976 that suggested replacement of the old act by a new ordinance from 1984. Then the World Bank reform initiative, which called for broadening the tax base for direct taxes and consequently, value-added tax has been introduced. Then the Revenue Reform Commission (RRC) and many other projects have been initiated to restructure the taxation system. These initiatives have stressed on broadening the tax base, ensuring progressivity, increasing the share of direct tax, decentralizing tax administration, and digitalizing the tax system to increase the tax-GDP ratio and ensuring sustainable economic development.

The Income Tax Ordinance 1984, in its original form, included 23 chapters, 187 sections, and 7 schedules. Since its enactment, various provisions of the ordinance have been changed continuously through fiscal measures declared in the annual budget- either by omitting or amending or substituting or newly inserting. Every year, these changes are made either by Finance Acts or by amendment of income tax act/ ordinance or by notifications of IRD.

Major tax reform initiatives are the Taxation Enquiry Commission *(*TEC), the World Bank's initiative, Revenue Reform Commission (RRC), Reforms in Revenue Administration (RIRA), Comprehensive Modernization Plan (CMP), etc. The major recommendations of these reform initiatives are of two types, some have been designed to provide a comprehensive scenario and some have been designed to achieve a particular objective. Of them, the TEC, World Bank's initiative, RRC, and CMP have covered the whole spectrum, and others have dealt with the modernization and simplification of tax procedure. After the CMP in 2011, there has been no major reform effort visible in the field of direct taxation, not to talk of direct corporate taxation. In the case of direct taxation, the absolute amount of revenue collection has shown an upward trend, but not up to the target. The rate of corporate tax was 60% (30% income tax and 30% super tax). The recommendation of the commission in this regard was to merge income tax and super tax into a single tax, and that should be called ‘a corporate tax’. The RRC also recommended 35%, 55%, and 60% taxes based on the level income of a company.

To bring equity and progressivity in the direct tax system a lot of things should be done based on priority. The corporate tax rate is reasonable in comparison to other South Asian countries. The ability to bring all the registered companies into the tax net will enhance corporate tax revenue and build pressure on the other forms of businesses. Tax incentives should be designed to protect local import substitute industries as well as to attract foreign direct investment by considering the regional tax competition. There has been no comprehensive tax reform initiative since the CPM in 2011, so an all-inclusive tax reform commission should be formed to address the present limitations and challenges in the tax regime of Bangladesh.

7.2.3 Direct tax incentives and industrial development

There are different plans and policies to promote industrial development in Bangladesh. The planning commission and different ministries are responsible for formulating plans and policies in their respective areas.

The planning commission originates and evaluates the development projects and programs. The national economic council (NEC) is the highest economic decision-making body headed by the prime minister of Bangladesh. The ministry of planning along with its three divisions also plays an important role in formulating and implementing different development plans.

The ministry of Industry plays a leading role in formulating new industrial policies and setting strategies for sustainable industrial development. The Ministry of Finance is to prepare the national budget and formulate taxation and other economic policies of the country. In each year's budget, the government provides a policy statement including the fiscal policy of the country. The formulation of tax policy and its implementation are performed by the national board of revenue (NBR) under the direct supervision of the internal resource division of the ministry of finance.

There are many types of incentives recommended in the NIPs, but we have focused on the income tax-related incentives recommended for the industrial sector under ITO 1984. A tax holiday facility is provided to the industrial sectors based on the location of an industrial unit, and the enterprise must reinvest at least 40% of its tax-free income in Bangladesh. Industrial enterprises get accelerated depreciation facility at a rate of 100 percent in the first year. Besides, tax holiday receiving industrial units get 80 percent depreciation in the second year and 20 percent in the third year for their extended plant and machinery.

There are only three types of direct tax incentives suggested in the NIP 2005, 2010, and 2016 namely tax holiday, accelerated depreciation, and reduced tax rate.

In NIP 2010, other than three hill districts, industries of Dhaka and Chittagong division was allowed 100% tax holiday on the first two years income and 50% tax holiday on the next two years income, and 25% tax holiday on last year's (5th year) income. Industries established in Rajshahi, Khulna, Barisal, and Rangpur divisions, and in three hill districts were allowed tax holiday for seven years at 100% in the first three years, 50% in the next three years, and 25% in last year (7th year). Private sector power generation companies started production by June 2012 have been allowed tax exemption on their profits up to 15 years starting from the date of production. Also, special incentives are environment-friendly industries that use energy from biomass, solar energy, and windmill, and industries that have their power generation system.

In NIP 2016, a separate incentive scheme is allowed to the high priority and priority sectors to expedite sustainable industrial growth. Usually, the justification for tax incentives is considered as ‘market failure’ about investment decisions. Some forms of market failures mentioned in the tax incentive literature are externalities, infant industry, and information asymmetries and uncertainty. In addition to market failures, some other justifications are unavailability of equity in some remote areas and political justification of incentives.

The form of tax incentive mainly depends on many other aspects like- conditions of the economy, capabilities of the tax administration, types of investment being targeted, and budgetary constraints of the government. Some common forms of tax incentives are: reduced corporate income tax rates, tax holidays, investment tax credits or allowances, tax credit accounts, accelerated depreciation of capital assets, favorable deduction rules for certain types of expenditure, deductions or credits for reinvested profits, reduced rates of withholding tax on remittances to the home country, reduce personal income tax or social security cutbacks for managers and employees, sales tax or VAT reductions, reduced import taxes and customs duties, property tax reductions, and creation of special zones.

There are many other indirect tax incentives under the authority of customs act and VAT act. There are some other direct financial incentives provided by fiscal measures in Bangladesh.

Tax policies are consistent over time and the contribution of direct tax to total tax collection is also increasing gradually. Most of the incentives are well designed and well-targeted with specific goals. Textile, jute, and RMG sectors have reduced tax rates as they have been well-targeted. An accelerated depreciation schedule is also designed and targeted for additional capital investment. Priority has been shifted from EPZ to SEZs, Hi-tech parks, private sector power generation companies, and physical infrastructure building.

7.2.4 Review of south Asian corporate taxation

Corporate tax contributes a large portion of the total direct tax revenue of South Asian countries. South Asia is the fastest-growing region in Asia with a forecasted growth rate of more than seven in 2019-20. In this situation, it is essential to know the existing scenario of corporate taxation and the relative position of the leading South Asian countries. Development means a continuous effort to increase some economic and social indices like the Human Development Index (HDI), Doing Business Index, CPI, and Economic Freedom Index other than some traditional measures of economic development indicators like GDP per capita. In terms of real GDP growth rate, Bangladesh is continuously holding the first position, followed by

India, Pakistan, and Sri Lanka in that order. In terms of the HDI rank, Sri Lanka is holding the first position, followed by India, Bangladesh, and Pakistan. While considering the life expectancy indicator, Bangladesh is just below Sri Lanka, and in doing business, India is leading in this region, followed by Sri Lanka, Pakistan, and Bangladesh in that order. Other than the GDP growth rate, Bangladesh has performed poorly in comparison to other development indicators.

The history of income tax law in the Indian Subcontinent goes back to the year 1860 when the income tax was first imposed in the then British India. It was discontinued and re-imposed several times. The Income Tax Act was first introduced in 1922. India and Pakistan both inherited this law. In 1961, the Indian government replaced the act by a newly formulated Income Tax Act 1961. Pakistan also replaced the Income Tax Act 1922 by the Income Tax Ordinance 1979. The income Tax Act 1922, however, was continued to be in force in Bangladesh after its independence in 1971. It was replaced by the Income Tax Ordinance 1984. Sri Lanka introduced income tax in 1932.

The legal framework of corporate taxation includes the income tax act/ordinance, direct tax rule, SROs, circulars of the tax authority, and court verdicts. In Bangladesh, the Income Tax Ordinance 1984, Income Tax Rule 1984, SROs issued by NBR, Circulars, and explanations of NBR are the main instruments for direct tax. In India, the Income Tax Act 1961, Income Tax Rules 1962, Circulars, and Notifications are the main legal instruments for direct tax. In Pakistan, Income Tax Ordinance 2001, Income Tax Rule 2002, SROs, Circulars are the main instruments for direct tax with other provincial tax instruments. In Sri Lanka, Inland Revenue Act 2017, Gazette Notification, Circulars, Interpretations, and Court Ruling are the main legal base for direct tax. India and Pakistan are federal states, and thus some tax is collected by the Central Govt. and some are collected by the Provincial Govt. according to the law of the land.

