

INCOME



Income Visibility and Tax Compliance: Bangladesh Perspective

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Abstract

Like many other developing and transition economies, the income tax net of Bangladesh remains very narrow. Less than one percent of the total population has been registered as taxpayers. The income tax administration in Bangladesh is struggling to expand the tax net but with little success. Reasons of such poor tax net remain manifold. Poor tax culture, strong informal economy, legal weakness and many others contribute to such poor tax net. The article argues that one way of tax net expansion can be making the income of the taxpayers visible. Income visibility plays a vital role in ensuring tax compliance. Empirical evidences suggest that in countries like the USA and other countries income or financial transactions of the taxpayers become visible as a result of the third-party information reporting (TPIR). Given the poor state of tax net in Bangladesh, the Bangladesh tax administration should think of the ways and means to make visible the income of the taxpayers. Once the income is visible and that is known to the taxpayer then she would not be encouraged to evade tax.

Keywords: Tax Compliance, Third Party Information Reporting(TPIR), Income Visibility, Developing countries, Bangladesh.

1.0 Introduction

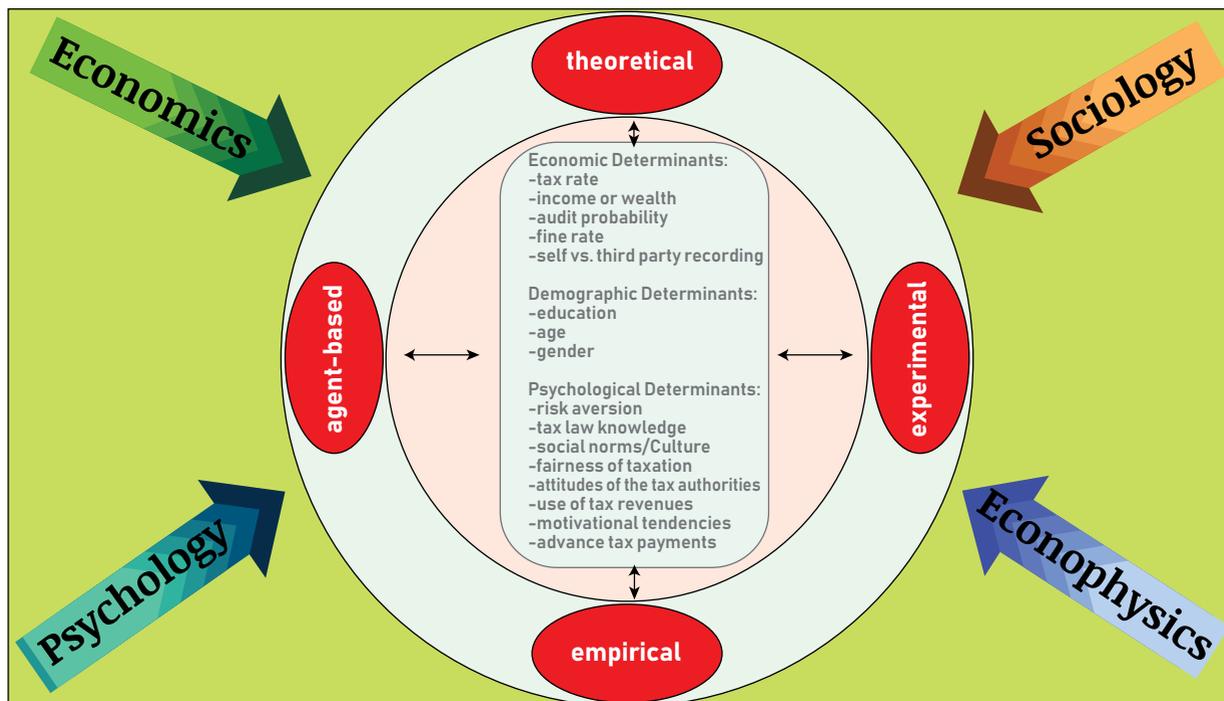
To collect the requisite amount of tax revenue, a country must have a robust tax compliance culture. But in Bangladesh, tax compliance picture is very bleak. The income tax administration is characterized by narrow tax base, incapacity of taxing digital economy, low tax GDP ratio, prevalence of informal economy, insufficient third-party information reporting regime, weak tax law enforcement, poor tax culture (Ahmed,2019). Tax revenue mobilization in Bangladesh has not been proportional to its rapid economic growth. In Bangladesh, income tax evasion is often considered high, which undermines equality of income and development growth. Government expenditure on public infrastructure and projects in many parts of the developing world is facing bottlenecks and disruptions due to lack of funding. One reason of poor tax revenue mobilization can be attributed to the poor

visibility of taxpayer income. With less than one percent of the country's population declaring income tax, a major source of potential government revenue is being forgone, and poor tax infrastructure is making it difficult to enforce greater compliance.

It is however, true that in most of the cases, unless taxpayers are forced, they do not want to pay taxes. Rai (2004) states, "By and large, taxpayers of all countries do not want to pay taxes unless compelled by a situation where they are left with no option other than to pay the taxes. Therefore, for better tax compliance, a system should be designed that automatically extracts taxes rather than leaves the payment of taxes to the voluntary choice and morality of taxpayers. Penal provisions making tax evasion a costly affair should supplement this automatic extraction of taxes."

According to the traditional economic deterrence theory of tax compliance, taxpayers are encouraged to evade taxes if the probability of getting caught and punished is a less likely chance and the evasion surpasses the punishment. Tax evasion remains a rational choice for the taxpayers depending on the factors of profitability through tax non-compliance (Becker, 1968; Allingham and Sandmo, 1972; Srinivasan, 1973; Gertler and Picker 1994; Katz 1998; Posner 1998). There are other social and psychological theories of tax compliance that put emphasis not on deterrence and punishment, but on social and psychological factors like social norms, tax morale, tax system fairness perception, tax knowledge, psychological contract between the taxpayers and the government, patriotism, guilt, and shame that shape tax compliance behavior (Alm 2012; Alm, Kirchler and Muehlbacher 2012; Braithwaite and Wenzel 2008; Hofmann, Hoelzl and Kirchler 2008; Kirchler 2007; Kirchler et al. 2010; Meder, Simonovits and Vincze 2012; Torgler 2007, 2008, Feld and Frey, 2006; Andreoni, Erard, and Feinstein, 1998). The different approaches and theories of tax compliance have been mentioned in a chart by Schmutz (2016). The chart is presented below for a quick look of the different determinants of tax compliance.

Academic Disciplines, Research Approaches and Possible Determinants of Tax Non-Compliance



Source: Schmutz (2016).

While the tax administration should take into consideration the economic, social and psychological factors of tax compliance, one issue demands serious attention to ensure voluntary compliance and expand the tax net. The

issue is the income visibility issue and the use of third-party information to ensure voluntary compliance. The purpose of this article is to argue that if the tax administration ensures that the income/ financial transactions of the taxpayers are visible through third party information reporting (TPIR) system and there is no scope to cheat, then taxpayers will comply in apprehension of being caught because of their true income is reported to the tax authority by the third parties. Opportunity encourages fraud and if there is opportunity, taxpayers would evade tax. This is human nature. But if opportunity can be reduced, tax evasion also can be reduced. TPIR reduces the opportunity of tax fraud.

The article is arranged as follows. While part I gives an introduction, part II presents a brief literature review. Part III tries to present some evidences that third party information increases income visibility and consequently voluntary compliance. Part IV discusses the tax information regime in Bangladesh tax administration. Finally, part V will make some concluding remarks. The article is a theoretical analysis based on the existing laws and literature on the topic. The article is a first of its kind in Bangladesh and it contributes to income tax literature being a pioneer of the study through analysis of the topic and making some useful suggestions for Bangladesh income tax administration to introduce a strong TPIR in the country.

2.0 Literature Review

There are empirical evidences that where the income of the taxpayer is visible through third party information reporting, tax evasion rate is almost zero. Kleven et al (2011) found through field experiment in Denmark that tax evasion rate is near to zero in case of income that is subject to third party information reporting. But evasion rate is substantial in case of self-reported income. It clearly indicates that where the income is visible to the tax administration and taxpayer is aware of the fact, taxpayer declares the exact income without any attempt to evade tax. There is significant relationship between tax compliance and income visibility (Iyer et al, 2010). Quite a number of empirical studies support the proposition that visibility of income reduces the opportunity of tax evasion (Clotfelter, 1983; Witte and Woodbury, 1985; Dubin and Wilde, 1988; Klepper and Nagin 1989; Robben et

al., 1990; Christian and Gupta, 1993; Antonides and Robben, 1995, Carnes and Englebrecht, 1995, cited in Iyer et al, 2010).