The main responsibilities of any tax administration are enforcing fiscal laws, collecting expected revenue for the government, and evaluate tax policies and tax laws continuous to frame and notify new tax laws. The tax authority in Bangladesh is the National Board of Revenue (NBR), in India, the Central Board of Direct Taxes

(CBDT), in Pakistan, the Federal Board of Revenue (FBR), and in Sri Lanka, the Inland Revenue Department (IRD). The fiscal year in Bangladesh and Pakistan is from 01 July to 30 June, and in India and Sri Lanka is from 01 April to 31 March. The average tax-GDP ratio in the South Asian countries is far behind the average for developed countries (34%).

The corporate tax rate varies from country to country considering publicly traded or non-publicly traded companies, industry-wise, and income-wise or turnover-wise. In Bangladesh, it differs in publicly and non-publicly traded and industry sector-wise. In India, it varies between a domestic and a foreign company, and turnover wise. In Pakistan, it varies according to company class and size-wise. In Sri Lanka, it varies as flat general rate, a reduced rate, and a higher rate for some specific industry sectors.

In Bangladesh, the corporate tax rate is 25% for publicly traded companies, 35% for non-publicly traded and private companies, 37.5% for banks, merchant banks, insurance, and other financial institutions, and 40% for non-publicly traded companies.

In India, the corporate tax rate for local companies with turnover up to Indian Rupee (INR) 2.5 billion is 25% and domestic companies with a turnover of more than INR 2.5 billion is 30%. Local companies incur a surcharge of 7% on income over INR 10 million and 12 % on income over INR 100 million. Foreign companies are taxed at 40 % and incur a surcharge of 2 % on income over INR 10 million and 5 % on income over INR 100 million. In addition, 4 % of education duty (cess) is payable on corporate income taxes including surcharge.

In Pakistan, the general corporate income tax rate is 30 % and for banking companies is 35 %. But, small companies are subjected to pay 25 % income tax.

In Sri Lanka, the regular corporate tax rate is 28 %, but certain industries are taxed at a reduced rate of 14 %. Industries involved in liquor, tobacco, and gambling are taxed at a higher rate of 40 %. The trend of the corporate tax rate in this region is diminishing.

In terms of progressivity, Bangladesh is less progressive because 25 % is the general rate irrespective of small and big companies or volume of turnover. But in India, Pakistan and Sri Lanka, the tax rates are more progressive as these countries consider company size and turnover.

Bangladesh has implemented a listed system of deduction. But, India, Pakistan and Sri Lanka have implemented the general system. In Bangladesh, the deductible items are stated in the tax law, and no deduction is permitted unless the expense is included in the list of deductible expenses. Contrarily, in the general deduction system, taxpayers are allowed to deduct all applicable business expenses incurred during the income year to calculate the taxable income. In general, South Asian countries do not allow a deduction for certain expenses, such as capital expenditure, non-trading expenses, personal and domestic expenses, fines, penalties and bribes, and expenses incurred for obtaining exempted amounts, final withholding tax payments, entertainment expense, and provision for bad debt.

Depreciation on capital assets is tax-deductible throughout the useful life of an asset. Bangladesh, India, and Pakistan use the diminishing balance method of depreciation. But, Sri Lanka uses the straight-line method of depreciation.

Bangladesh, Pakistan, and Sri Lanka have implemented the listed system of depreciation, where depreciable assets are listed in the depreciation table, and the useful life and the rate of depreciation on each asset are provided separately. On the other hand, India has accepted the combined system, where the depreciation rate is fixed for a class of assets.

Bangladesh, India, Pakistan, and Sri Lanka allow corporate taxpayers to carry forward business and other losses and offset them against the profits in the coming years, but the carry-forward period varies from country to country. In Bangladesh and Sri Lanka, any unused loss in an income year may be carried forward for the following six years. In India, for the following eight years. In Pakistan, for the following 6 years for general companies and 10 years for banking companies, and in Sri Lanka, business losses can be deducted in full to ascertain the taxable income of a company.

Some South Asian countries have imposed a minimum tax or minimum alternative tax as a supplement to the corporate income tax. There are minimum alternative taxes in India and Pakistan. The tax rates are 18.5% in India and 17 % in Pakistan on accounting income. This tax can be credited against corporate income tax liability. If the minimum alternative tax surpasses the corporate income tax liability, then the additional amount can be carried forward for successive 7 years in India and 10 years in Pakistan. In Bangladesh, the minimum tax may be higher due to a) withholding tax on certain sources of income, and b) minimum tax calculated based on overall gross receipts irrespective of sources of income. A minimum tax is imposed at 0.60/1/0.75/or 0.10 % on gross receipt from all sources by a company irrespective of profit or loss. In Sri Lanka, there is no provision for minimum tax.

Generally, tax incentives are used to attract foreign and local investment and increased investment for industrial development. There are different kinds of tax incentives available in this region, such as tax holidays, tax deductions, rebates, accelerated depreciation, and investment & reinvestment allowances. All these are provided upon fulfilling some eligibility criteria set by those countries. There is a practice of setting up export processing zones (EPZ), special economic zones (SEZ), and technology parks, and providing various incentives to the industries established in those areas. The tax holiday period in those countries varies from 3 to 15 years and the rate of exemptions varies from 10% to 100%. The priority sectors are infrastructure, power generation & distribution, information technology, and agriculture. In Pakistan and Sri Lanka, tax holiday facilities are rarely used, but they extensively use capital allowance according to the size and location of the investment.

In recent years transfer pricing rules have been introduced in the South Asian countries. If significant pricing discrepancies are considered artificial, then tax authorities have the discretion to determine the arm's length price of those transactions.

Anti-avoidance rules have also been incorporated in the tax code of the selected four countries recently. Generally, tax law includes anti-avoidance rules under which transactions not reflecting substance with no considerable economic results may be ignored or given a reshape. In the selected SAARC countries, there are thin capitalization rules or debt to equity rules. In Bangladesh, no directive for controlling foreign corporations (CFC) is available, but a recommended gearing ratio of 70:30 for thin capitalization for domestic firms. India has not yet imposed obligatory debt-to-equity rules though banks and financial corporations are needed to comply with capital sufficiency norms. In Pakistan, there are thin-capitalization rules, if the debt-to-equity ratio of a foreign company (other than a financial institute or a banking company) exceeds 3:1, then interest expense on foreign liability over the 3:1 ratio is not deductible. In Sri Lanka, a debt-to-equity ratio of 3:1 is for industrial corporations and a 4:1 ratio is applicable for other types of companies. Interest paid on loans over those debt-to-equity ratios is not deductible for tax purposes.

The selected four South Asian countries entered into comprehensive double tax avoidance treaties with their major trade partners. In the long run, it is suggested to harmonize the South Asian corporate tax regimes for the efficient working of the regional economies.

7.2.5 Corporate ETR in Bangladesh

Corporate ETR represents the actual rate of tax imposed on a company's profits. Corporate ETR is an indicator of how efficiently companies are performing their tax planning to reduce tax costs. The corporate effective tax rate can be higher or lower than the corporate statutory tax rate because of several adjustments with the accounting profit stated in the tax laws of a country to arrive at a taxable profit. In this study, we have calculated corporate ETR of DSE listed manufacturing companies by using the current based ETR calculation method and determine the variability of ETR by examining some company-specific characteristics. Data have been collected from 52 sample companies for a period of 8 years from 2011 to 2018

We have chosen the formula that has been used in many previous ETR research to calculate the corporate ETR. The formula is ETR= current tax expense divided by net income before tax (NIBT).

There are some problems to measure corporate ETR if we notice negative income, tax refunds, and negative cash flows. Here we consider two situations one is ETR of a company with negative NIBT and a negative current tax expense, and another situation is ETR of a company with positive current tax expense and a negative NIBT. To address these problems, we set ETR =0 for negative NIBT and ETR=1 when current tax expense is positive, but NIBT is negative. We constrained the ETR of our sample companies to lie between 0 and 100 percent.