It was further found that prior audits and threat of audit letters have significant effects on self-reported income, but no effect on third-party reported income. Kleven (2014) found through empirical research, along with a strong third-party information reporting regime, social and cultural factors also play an important role in ensuring voluntary tax compliance in Scandinavian countries (Denmark, Norway and Sweden). Kleven (2014) states, "The descriptive cross-country evidence is consistent with social and cultural factors playing a role, although we are far from being able to interpret this evidence fully. But the discussion has also identified a set of concrete policies that can go some way towards explaining the Scandinavian puzzle, namely the use of far-reaching information trails that facilitate tax compliance, broad tax bases that limit the scope of legal tax avoidance, and large public spending focused on complements to work."

Cui (2016) argues that third-party information reporting is not used by tax administrations in case of Value Added Tax (VAT) and corporate taxpayers. It is only found effective in case of personal income tax. Cui (2016) states, "As a simple heuristic, most developed countries do not use information reporting under their VATs or corporate income taxes. Information reporting is chiefly limited to wages and financial income under the personal income tax... Business receipts from individual consumers are not subject to information reporting." Cui's argument asserts that tax administrations can ensure tax compliance without taking resort to third party information. His argument is set against the facts that some important taxes—such as the value added tax (VAT)—do not involve information reporting and tax compliance is promoted by business firms and sites of social cooperation under the rule of law without the help of information reporting. In response to Cui's argument Lederman and Dugan (2020) argue that professor Cui is wrong and third-party information reporting is highly effective, third-party reporting is used to enforce VATs, and firms are not inherently compliant. According to Lederman and Dougan (2020) firstly asymmetric information remains a vexing problem for the tax administrations because only taxpayers have the exact knowledge of her income and financial transactions while the tax office does not have this information and

secondly under the circumstances, use of third-party information will promote tax compliance because the taxpayer's activities are being observed. Lederman and Dougan (2020) argue, "Arm's-length parties with a reporting obligation could collude with the taxpayer to underreport, but collusion is riskier than cheating alone, and thus less likely. In addition, reporting parties have several incentives to comply with their obligations, including the difficulty of accomplishing collusion on a large scale and the risk of detection and resulting sanctions."

Kopczuk and Slemrod (2006) put emphasis on the firm's role of remitting information to the tax authority and they state, "In most countries, firms remit the majority of tax revenues to the government, either with regard to taxes legally owed by businesses or through withholding of taxes legally owed by employees or other businesses. Even when businesses are not required to remit taxes, they are often required to file information reports that can facilitate monitoring of tax liabilities." Morse (2013) on the other hand argues that although TPIRS provides valuable information to the tax authorities, it cannot offer total solution to the problem of tax non-compliance. Morse (2013) states, "Third-party withholding and reporting provide tax administrations with effective strategies to maximize compliance. But they cannot provide a complete solution. As an example, individual taxpayers not covered by third-party withholding or reporting will have the opportunity to evade taxes, and available evidence shows that they do evade." Obviously, there are certain types of income where there is no scope to evade. For example, employers and banks would deduct tax at source and provide the information to the tax authority and the information sent are subject to cross verification through computer matching. But the persons who derive income from self-employment largely received in cash cannot be subject to withholding and information reporting. Cui (2017) argues that the scope of TPIRS is limited and it has substitutes. Cui (2017) states, "To properly evaluate the significance of TPIR, three basic facts, to which the existing literature has given inadequate attention, must be taken into account. First, where it is applied in modern tax collection, TPIR often has close substitutes that would not support the claim that tax collection is conditioned on the transmission of taxpayer information to the government. These substitutes show that the dependence of taxation

on information transmission is an illusion. Second, the appeal to TPIR leaves it mysterious why payors would comply with reporting obligations instead of colluding with payees. Third, although some evidence for the effectiveness of TPIR is routinely cited, none of such evidence identifies the causal effect of TPIR on compliance." While the thesis put forward by Cui has been critically analyzed by Lederman (2020), the views were also supported by some authors. For example, Hemel (2017) states, "Cui's paper is ambitious, important, and—I think—largely right. He has persuaded me that third party reporting is not nearly as integral to tax collection as I previously believed. If there is a weak point in his argument, it is this: the evidence he produces in support of his "social cooperation" theory is equally consistent with the claim that business firms facilitate legal compliance precisely because they fail to engender close cooperation among their members." Hemel, however, does not agree with the social cooperation theory of firms. Be that as it may, Cui's arguments are forceful and appealing. Despite that the importance of TPIR cannot be undermined. TPIR cannot be a silver bullet solution for the tax compliance problem, there is no gainsay that it provides a major solution to the problem. Cui's argument that modern tax administration can practice without information appears to be biased and unjustified.