The statutory tax rate was 27.5 percent in the first four years and 25 percent in the last four years of the study period, and the eight years' average statutory tax rate was 26.25 percent. We have observed some unusual (very high or very low) average tax rates in some of our sample companies. Companies with high ETRs are Aziz Pipes Ltd 51 percent, Apex Foods Ltd 69 percent, Meghna Condensed Milk Ltd 87 percent, Bangladesh Welding Electrodes Ltd 50 percent, Apex Spinning & Knitting Mills Ltd 47 percent, Metro Spinning Ltd 40 percent and Sonargaon Textiles Ltd 82 percent. The reason for these high ETRs may be due to setting '1' for negative NIBT with positive current tax expense. Here 1 means 100 percent. So we can say that the above-mentioned companies have more negative NIBT and positive current tax expense from calculation perspective. Another common reason for higher ETR may be due to ineffective tax planning efforts by these companies.

On the other hand, companies with lower ETRs are Fine Foods Ltd 3 percent, Rahima Food Corporation Ltd 11 percent, and Alltex Industries Ltd 9 percent. The reason for lower ETRs is due to the distortion that occurred at the time of calculation of ETRs. Moreover, we set ETR= 0 for companies with negative NIBT and negative current tax expenses. Other reasons for lower ETRs may be due to the better tax planning effort by these companies.

The average ETR for the sample companies is 28.94, which is a bit higher than the average statutory rate of 26.25 percent. But in most cases, the rates are within the normal range.

We categorize our total observations (414) in terms of our set values 0 and 1, lower than average 1 to 24 percent, average 25 to 27.5 percent, and above-average 28 percent and above. It is observed that there are 45 observations in the set value category that represent 11 percent of total observations, in the lower than average category (1 to 24 percent) there is (73+44+66) =183 observations that represent 44 percent of total observations, and in the average category there are 101 observations that represent 24 percent of total observations, and in the above-average category there are (57+28) =85 observations that represent 15 percent of total observations. Finally, we may state that almost seventy percent of the observations of ETR belongs to the below-average and average rates category.

The reason for high ETR may be the accounting procedure applied by a particular company. Some companies segregated current tax and deferred tax. But some companies do not separate them. In those cases, the current tax has shown a higher amount of tax expense and consequently, shows a higher ETR.

In some cases, there are negative numerators or denominators. We set 0 for negative current tax with negative NIBT and 1 for positive current tax with negative NIBT. In our total observations, 27 observations set as 1 and 18 observations as 0. For that reason, the average ETR for our total observations has shown a little bit higher value. Another common reason for higher and lower ETR may be the effectiveness of the tax planning effort by the companies.

The following four research hypotheses have been tested taking ETR as the dependent variable and company size (SIZE), capital intensity (CINT), return on assets (ROA), and leverage (LEV) as independent variables to test the variability of ETRs.

H1: ETRs are negatively associated with firm's capital intensity (CINT),

H2: ETRs are negatively associated with firm’s size (SIZE).

H3: ETRs are positively associated with firm’s return on assets (ROA).

H4: ETRs are negatively associated with firm’s leverage (LEV).

The effective tax rate (ETR) is measured by the current tax expense divided by net income before tax (NIBT). The result shows an average effective tax rate of 29 percent, which is a bit higher than the average statutory tax rate of 26.25 percent.

Another variable CINT reveals a mean of 44 percent, a median of 41 percent, and a SD of 40 percent. This result suggests that all the sample companies have invested 44 percent of their capital in property, plant, and equipment. Thus, the sample companies are not heavily capital intensive. ROA shows a mean of 8 percent, a median of 5 percent, and a standard deviation of 8 percent. The positive ROA indicates that the sample firms are on average profitable, though some firms are operating at a loss that is reflected by the negative minimum observed value of ROA. If the average inflation rate is taken into consideration, the picture suggests poor financial performance and poor utilization of assets of the sample companies. Another variable is SIZE, which **is the measure** of the natural log of total assets. It shows the minimum value of 11, the maximum of 19, and the mean and median are holding the same value of 14. These indicate that the size of the sample companies is normally distributed. Another variable LEV shows that the mean is 9 percent, the median is 3 percent, and the SD is 16 percent. These imply that most of the companies are less levered.

The skewness values and P values have been obtained using the Kolmogorov-Smirnov test for normality. All the variables are either positively or negatively skewed (indicated by the values of skewness which are either greater or less than zero). The Kolmogorov- Smirnov tests indicate that all the variables have deviated from normality ($p < .05$). The variable SIZE is almost normally distributed and the dependent variable ETR is also more or less normally distributed, but the other variables have significantly deviated from a normal distribution. We know that in large samples (200 or more) the said test can be significant even if the scores are only slightly different from a normal distribution. So, we have taken the decision about the normality of data based on the largeness of the sample. Moreover, the mean and median values of most variables are almost the same. Another important point is that there is no multicollinearity among the independent variables. That also goes in favor of our decision. Consequently, it is justified to perform parametric inferential statistics using the study variables.

Correlation coefficients are used to determine the magnitude and direction of the association between the independent variables. It is observed from the correlation coefficient that SIZE is negatively associated with CINT and LEV, but it is positively associated with ROA, and in all cases the magnitude of the relationship is insignificant. CINT and ROA are negatively associated and the magnitude of the relationship is statistically insignificant. The association between CINT and LEV is positive, but statistically insignificantly. ROA and LEV are negatively associated and the magnitude of the relationship is insignificant.

The highest correlation coefficient is minus 0.276 between the SIZE and CINT. So, all of the independent variables are free from a serious multicollinearity problem and capable of regression analysis.

It is observed that the value of $\mathbf{R^2}$ (coefficient of determination that measures the goodness of fit) is 0.127, and thus the independent variables accounted for 12.73% variation **on a** corporate effective tax rate (ETR). The adjusted $\mathbf{R^2}$ gives us some idea of how well our model could be generalized and how ideally its value to be the same, or very close to the value of $\mathbf{R^2}$. The difference between $\mathbf{R^2}$ and adjusted $\mathbf{R^2}$ is (0.127 - 0.119) .008 or .8%. This small difference suggests that if the model were derived from the population rather than a sample it would account for approximately 0.8% less variance in the outcome.

We have also applied an ANOVA that tests whether the model could significantly predict the outcome variables. Here, the value of F is 14.91, which is highly significant as $P<.05$. Thus the ability of our model to predict the outcome variable is significant.

The regression coefficient of the independent variable company size (SIZE) is minus .004 and the p-value is higher than .05 that rejects the null hypothesis at a 95% confidence level. It suggests that firm size (SIZE) has a statistically significant negative effect on ETR. It also suggests, larger companies face lower ETR that supports the political power theory rather than the political cost theory.

The regression coefficient for independent variable capital intensity (CINT) is minus .090 and the p-value is less than .05 at a 95% confidence level. It suggests, CINT is negatively associated with ETR. The negative association has revealed that companies with a larger proportion of fixed assets tend to have lower ETRs.

ROA is negatively related to ETR in the model. It shows the regression coefficient of ROA **is** minus .708 and the p-value is less than .05 at a 95% confidence level. Thus the null hypothesis is accepted. The negative relationship suggests that more efficient and highly profitable companies could face a lower tax burden. The possible reason for such findings is that profitable companies may influence tax-related decision making in their favor.

LEV is positively related to ETR in the model. The regression coefficient of LEV is .211 and the p-value is less than .05 at a 95% confidence level. This result indicates that a levered firm is paying more tax. This result is somewhat unusual as the tax burden should usually be lower due to the deduction of interest expense. One reason for this result may be due to the total absence of term debt in the capital structure of some large companies in our sample.

On the whole, ETR is negatively associated with SIZE, ROA, and CINT but positively associated with LEV. This result supports the findings of several previous studies.

7.3 Implications of the Research Findings

The present study provides a better understanding and deep insight into corporate taxation in Bangladesh. The findings related to the legal and administrative field provide some information that may support the policymakers to formulate better tax policy. The study findings have shown how coordination among some organizations may increase the number of taxpayers as well as the amount of tax.

The second research objective was related to tax reforms, and we have found that a lot of reforms there have been done in the field of laws, processes, and administration, but the tax-GDP ratio is still in a poor state. There is no comprehensive reform effort about a decade in the area of direct taxation. The new draft tax code is still in the darkness. Immediate action is necessary to pass the new tax code for better tax management.

Tax incentives and industrial policy have some relationship. In this part, we have shown that, in many cases, tax incentives and industrial policies are congruent. Tax incentives suggested to the priority sectors in national industrial policies and actually provided tax incentives are almost the same. There is a positive impact on the industrial GDP, particularly on the manufacturing GDP due to this congruence.

South Asian corporate tax regimes are almost the same in some aspects as the genesis of tax laws is from the same point. In comparison to the other three countries, the statutory tax rate of Bangladesh is lower but not progressive in terms of the level of profit by the company. Tax authorities should consider a more progressive corporate tax regime to keep pace with its south Asian partners, but tax incentives are comparatively liberal and wider in Bangladesh.

Corporate ETR is a ratio that measures the actual tax burden of a company by considering tax expense as the numerator and pre-tax income as the denominator. ETRs of the sample companies show that the average ETR is almost 29 percent, but ETR other than 0 and 1 coding, is only 25 percent, which is the same as the statutory tax rate. ETRs are somewhat affected by the negative tax expense or negative NIBT, that is why we use 0 and 1 to avoid negativity as we assume ETR will always remain between 0 percent and 100 percent. So we can say that ETR is satisfactory by removing the distorted values in spite of reducing the tax rate.

To identify the causes of variability in ETR, we have set four hypotheses and tested those accordingly and found that ETRs are negatively associated with CINT, ROA, and SIZE, but positively associated with LEV. Here, the relationship between ETR and SIZE shows that political power theory is applicable in Bangladesh for large companies. It implies that large companies through their more resources are able to manage political favor to their interest.

7.4 Contributions of the research

This study has contributed to the existing knowledge in the following areas:

Firstly, the study has reviewed corporate tax-related legal and organizational setup in Bangladesh, which is first of its kind and gives a reasonable detail on corporate tax-related legal and organizational structures. Researchers, academicians, and other interested parties would be benefited from the findings of this study. It explores the legal, administrative and accounting frameworks with special emphasis on corporate taxation. Thus it has contributed some new knowledge to the existing tax literature.

Secondly, in this study corporate tax-related reform issues are discussed separately, which has contributed a new dimension in Bangladesh tax literature. There are some studies on tax reforms in Bangladesh, but there is hardly any study focusing on corporate tax-related reforms. This study has shown the evolution of corporate tax-related issues in Bangladesh, and thus it has contributed some new knowledge to the existing tax literature.

Thirdly, direct tax incentives and industrial policies in Bangladesh and some economic data have been explored. We have found that there is congruence between tax incentives provided under the ITO 1984 and tax incentives suggested in NIPs of Bangladesh as well as there is a positive implication in the industrial development of the country. Thus the study has contributed some new knowledge in the existing knowledge base.

Fourthly, the study has reviewed the corporate taxation scenario in the South Asian countries to have a deep insight into those issues. We review corporate tax-related issues like corporate tax rate, tax incentives, tax depreciation, transfer pricing rules, and thin capitalization rules, etc. There is a dearth of literature in this area, so this study has contributed to the regional perspective by reviewing corporate taxation issues of the leading South Asian countries.

Corporate ETR is a measure to know the actual tax burden of the companies. There are many studies on ETR and its determinants of variability in some developed and developing countries. In those countries, there is a tax database, but in Bangladesh, there is no such database available. That is why it is a very tedious job to collect data from the audited financial statements of the sample companies. In this study, a sample of DSE listed 52 companies are taken to determine ETR and its variability. It has contributed some new knowledge about the ETR of the sample companies.

We have also regressed ETR with four independent variables to know the causes of variability in ETR, and it is found that ETRs are negatively associated with SIZE, ROA, and CINT, but positively associated with LEV. This result is consistent with the results of some previous studies. Thus it has contributed some new knowledge in Bangladesh tax literature.

7.5 Limitations of the Research

There are some limitations to the present study that are summarized in the following paragraphs:

This study is based on listed companies in the manufacturing sectors of Bangladesh. So there might be the question of representing the total corporate sector in Bangladesh. The whole study is based on secondary data collected from company annual reports, annual reports by tax authorities and different regulatory agencies, tax codes, and reports of different international organizations like the WB and IMF and reports from different national and international audit firms.

Tax laws are relatively complex and are changing every year. So, it is very hard to generalize any comment regarding corporate tax-related issues. All the reform reports did not highlight the corporate tax matters separately. So it is a cumbersome job to segregate corporate tax-related issues.

There is a dearth of published scholarly articles regarding corporate taxation in Bangladesh. In this case, topic-related articles of developed and developing economies have been consulted to accomplish this study. Tax incentives are generally given to attract domestic and foreign investments and sometimes to correct externalities. In this study, we only considered the direct tax incentives provided under the authority of direct tax code though there is a lot of other incentives in terms of fiscal and non-fiscal forms, which we do not consider in this study. Other than those, we only considered NIP 2005, 2010 and 2016 as there are other industrial policies beyond these three, but we did not consider them in this study though they have some implications. Another limitation is, there is no unique measurement approach as to how much should be attributable to the tax incentives for national development.

Bangladesh belongs to the south Asian region so it is important to know the comparative position of the countries by reviewing the corporate tax-related aspects. To do so, the study has relied heavily on the websites of the tax authorities of the selected countries and the tax guides issued by different national and international audit firms. It was nearly unaffordable for the researcher to conduct interviews with the experts of those countries due to fund constraints. But some Bangladeshi experts have been consulted.

To measuring corporate ETR there are some problems in the figures with negative amounts. It has been addressed following the ways of previous researchers to overcome those problems. Another limitation is that there is no generally accepted ETR measure for r corporate entities.   In this study, the current based ETR has been used as it is used by a lot of previous researchers due to its relative credibility.

In case of testing hypothesis regarding the variability of ETR among industry sectors we have taken only four independent variables those are size of the company (SIZE), capital intensity (CINT), return on assets (ROA), and Leverage (LEV), but there are some other firms specific variables like R&D expenditure, inventory intensity which also has some relation with the ETR variability shown by the previous researchers in other economic reality. In this study, only one measure of ETR has been used, which is a limitation for the robustness of the study. So it is difficult to generalize the findings relating to ETR and its variability for the above-mentioned shortcomings.

7.6 Suggestions for Future Research

In the previous section, some of the limitations of this study have been acknowledged. It is believed that this study has contributed some new knowledge to the existing knowledge base. Most importantly it has opened up a new field of tax research in Bangladesh. It is a multifocal study and covering some legal matters including tax reforms, direct tax incentives, south Asian perspective of corporate taxation and measurement of ETR and its variability. It does not cover all the aspects of corporate tax-related issues in this endeavor. Some indication for future researchers are as follows:

Earnings management by the companies in Bangladesh may be a good field of research. By earnings management companies tries to manipulate their earnings to give a positive and smooth going of their earnings to give a good gesture about their company. How earnings management affects the tax planning of a company may be a field of research.

The book-tax gap may be one of the fields of research. We know that accounting profit and profit calculated for tax purposes may differ because taxable profits are calculated according to the provisions of the tax law and accounting profits are calculated according to the international financial accounting standards. These differences are called temporary and permanent differences. The level of the book-tax gap in Bangladesh may an excellent field of research.

Tax-related disclosure is also a good field of research. How corporate entities in Bangladesh comply with the IAS 12 and the provisions of tax code could be an issue for future researchers. How the companies present their tax-related information in the financial statements in comparison to other local and foreign companies may be a field of research.

Personal income tax-related issues like taxing fixed income groups in Bangladesh and the impact of income tax fair on the increase of taxpayers and the amount of tax in Bangladesh may be a field of research.

Coordination among the national board of revenue (NBR), the Institute of chartered accountant of Bangladesh (ICAB) and other regulatory agencies like the registrar of joint-stock companies (RJSC) of Bangladesh may be a field of research.

Tax incentives and investment relationships in Bangladesh may be a field of research. In this field, a researcher may explore— how tax incentives are adopted, design issues of tax incentives, target investment and monitoring and evaluation of tax incentives to know the performance of the tax incentives to its intended goals.

Regional perspectives of taxation issues are important to know the comparative strength and weaknesses of those regional members. We belong to the south Asian region. If we know the strength and weaknesses of the countries in the south Asian countries, then we can design and adopt suitable tax policy and incentive schemes to compete successfully with those countries. So taxation issues of the South Asian countries may be a field of research.