Morse et al (2009) found through a study that business firms with cash receipts tend to underreport more than the receipts on paper trails like credit cards or by cheques. Morse et al (2009) state, "By far the most important determinant of tax compliance is income source. Taxpayers report cash income less accurately than income subject to third party reporting and/or withholding." As noted, individuals evade business-source income, which is commonly received in cash, at a rate of approximately 50%, although this evasion is not evenly distributed. In contrast, the evasion rate on wage income—which employers report to the government and on which taxes are withheld—is about 1%." They further state, "The strong relationship between evasion and income source suggests that the primary causal factor that explains evasion is opportunity. Employees whose employers comply with wage reporting rules cannot cheat successfully and so such employees do not cheat. Individual business owners can cheat successfully (because no one reports much of their income to the government

and because their income is hard to detect on audit) and, in the aggregate, individual business owners do cheat.”

So, it is clear that in case of income that is not visible, the taxpayer gets the opportunity to cheat or evade. But income subject to third party reporting become easily visible and the taxpayer does not get an opportunity to hide the income.

3.0 Evidence regarding the impact of income visibility on tax compliance

The developing countries like Bangladesh does not have strong third-party information reporting regime to make the income of taxpayer visible. But the picture is opposite in developed countries like Denmark, the USA, Australia, the UK. In this respect Kleven et al (2011) state, “...all advanced economies make extensive use of third-party information reporting whereby institutions such as employers, banks, investment funds, and pension funds report taxable income earned by individuals (employees or clients) directly to the government. Under third-party reporting, the observed audit rate is a poor proxy for the probability of detection faced by a taxpayer contemplating to engage in tax evasion, because systematic matching of information reports to income tax returns will uncover any discrepancy between the two.”

In the USA, Taxpayer Compliance Measurement Program (TCMP) found that aggregate compliance is much higher for income categories subject to information reporting than for income categories subject to little or no information reporting (Internal Revenue Service (1996, 2006, cited in Kleven et al, 2011).

Kleven (2014) found through empirical study in Scandinavian countries that compliance is higher in case of income that are subject to specific third-party information reporting. Even if there is no specific third-party information regime, the tax administration can gather information from market transactions between taxpayers and third parties. Kleven (2014) states, “The enforcement and administration of modern tax systems rely crucially on third-party information from employers and the financial sector, which report taxable income on behalf of their employees and clients directly to the government. Absent collusion between the taxpayer and the third party, there is no scope for

tax evasion on third-party reported income. More broadly, even when no explicit system of third-party reporting is in place, tax enforcement may benefit from information created by market transactions between the taxpayer and third-party agents.” Lederman and Dougan (2020) state, “Economists and legal experts have long recognized that the government needs information about taxpayers’ transactions in order to determine whether their reporting is honest. Tax experts have likewise long recognized that third-party information reporting (TPIR) is an important tool to promote compliance with the tax law.” Johnson and Rose (2019) show analyzing IRS data that the net misreporting percentage (NMP) for income amounts subject to substantial information reporting and withholding is 1 percent; for income amounts subject to substantial information reporting but not withholding, the NMP is 5 percent; and for income amounts subject to little or no information reporting, such as nonfarm proprietor income, the NMP is 55 percent. Lederman and Dougan (2020) put the information in the following form.

Type of Income	Voluntary Compliance Rate
“Income subject to substantial information reporting and withholding	99%
Income subject to substantial information reporting	95%
Income subject to some information reporting	83%
Income subject to little or no information reporting	45%

Source: Lederman and Dougan (2020).

While estimating tax gap for the tax years 2008-2010, regarding the importance of the third-party information reporting in ensuring voluntary compliance, IRS states, “The estimates confirm the relationship between reporting compliance and third-party information reporting that was demonstrated in earlier tax gap estimates. For the individual income tax, reporting compliance is far higher when income items are subject to information reporting and even higher when also subject to withholding.”

4.0 Third party information reporting system in Bangladesh

It is evident from the above elaboration that third-party information system is largely used in the developed economies like the USA, Denmark,

Norway, Sweden. It is widely acknowledged that developed countries, with comparably successful tax administration regimes, typically have robust information reporting and, in particular, third-party information reporting systems (Cui, 2019). But it is a pertinent issue to address whether the developing countries take recourse to the third-party information reporting system. It is observed that developing countries generally do not use TPIRS to ensure tax compliance (Cui, 2019). Therkildsen (2004) identified some weaknesses of the revenue administrations of the developing countries. Among those weakness poor information is one. Lack or poor third-party tax information reporting speaks for the weakness of the tax administrations of the developing countries. Therkildsen (2004) identifies main causes of poor tax administration as, "... low public sector salaries; little or no encouragement for staff and management to exercise initiative; excessive legalism and over-dependence on rules and regulations, combined with extensive break-down of procedures; lack of a tax-paying culture among taxpayers, partly caused by a tax system perceived as unfair; and weak management, with poor information, auditing and supervision of staff."

However, it is generally argued that in developing country tax administrations TPIRS can play a vital role in ensuring voluntary compliance, but that should not be stand alone. It can be complementary to other tools of tax compliance. Carrillo et al (2017) state, "... third-party reporting and traditional methods may in fact be complementary with each other. Despite the growth of computer-based monitoring using cross-checks of third-party information, strengthening the auditing and enforcement capacity of developing country governments still remains crucial for effective tax collection. Over time, third-party reporting can become more effective as tax authority capacity increases and the scope of transactions that are third-party reported grows. This allows governments to target audits to remaining non-third-party reported margins."

In Bangladesh, the main taxing statute is the Income Tax Ordinance 1984 (The ITO). The ITO contains a strong tax withholding regime and a partial third-party information reporting law. The relevant legal provisions are mentioned below:

Section 75A: Return of withholding tax

As per the provisions of section 75A, a company or a co-operative society or a non-government organization registered with NGO Affairs Bureau, a Micro Credit Organization having license with Micro Credit Regulatory Authority, a university, a private hospital, a clinic, a diagnostic center, an English medium school providing education following international curriculum, artificial juridical person, local authority, a firm or an association of persons, shall file or cause to be filed, with the Deputy Commissioner of Taxes under whose jurisdiction he is an assessee, a return of tax deducted or collected under the provisions of Chapter VII of the ITO.

The return has to be submitted twice a year, first return by thirty-first January of the year in which the deduction or collection was made and the second one is by thirty-first July of the next year following the year in which the deduction or collection was made. According to section 75AA of the ITO, the Deputy Commissioner of Taxes (DCT) shall select returns filed under section 75A for audit with prior approval of the National Board of Revenue (NBR). While conducting audit the DCT shall examine whether taxes at were deducted at prescribed rates and deposited to the treasury. If there is any non-compliance revealed, the DCT can take penal action as per law.

Section 75A and 75AA authorize the DCT to examine whether taxes at source are deducted properly and deposited to the treasury. There is nothing provided whether the information received can be used to cross verify the income of the recipients of the bills. Besides, the audit process requires approval from the NBR. Anecdotal evidence shows that the process consumes time and there is apathy among the DCTs to audit the returns. Moreover, the institutions which are required to submit returns, very often do not submit the returns. The NBR should monitor the issue actively.

Section 75B: Obligation to furnish Annual Information Return.

Section 75B provides that Government may, by notification in the official gazette, require any person or group of persons responsible for registering or maintaining books of account or other documents containing a record of any specified financial transaction, under any law for the time being in force, to furnish an Annual Information Return, in respect of such specified financial transaction. The Annual

Information Return referred to in sub-section (1) shall be furnished to the Board or any other income tax authority or agency, in such form, manner and within such time as may be prescribed.

From a simple perusal, it can be said that the law is insufficient to gather necessary information for compliance purpose. First of all, before information is sought, there must be notification in the official gazette. Secondly, it is not mandatory for the NBR to seek information. There is discretion on the part of the authority whether it would ask for the information or not. Thirdly, transactions have not been listed. It leaves enough discretion for the authority to apply the law in a different way. Under the circumstances, it can be said that the law is not comprehensive and from the time of its enactment, the law has hardly been put in application.