7.7 Recommendations

The study provides a set of recommendations for policy direction and better tax administration. The proposed recommendations have covered legal and administrative issues, tax reform and tax incentives related issues, regional perspective, and corporate ETR related issues. Some recommendations related to the objectives of this study have been presented below for the policy planners in Bangladesh:

- After reviewing the legal and administrative framework it is found that the direct tax code of Bangladesh is voluminous, and the language of the tax code is hard to understand and sometimes ambiguous. To overcome these problems, it is recommended that the tax code should be reformed within a shorter period for better fiscal management, and the language of the tax code should be lucid and easy to understand by the stakeholders.
- It also found that there is a lack of coordination between NBR and some other related agencies like ICAB, RJSC, and ICAB. Coordination among those organizations can increase the number of corporate taxpayers as well as corporate tax collection.
- Tax reform is a regular phenomenon for any country because tax code is the active code and is under constant review. There is no all-inclusive tax reform effort after a comprehensive modernization plan (CMP) since 2011. An all-inclusive tax reform commission should be formed to take into account all tax-related issues and make a practical suggestion to overcome the existing problems of the tax system in Bangladesh.

- There is a lack of tax-related data in Bangladesh. There are two reasons for this lacking, one is tax-related data are confidential and restricted by the law, and another one is there is no tax-related data bank available for researchers. So it is highly recommended that NBR should have a rich library accessible via the internet and a tax-related modern data bank for the tax researchers.
- Tax incentives are designed and implemented to achieve some target in the field of investment or to correct externalities. In Bangladesh, there are some tax incentives like tax holiday, accelerated depreciation, and reduced tax rate. There is no study about the efficiencies of those incentives. So it is highly recommended that a commission should be formed to review the efficacy of the tax incentives schemes, and according to the report of the commission regarding tax incentives should be streamlined and ineffective incentives should be dropped and better incentives should be adopted.
- There is some double taxation avoidance agreement (DTAA) with some other countries, but there is no DTAA with regional groups like the European Union (EU). A comprehensive double taxation avoidance agreement (DTAA) should be in place with some regional economic organizations.
- Investors make their decision by considering some tax and non-tax factors available in a country. To design a tax policy and tax incentives, the country should consider its regional trade partners' tax policies and incentive schemes. So it is recommended to keep an eye on the neighboring countries' tax policies to maintain a relatively competitive position with them.
- In Bangladesh, the tax rate is flat for companies in the same class. There is no classification of companies according to the level of profitability. So to improve the progressivity in corporate taxation there should be some slabs in the corporate profits.
- In some cases, we have found that the corporate effective tax rate is higher than the statutory tax rate so it is recommended that to make a more competitive environment to cut of corporate tax rate gradually in the future.

- Corporate tax planning efforts by the companies should be increased to maintain a lower effective tax burden.

7.8 Conclusions

The present research has provided a complete and integrated picture of corporate taxation in Bangladesh. It has focused on the legal and administrative frameworks, reform-related aspects, the relationship between tax incentives and industrial development, the South Asian perspective, and finally measuring and analyzing corporate ETR of listed manufacturing companies in Bangladesh. Hopefully, the findings of the study would serve the interest of all the stakeholders in the taxation system in Bangladesh, including tax authority, different government regulatory agencies, corporate managers, different businesses and professional bodies. By satisfying the demands and needs of different interest groups, the research would contribute immensely to build a sound and efficient taxation system in Bangladesh.

Appendices

Appendix A: Tax incentives Available within last decade in the manufacturing sector of Bangladesh

(A) Tax holiday under sections and S.R.O.s

(1)Tax Holiday under Sections: (Section 45, 46A, 46B, and 46C)

Under section 45: Industrial undertaking established between July 1974 and June 1985 shall be exempt from tax for 12 years (for special economic zone), 9 years and 5 years (for other areas specified by the NBR), this section is further enlarged by inserting sub-section 2A and 2B by the FA 1985, industrial undertaking set up in SEZ it is 12 years, minimum industrialized parts nine years, less industrialized parts seven years and 5 years in the city of Dhaka, Chittagong or Khulna or the metropolis of Narayanganj or within ten miles from the outer limits thereof from the month of beginning of commercial operation of the undertaking.

U/s 46: Exemption of income of a tourist industry (not included as we are focusing on manufacturing industry only).

U/s 46A: This section is inserted by FA 1995, a manufacturing unit, tourism business or physical infrastructure facility established in Bangladesh between July 1995 and June 2008 will be tax exempted under the provisions of this ordinance.

Location	Tax Holiday Period
Dhaka & Chittagong Divisions except 3 hill districts of Rangamati, Bandarban and Khagrachari [sec. 46A(1)(a)]	4 years
Barisal, Khulna, Rajshahi, Sylhet and 3 hill districts of Rangamati, Bandarban and Khagrachari [sec. 46A(1)(b)]	6 years

‘‘industrial undertaking’’ includes an industry involved in the manufacture of fabric, fabric machinery, high price clothes, medicines, melamine, plastic products, porcelains, hygienic ware, steel from iron rock, manure, insecticide & pesticide, computer hardware, petrochemical, rudimentary raw materials of medications, substances, medicines, agrarian machine, vessel construction, boiler, compressors and other type of manufacturing units specified by the the govt. in the official gazette. This definition is inserted by FA 2005.

Sec. 46B is inserted by FO 2008 and sub section (1) (2) (3) and (4) are substituted by FA 2011 and clause i and ii of sub section (1) is further substituted by FA 2013, 14. For Dhaka and Chattagram division exclusive of Dhaka, Naryanganj, Gazipur, Chattagram, Rangamati, Bandarban and Khagrachari districts for a period of 5 years at 100% for 1st and 2nd year, at 50% for 3rd and 4th year and at 25 for 5th year and for Rajshahi, Khulna, Sylhet, Barisal and Rangpur divisions including the area of city corporation and Rangamati, Bandarban and Khagrachari districts for a period of 7 years at 100 percent for initial three years, at 50 percent for following three years and at 25 percent for 7th year. In the proviso part there was a waver for producing bio-fertilizer and computer hardware even though it is established in the districts of Dhaka, Gazipur, Narayangonj or Chittagong.

(2) Tax holiday under S.R.O.s:

Type of Industry/Income	Tax Holiday Period
Tax holiday for investment in Special Economic Zone (SEZ) and Hi-tech park zone: These benefits are given in two category as follows from the year 2015 (under SRO 226 ain/ aykar/2015(for SEZ) dated 8-7-15 and SRO 228 ain/ aykar/2015, (for Hi-tech park) dated 8-7-15) ***(a)Tax benefit for investment in SEZ and Hi-tech park zone:*** The corporate income is excluded from income tax for following ten years from the date of profitable maneuver in the following way: for 1st, 2nd and 3rd year 100%, for 4th year 80%, 5th year 70%, 6th year 60% 7th year 50% 8th year 40% 9th year 30% 10th year 20%. ***(b)Tax benefit for developing unit in SEZ and Hi-tech park zone:*** The corporate income is excluded from income tax for subsequent twelve years from the date of profitable maneuver in the following way: (under SRO 227 ain/ aykar/2015(for SEZ) dated 8-7-15 and SRO 229 ain/ aykar/2015, (for Hi-tech Park) dated 8-7-15) For 1st to 10th year 100%, for 11th year 70% and for 12th year 30%. Furthermore, capital gains ascending out of handover of stock, royalty, mechanical knowledge, and technical support fee and dividend paid by those companies are 50 percent relieved from income tax for next ten years from the date of profitable maneuver.	(a)For 10 years following the date of profitable operation. (b) For 12 years from the date of commercial production.