Section 108: Information regarding payment of salary to be furnished by the employer to the income tax authority.

Section 108 says that every person responsible for making any payment constituting income classifiable under the head "Salaries" not being payment made by the Government, and the prescribed officer in cases where such payments are made by the Government, shall, before the first day of September each year, furnish to the Deputy Commissioner of Taxes, a statement prepared in the prescribed form and verified in the prescribed manner so as to give the following information, namely:-

- (a) the name and address of every person to whom such payment has been made, or was due, during the preceding financial year if the payment exceeds such amount as may be prescribed;
- (b) the amount of payment so made, or due;
- (c) the amount deducted as tax from such payment; and
- (d) such other particulars as may be prescribed:

Section 108A: Information regarding filing of return by employees.

Section 108A was inserted in the ITO by Finance Act 2018. This section makes it compulsory for the employee to furnish the following information:

- (a) Taxpayer's Identification Number;
- (b) Date of filing of the return of income;
- (c) The serial number provided by the income tax authority upon filing of the return of income.

The makes it compulsory for the person responsible for making any payment which is an income of the payee classifiable under the head "Salaries" to furnish to the income tax authority by April each year a statement containing the following information.

- (a) The name, designation and the Taxpayer's Identification Number;
- (b) Date of filing of the return of income;
- (c) The serial number provided by the income tax authority upon filing of the return.

The section makes an exception that the provisions of the law shall not be applicable in case of a payment made by the Government.

Section 109: Information regarding Payment of interest

According to section 109 every person responsible for making any payment of interest constituting income not classifiable under the head "Interest on securities" shall, if such payment exceeds fifteen thousand taka before the first day of September each year, furnish to a prescribed officer a statement prepared in the prescribed form and verified in the prescribed manner so as to give the following information, namely:-

- (a) the name and address of every person to whom such payment has been made, or was due, during the preceding financial year;
- (b) the amount of payment so made or due; and
- (c) such other particulars as may be prescribed.

Section 110: Information regarding payment of dividend

According to section 110, the principal officer of every company shall, before the first day of September each year, furnish to the prescribed officer a statement prepared in the prescribed form and verified in the prescribed manner, so as to give the following information, namely: -

- (a) the name and address of every shareholder, as entered in the register of shareholders, to whom a dividend or the aggregate of dividends has been paid or distributed during the preceding financial year if such payment exceeds such amount as may be prescribed;
- (b) the amount of dividend or dividends so paid or distributed; and
- (c) such other particulars as may be prescribed.

It is observed that, though not stand alone, the ITO contains some legal provisions regarding third party information reporting. The regime is not as broad as it

is in the developed economies like the USA, Australia and other OECD countries. Developed economies largely rely on income related taxes. Compliance in case of personal income tax is over 82% in those developed countries. To ensure high level of compliance the governments of those countries have taken necessary measures. Including third-party information reporting. OECD (2009) states, "Governments have evolved a number of instruments to ensure a high degree of compliance is achieved in relation to income-related taxes. The key instruments are: 1) withholding of tax at source obligations of payers; and 2) systematic reporting to revenue bodies by payers of income paid to payees, hereafter referred to as 'information reporting obligations'. In practice, these instruments are deployed almost universally for employment and/or investment income. Research findings from a number of countries indicate that, subject to effective administration, these instruments result in very high levels of voluntary compliance in practice, often well over 95%." In Bangladesh there is a strong tax withholding regime. Chapter VII of the ITO and the corresponding rules contain the detailed provisions of deduction of tax at source. Against this backdrop, now it is time that Bangladesh should go for a broad-based third-party information reporting system. But for that what is imperative is that Bangladesh should develop its capacity to deal with the information received through TPIRS. A strong TPIRS provides huge information that need to be stored, matched and analyzed by the tax office. So, the tax office must have the capacity to deal with the information. For a successful TPIRS Lederman (2010) prescribed some conditions which are worth noting here. According to Lederman, for a successful TPIRS, the following six contexts are essential.

- a) The party furnishing the information report to the tax authority should be at arm's-length from, and there should not be any collusion between the taxpayer and the information provider.
- b) Firms that have enough bookkeeping infrastructure should be required to information report.
- c) Information reporting parties should be fewer in number than taxpayers reported on, allowing the government to centralize the sources of information.
- d) "Information reporting is most effective when it provides all of the information necessary for the government to match the third-party report with

corresponding amounts on the taxpayer's return; partial reporting reduces enforcement efficiency."