Income of any industry established in any **Export Processing Zones (EPZ)** [S.R.O. No. 289-Ain/89 dated 17-08-1989] [S.R.O. No. 219 Ain/aykar/2011 4-7-2011, for 5 years, 1st and 2nd year 100% 3rd and 4th year 50% 5th year 25% established from 1-1-2012 and later on] S.R.O. No 219 ain/aykar/2012 by repealing the previous SRO, for Dhaka and Chittagong division it is for 5 years and for other division including Rangamati, Bandarban and Khagrachari districts it is for 7 years)	10 years from the date of commercial production up to 31-12-11. From 1-1-2012 it is divided in two category, exemption for 5 years for Dhaka and Chittagong division and 7 years for other divisions.
Income of a **private sector Power Generation Company** established under the fulfillment of all the conditions mentioned in the Private Sector Power Generation Policy of Bangladesh will exempt from corporate tax on income from power generation for a period of 15 or 10 years from the commencement of commercial production as follows: **<u>(a)[Starting commercial production within 31-12-19: (other than coal based)</u>** Other Tax-Exempted Incomes: (a) Income of the foreign individuals working in the company for 3 years from the date of their entering into Bangladesh (b) Interest payable on foreign loan taken by the company (c) Royalties, Technical Know-how and Technical Assistance Fee payable by the company, and (d) capital gain arising from transfer of the shares of the company. S.R.O. No. 114-Ain/99 dated 26-05-1999, which repealed S.R.O. No. 35-Ain/97 and S.R.O. No. 36-Ain/97 dated 03.02.1997]. [SRO 188 Ain/ aykar/2009 1-7-2009 and S.R.O. No. 235 ain/aykar/2011, dated 6-7-11, S.R.O. No. 211 ain/aykar/2013, (excluding coal based companies by this S.R.O.) dated 1-7-2013, S.R.O. 354 ain/2013, dated 18-11-13, S.R.O. No. 246 ain/2016, dating 25-7-16, time extending for Commencing commercial production within 31-12-2019 other terms and condition remaining same] **<u>(b)[Starting commercial production after 1-7-2013 : (other than coal based)</u>** First 5 years from the beginning of commercial production 100 percent, up to next 3 years 50 percent, up to next 2 years 25 percent [S.R.O. No. 236 Ain/aykar/2011,(there was no segregation like coal based or other than coal based) dated 6-7-11, S.R.O. No. 212 Ain/aykar/2013(excluding coal based companies by this S.R.O.) dated 1-7-13, S.R.O. No. 355 Ain/2013, dated 18-11-2013] **<u>(c) For coal based (S.R.O. No. 213/ain/aykar/2013)</u>** Companies entering into agreement for establishing power plant within 30th June 2020 and will start commercial production within 30th June 2023 will exempt from corporate tax on income from power generation for a period of 15 years from the commencement of commercial production. Other Tax-Exempted Incomes: (a) Income of the foreign individuals working in the company for 3 years from the date of their entering into Bangladesh (b) Interest payable on foreign loan taken by the company (c) Royalties, Technical Know-how and	(a) [15 years from the date of commercial production w.e.f. 03.02.1997 to 31-12-2019] (b)[for 10 years w.e.f. 1-7-2013 and onward] (c)***for coal based*** [for 15 years, if it come into agreement within 30-06-2020 and starts commercial production within 30-6-2023]

Technical Assistance Fee payable by the company, and (d) capital gain arising from transfer of the shares of the company.	
Agro-processing industries [S.R.O. No. 175- Aykar/2002, dated 03.07.2002, S.R.O. No. 214-Aykar/2003 dated 19.07.2003, S.R.O. No. 166-Ain/Aykar/2006 dated 06.07.2006, 2002]	from 01-07-2002 to 30-06-2008
Income of any Bangladeshi resident person from computer software business [S.R.O. No. 172-Aykar/2002 dated 03.07.2002, S.R.O. No. 216 ain/ aykar/2005 dated 16-7-2005]	from 01-07-2002 to 30-06-2008]
Income attributable to export of handicrafts S.R.O. No. 313-L/86 dated 24.07.1986, S.R.O. No. 191-Ain/97 dated 29.08.1997, S.R.O. No. 155 ain/aykar/2007, dated 28.06.2007 repealed the previous S.R.O. No. 191-Ain/97]	Effective from 01-07-1986 to 30-6-2007.
Company investing in any sector of Bangladesh economy on a commercial basis under an agreement between Bangladesh Government and any other foreign government or any investment organization established by the foreign government [S.R.O. No. 32/Ain/90 dated 24.01.1990, which repeals S.R.O. No. 147-Ain/87 dated 15.07.1987 under which investment in agriculture and industry was covered]	Effective from 15-07-1987 (up to the date mentioned in the agreement)
Any income attributable from various agro-farms (fish farming, poultry farming, duckery, pelleted poultry feed production, seed production, marketing of locally produced seeds, cattle farming, dairy farming, frog farming, horticulture, cultivation of mulberry, sericulture, mushroom farming, and floriculture) [S.R.O. No. 206-Ain/Aykar/2005 dated 06.07.2005, which is amended by S.R.O. No. 215 Aykar/2003 dated 19.07.2003; later S.R.O being amended by S.R.O. No. 168 Ain/2001 dated 28-06-2001] Subject to some conditions: (a) if the tax-exempted income exceeds Tk. 1 lakh, at least 10% of such income is to be invested in bond or security issued by Government within 6 months from the end of the concerned income year; (b) income tax return is to be submitted to the DCT for each year related to the tax exemption period; (c) tax exempted income cannot be transferred within 5 years from the concerned tax exempted activities.	from 01-07-2001 to 30-06-2008 [first allowed from 1-7-1980 under S.R.O. No. 317-L/80 dated 28-8-1980 for fish farming, fowl farming, duckery, livestock farming, dairy farming and gardening]
Any newly established hospital (i) set up between 1-7-1999 and 30-6-2008 under the Companies Act 1994, (ii) set up on own land of the hospital, (iii) having at least 200 beds in case of general hospital and at least 50 beds in case of specialization for heart-disease, kidney and cancer, (iv) having 10% beds for free treatment of poor patients [S.R.O. No. 180-Ain/99 dated 01.07.1999 and S.R.O. No. 204 Ain/Aykar/2005 dated 06.07.2005]	5 years. (up to 2008)

(B) Exclusions from ''Income from Business or Profession'' and "Capital Gains"

Exclusions from "Income from Business or Profession"

• 50 percent of the export income except in case of an assessee, who is enjoying exemption of tax or reduction in rate of tax by any notification [para 28, Part A, Sixth Schedule].

• Income of the mutual fund of the person issuing such mutual fund [para 30, Part A, Sixth Schedule]. (Substituted by FA 2002 and omitted by 2011.)

• Income of Unit Fund of the Investment Corporation of Bangladesh is exempted [S.R.O. No. 187-L/83 dated 12.06.1983, vide sec. 60(1) of the Income-tax Act 1922].

• Income of Mutual Funds of the Investment Corporation of Bangladesh is exempted [S.R.O. No. 88L/80 dated 01.04.1980, vide sec. 60(1) of the Income-tax Act 1922].

Exclusions from "Capital Gains"

• Capital gain on transfer of capital asset being Government securities and stocks and shares of public companies listed with a stock exchange in Bangladesh [sec. 32(7); w.e.f. AY 1995-96]. (Repealed by FA 2010).

• Profits and gains on transfer of stocks or shares of a public company as defined in the Companies Act, 1994 received by an assessee, being a non-resident, subject to the condition that such assessee is entitled to similar exemption in the country in which he is a resident [proviso to sec. 31, inserted by the Finance Act 1990]. Section 2(1) (j) of the Companies Act 1994 defines a 'public company'. (Repealed by FA 2011)

• Capital gain on transfer of machinery or plant used for the purpose of business or profession [Para 31A of Part A, Sixth Schedule]. (Inserted by FA 2003 and omitted by FO 2007)

• Capital gain on transfer of any business capital asset (other than machinery or plant) if the capital gain is utilized to acquire similar asset within one year before or after the date of transfer [sec. 32(5)],

• Capital Gain on transfer of buildings or lands to a new company for equity financing [sec. 32(10)],

• Capital gain on transfer of capital asset of a partnership firm to a new company for equity financing [sec. 32(11)],

• Capital gain on transfer of an asset of an assessee to a new company for equity financing [sec. 32(11A) is Inserted by FA 2006 and omitted by FO 2007]

(C) Tax exemption/holiday under Sixth Schedule

1. According to para 33, Part A of sixth schedule, income from the business of ICT sector and nation wide telecommunication transmission and networking sectors and business of IT enabled services will be tax exempted up to June 2024. But companies

under those exemption schemes, shall have to submit return each year disclosing income from all other sources.

2. According to the para 43, Part A of the sixth schedule, capital gains tax will be exempted for non resident shareholders if the the gain arising out of sale of stock of listed companies.

3. Income from exports: Half of the income resulting from business of export by any tax payer will be exempted from tax, except for a company not established in Bangladesh and company does not enjoying exemption of tax or a reduced rate. (Para 28, Part A 6th schedule)

4. According to para 45 of part A of the sixth schedule, income from the business of rice bran oil production will be exempted in the following way if that manufacturing unit started production by June 2019:

<table>
<tr><th>Zone</th><th>Year</th><th>Exemption percentage</th></tr>
<tr><td rowspan="3">Dhaka, Mymensingh and Chattagram division excluding Dhaka, Naryanganj, Gazipur, Chattagram, Rangamati, Bandarban and Khagrachari districts.</td><td>1st and 2nd year</td><td>100%</td></tr>
<tr><td>3rd and 4th year</td><td>50%</td></tr>
<tr><td>5th year</td><td>25%</td></tr>
<tr><td rowspan="3">In the divisional cities, other than mentioned above, excluding the city corporation areas and in three hill districts.</td><td>1st, 2nd and 3rd year</td><td>100%</td></tr>
<tr><td>4th, 5th and 6th year</td><td>50%</td></tr>
<tr><td>7th to 10th year</td><td>25%</td></tr>
</table>

5. According to para 47(a) of the part A of the sixth schedule, if any company make donation to any funds established under the 'Trust of prime minister Education assistance Act 2012’ up to one fourth of the income or Tk. 80 million which one is lower.

(D) Some Accelerated Deductions

(a) Initial depreciation allowance:

From financial year 2002-03, under paragraph 5A: Initial depreciation allowance was introduced under the Third schedule. The rate was 10% of the cost of building and 25% of the cost of machinery or plant (other than ships or motor vehicles not plying for hire or any machinery or plant which has previously been used in Bangladesh).

(b) Accelerated Depreciation:

This is an extraordinary depreciation allowance as per paragraphs 7, 7A and 7B of the Third Schedule of the Income Tax Ordinance 1984:

- Accelerated depreciation allowance is an incentive for capital investments. It has been allowed in lieu of tax holiday. Accelerated depreciation allowances are reestablished on-

  Machines and plant for new industrial entrepreneur between July 2014 and June 2019 as follows: 50 percent for 1st year, 30 percent for 2nd year and 20 percent for 3rd year. It is not allowed for physical infrastructure facility under section 46C.
- from AY 2006-07, 50 percent for first year, 30 percent for second year and 20 percent for third year (previously it was 100 percent for first year up to AY 2005-06) provided as per paragraph 7 [the application for accelerated depreciation is accompanied by a declaration in writing that the concerned industrial undertaking has not approved for tax holiday and that no application has been made for tax holiday u/s 45 or 46A]; or
- 80% in first year and 20% in second year provided as per paragraph 7A [applicable in case of machinery or plant (other than office appliances and road transport vehicles) which not having been previously used in Bangladesh, has been or is used in the expansion unit set up between from 1-7-1995 to 30-6-2005 (both days inclusive) in any existing undertaking enjoying tax holiday u/s 46A].

Prescribed hi-tech electronic industry set-up in Export Processing Zones (EPZ) is entitled to accelerated depreciation of 100% of the actual cost of machinery or plant (other than office appliances and road transport vehicles) within the tax exemption period of 10 years, but application for accelerated depreciation is to be made within 4 months from the end of the month of installation of the machinery or plant to the NBR [S.R.O. No. 269-L/86 dated 01-07-1986].

Tax holiday and accelerated depreciation are mutually exclusive [paragraph 7(2) (d) and paragraph 7A (1) (a) and 7B (2) (d) of Third Schedule].

Tax Holiday vs. Accelerated Depreciation: Criteria for selection if both are available

Tax Holiday	Accelerated Depreciation
Labour-intensive	Capital-intensive
Profitable venture from starting	Initially losing venture
Loss during the tax holiday period cannot be carried forward beyond tax holiday.	Loss due to depreciation can be carried forward beyond tax holiday.

(E) Reduced Tax Rate for Industrial Sectors and for specific income:

(a) Reduced Tax Rate for Industrial Sectors

Industries	Reduced tax rate
Companies engaged in thread-production, thread-dyeing, finishing, conning, cloth-making, cloth-dyeing, finishing, printing or one or more similar process relating to textile production [S.R.O. No. 219 Ain/Aykar/2004 dated 13.07.2004, S.R.O. No. 168 Ain/Aykar/2006 dated 06.07.2006, SRO No. 207 Ain/Aykar/2008 dated 30-6-8, SRO No. 221 Ain/Aykar/2011 dated 4-7-11, SRO No. 207 Ain/Aykar/2013, dated 1-7-13, SRO No. 193 Ain/Aykar/2015 dated 30-6-15.]	15%[w.e.f. 1-7-2004 to 30-6-2019] [20% for income year 2003-04]
Enterprise engaged in producing jute products [S.R.O. No. 218Ain/Aykar/2004 dated 13.07.2004, S.R.O. No. 169Ain/Aykar/2006 dated 06.07.2006, S.R.O. No. 206Ain/Aykar/2008 dated 30-6-08, S.R.O. No. 220Ain/Aykar/2011 dated 4-7-11, S.R.O. No. 206Ain/Aikar/2013 dated 1-7-2013, and S.R.O. No. 194Ain/Aykar/2015 dated 30-6-15.]	15% [w.e.f. 1-7-2004 to 30-6-2019]
Income attributable from export by enterprises engaged in producing readymade garments [S.R.O. No. 217-Aykar/2003 dated 19.07.2003, repealed by S.R.O. No. 201-Ain/Aykar/2005 dated 06.07.2005]	10% [w.e.f. 1-7-2003 to 30-6-2006]
Income attributable from export of knit-wear and woven garments by an exporter [S.R.O. No. 205-Ain/Aykar/2005 dated 06.07.2005, S.R.O. 265 Ain/aykar/2010 dated 1-7-10, S.R.O. 217 ain/aykar/12 dated 27-6-12]. Subject to some conditions: (a) income deemed to be income u/s 19 or income due to disallowances u/s 30 shall not be income subject to settled tax; (b) income to be determined by assuming an income tax rate of 10%; (c) income under other heads shall be computed normally; (d) income tax	0.25% of the total export proceeds deducted at source by the collecting bank u/s 53BB [w.e.f. 1-7-2005 to 30-6-2014]

return shall be submitted to the concerned DCT along with statements of accounts and necessary documents.	
Any new industry (i) set up between 1-7-2002 and 30-6-2005 under the Companies Act 1994, (ii) set up not as an expansion unit of an existing industry, (iii) not applied for tax holiday u/s 46A, (iv) not applied for accelerated depreciation under paragraph 7 and (v) computing normal depreciation allowance on actual value rather than 'written down value' [S.R.O. No. 177-Aykar/2002 dated 03.07.2002]	20% [w.e.f. 1-7-2002 for 5 years]
Income derived from only diamond cutting and polishing business by a company engaged in diamond cutting and polishing industry [S.R.O. No. 174-Ain/Aykar/2006 dated 06.07.2006]	15% [w.e.f. 1-7-2006 to 30-6-2008]
Income derived from fish farming by a company S.R.O. No. 263 ain/aykar/2010 dated 1-7-2010	5% [w.e.f. 1-7-2010 to 30-6-2011]

*w.e.f= with effect from.

(b) Reduced Tax Rate for Specific Income:

income	reduced tax rate
Capital gain on transfer of shares of a company not registered in any stock exchange of Bangladesh [S.R.O. No. 232-Aykar/2003 dated 31.07.2003 and repealed by SRO No. 155- ain/ aykar/2007].	10% [w.e.f. 31-7-2003 to 30-6-2007]
Capital gain on transfer of shares of a company established under the Companies Act 1994 [S.R.O. No. 220-Ain/Aykar/2004 dated 13.07.2004 and repealed by SRO No. 155- ain/ aykar/2007]	10% [w.e.f. 13-7-2004 to 30-6-2007]

(F) Tax Rebates and Tax Relief

(a) Tax rebate

1. Tax rebate for Corporate Social Responsibility (CSR) activity: (under (S.R.O. 229/Ain/Aykar/2011 and S.R.O. No. 223 Ain/Aykar/2012 S.R.O. No. 186/law/income tax/2014)

Any company might get 10 percent tax rebate on investing in CSR activities under some condition and area specified in the SRO. The limit for expenditure in CSR is 20 percent of income of the company or Tk. 12 crore whichever is lower.

2. If any non-publicly traded company transfer its minimum 20% share through IPO, then also get 10% tax rebate. (FA 2017, 18)

3. Rebate of Higher Dividend by Listed Industrial Companies: Listed industrial companies are entitled to 10% tax rebate if they declare dividend at more than 20% [Finance Acts, 2005 & 2006].

(b) Tax Relief:

Double taxation relief: When any income is already taxed but non-assessable, then pre-tax amount of the income will be included in total income, a tax relief will be allowed at a rate lower of the two rates – Bangladesh tax rate and the tax rate at which the income is taxed.

This relief is usually allowed on foreign income under Seventh Schedule [section 144].

Appendix B: Some direct tax and company tax related data

(a)Tax-GDP ratio in Bangladesh

Fiscal year	Total Tax- GDP ratio	Income tax- GDP ratio
2001-02	7.80	1.39
2002-03	8.22	1.41
2003-04	8.24	1.41
2004-05	8.45	1.50
2005-06	7.37	1.48
2006-07	7.11	1.59
2007-08	7.87	1.87
2008-09	7.83	1.97
2009-10	8.12	2.14
2010-11	9.02	2.51

2011-12	9.35	2.72
2012-13	9.45	3.10
2013-14	9.33	3.22
2014-15	9.27	3.20
2015-16	9.21	2.97
2016-17	9.06	3.05

Source: annual report 2016-17 saroni 1 and saroni 4 kha

(b) Percentage of Direct and Indirect taxes over Total tax collection

Fiscal Years	Total tax collected	Percentage of indirect tax	Percentage of direct tax
2001-02	20,207.21	80.52%	19.48%
2002-03	23,651.12	81.12%	18.88%
2003-04	26,193.77	80.91%	19.09%
2004-05	29,904.46	80.51%	19.49%
2005-06	34,002.43	78.17%	21.83%
2006-07	37,219.32	75.68%	24.32%
2007-08	47,435.66	74.31%	25.69%
2008-09	52,527.25	72.83%	27.17%
2009-10	62,042.16	71.91%	28.09%
2010-11	79,403.11	70.51%	29.49%
2011-12	95,058.99	69.35%	30.65%
2012-13	1,09,151.73	65.45%	34.55%
2013-14	1,20,819.85	63.71%	36.29%
2014-15	1,35,700.70	64.37%	35.63%
2015-16	1,53,626.96	65.93%	34.07%
2016-17	1,71,656.44	68.65%	31.35%
Sixteen Year Average		**72.75%**	**27.25%**

Source: saroni 15 of NBR annual report 2016-17

(c) Collection of Income tax from companies and other than companies from 2001-02 to 2016-17

Fiscal Years	Collection of Income Tax			% of Total Collection	
	Company	Other than company	Total	Company	Other than company
2001-02	2,500.8	1,288.28	3,789.08	66.00%	34.00%
2002-03	1,887.81	2,299.74	4,187.55	45.08%	54.92%
2003-04	2,322.72	2,384.64	4,707.36	49.34%	50.66%
2004-05	3,008.09	2,569.00	5,577.09	53.94%	46.06%
2005-06	4,520.76	2,641.25	7,162.01	63.12%	36.88%
2006-07	5,650.49	3,070.75	8,721.24	64.79%	35.21%
2007-08	6,942.27	4,802.39	11,744.66	59.11%	40.89%
2008-09	7,706.29	6,151.45	13,857.74	55.61%	44.39%
2009-10	9,486.57	7,555.71	17,042.28	55.66%	44.34%
2010-11	13,114.29	9,893.24	23,007.53	57.00%	43.00%
2011-12	16,188.62	12,463.81	28,652.43	56.50%	43.50%
2012-13	20,408.93	16,711.72	37,120.65	54.98%	45.02%
2013-14	31,333.76	11,873.51	43,207.27	72.52%	27.48%
2014-15	34920.74	12556.66	47477.40	73.55%	26.45%
2015-16	25949.09	25379.83	51328.92	50.55%	49.45%
2016-17	31835.10	20919.83	52754.93	60.35%	39.65%
Sixteen Year Average				**58.63%**	**41.37%**

Source: NBR Annual Report 2016-17

Appendix C: Trend in Manufacturing growth, investment structure and sectoral distribution of local investment

(a)Trend in manufacturing Growth

Manufacturing Sector's contribution to GDP and Growth Rate (At constant prices of 2005-06) (figures in million taka.)

Fiscal Years	Broad Industry sector GDP (%)	Manufacturing GDP (%)	Total Contribution of Mfg. sec (in million taka)	Growth rate of Mfg. sector (%)
2004-5	-	16.58	422690	(8.19)
2005-6	29.01	17.05	468197	10.8
2006-7	29.77	17.79	816125	10.54
2007-8	29.66	17.77	875958	7.33
2008-9	29.73	17.78	934589	6.69
2009-10	29.88	17.86	996709	6.65
2010-11	30.33	18.41	1096514	10.01
2011-12	31.26	19.01	1205674	9.96
2012-13	29	19	1329941	10.31
2013-14	29.55	19.47	1446534	8.77
2014-15	30.42	20.17	1595680	10.31
2015-16	31.54	21.01	1782228	11.69
2016-17	32.42	21.74	1977653	10.97
2017-18	33.66	22.85	2238270	10.34

Source: Bangladesh Economic Review 2005-2018

(b) Local Private Investment: as percentage of total and growth rate

Private Investment Projects registered with BOI/BIDA from FY 2004-5 to FY 2017-18.

Year	Local investment		Foreign/JV		Total		Growth in Project Value (%)	% of local investment over total
	projects	million taka	projects	million taka	projects	million taka		
2004-05	1469	140046	120	52977	1589	193023	(+) 19	72.55
2005-06	1754	183703	135	249857	1889	433560	(+) 125	42.37

2006-07	1930	196581	191	119251	2121	315832	(-) 27	62.24
2007-08	1615	193530	143	54328	1758	247858	(-) 22	78.08
2008-09	1336	171175	132	147496	1468	318671	(+) 27	53.71
2009-10	1470	274137	160	62608	1630	336745	(+) 5	81.40
2010-11	1746	553690	196	365243	1942	918933	(+) 173	60.25
2011-12	1735	534769	221	344168	1956	878937	(-) 10	60.84
2012-13	1457	446149	219	220721	1676	666870	(-) 24	66.90
2013-14	1308	497593	124	185318	1432	682911	(+) 2.4	72.86
2014-15	1309	912731	120	80619	1429	993350	(+) 45.46	91.88
2015-16	1511	945854	151	155760	1662	1101614	(+) 9.86	85.86
2016-17	1578	996726	167	855892	1745	1852618	(+) 68.17	53.80
2017-18	1483	1257992	160	814933	1643	2072925	(+)11.89	60.68

Source: Bangladesh Economic Review 2005-2018 and BIDA website. (http://bida.gov.bd/?page_id=36 and http://bida.gov.bd/?page_id=24)

(c) Sectoral distribution of local investments

Sectoral Distribution of Local Investment Projects Registered in FY 2005-06 to FY 2017-18 (in million taka)

Sectors & Fiscal years	Agro based	Food & Allied	Textile	Printing & Publishing	Tannery& Leather	Chemical	Glass & Ceramics	Engineering	Service	Misc.	Total
2005-6	9657	3137	89297	3121	2278	35879	96	21658	17671	909	183703
2006-7	8162	4266	135848	5787	738	15234	969	9596	15342	640	196581
2007-8	9511	4370	108092	3668	203	22365	1720	18569	23568	1434	193530
2008-9	8223	4028	79451	1801	330	30556	4055	27616	14649	465	171175
2009-10	23251	21574	89662	2739	2188	77463	730	29352	26225	953	274137
2010-11	52007	17440	154037	2556	2018	65092	2076	35862	222317	285	553690
2011-12	61195	10822	105576	4151	1386	95491	2399	49581	155061	49105	534769
2012-13	54654	8838	172804	5157	2908	75049	1853	31902	87268	5716	446149
2013-14	75105	18083	82297	4301	7162	78685	7736	61294	156883	6048	497593
2014-15	113820	42792	176473	7908	5552	230843	19255	89897	209654	16536	912730
2015-16	106571	26196	169117	7049	15052	318240	7650	133847	107512	54616	945854
2016-17	66986	77723	189705	26107	15068	229911	23808	160009	134187	72695	996725
2017-18	81774	37169	257792	11618	19385	389925	16406	135287	295404	13230	1257990

Source: Bangladesh Economic Review 2005-2018.

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