- e) There should be few ways for the taxpayer to cheaply avoid information reporting.
- f) Transactions that do not contribute substantially to the tax gap in the absence of information reporting should not be prime targets for information reporting.

The conditions put forward by Lederman (2010) are very important for a successful TPTIR. Along with those some more issues deserve attention against the backdrop of a developing country like Bangladesh. The issues are discussed below briefly.

Building capacity of the tax administration

A broad bases TPIR system would provide information in bulk. The tax office should have the capacity to process the information received from the third party. Information received must be stored and matched with the information provided by the taxpayers. Besides, there is secrecy issue with the information gathered. So, the tax department must have a strong ICT system to deal with the issues. It is imperative that skilled human resources are developed and retain with incentives and motivations. Moore et al (2015) state, "The greatest challenge for tax administrations is retention of skilled staff, particularly those with scarce and valuable skills, especially in IT, accounting, and forensic auditing. This is a general problem for the public sector everywhere in the world, but it is particularly acute in low-income countries where there is a smaller pool of people with these skills, and so they are sometimes 'poached' by private firms. Although revenue authorities already pay their staff well compared to the rest of the civil service, there are cases in which higher remuneration for particularly valuable staff is justified, since losing them can have costly repercussions." Under the circumstances, Bangladesh tax administration should consider the issue of skilled manpower and ICT seriously.

Bringing digital economy within reporting network

Currently, the tax administrations around the world are facing big trouble in taxing digital economy. There are no symmetrical rules of international tax law to deal with the problem. Saiya (2020) states, "Triggered by the desire to protect tax base and uncertainty about a mutually-accepted solution, several countries introduced unilateral measures like equalisation levy, withholding tax, digital services tax, VAT/GST, etc.

With the pandemic and the resulting economic slump causing deficit in tax revenues of governments, it is likely more countries may implement such measures. While these measures may/may not fill coffers of governments, they add to the complexity of doing business for a global corporation. Besides additional compliance and tax cost, they add to risks from non-compliance, unintended litigation, increased efforts and ultimately increased cost of doing business.” Under the circumstances, it is proposed that the tax administration of Bangladesh should take measures to bring the digital economy within third-party reporting network so that the digital economy can be taxed properly.

Garnering political will

For any kind of reform political will is imperative. If the politicians are not interested in tax reform, then no reform can be done in the revenue administration. Prichard et al (2019) state, “There is now near-universal agreement that political hurdles are frequently the most important barriers to reform – and thus agreement about the importance of problem-focused political economy analysis to inform reform efforts. A problem-focused political economy analysis aims to provide a sophisticated assessment of the politics of reform that anticipates likely challenges – both inside and outside of tax agencies – and potential strategies for confronting them. The starting point is an assessment of the extent of political support for reform and the configuration of political interests. The core concern is not with an exhaustive mapping of possible interests, but a focused interrogation of the interests that are likely to shape the prospects for the success of reform, with a view to (a) informing the design of reform that is most likely to succeed amid existing political constraints (“incentive compatible reform”); and (b) supporting the design of strategies to minimize resistance and build support for reform.” So needless to say, that political barrier would undermine any reform effort by the tax administration. Before going for a broad based TPIR, the first thing is to convince the politicians regarding the positive impact of the law.

Helping tax officials for tax reform

Besides the political economy of tax reform, it is imperative that the tax bureaucrats have the interest and scope for tax reforms. Tetlow et al (2020) state, “While it is ultimately ministers who decide on tax policy and tax reform, civil servants still have an important role to play. Ministers rely on civil servants

for advice and to implement decisions.” According to Tetlow et al (2020) the tax bureaucrats can help in tax reform in three ways. Firstly, they can supply important evidence base for tax reform and also the costs of reforms and weaknesses of the existing system. Secondly, they can make the useful analysis of the issues that can contribute to public debate and finally, they can make substantial contributions by designing and implementing packages of reform in collaboration with ministers. In Bangladesh, anecdotal evidence shows that most of the top tax bureaucrats try to avoid the hassle of tax reform. They usually want to retire from civil service quietly taking care of their retirement benefits and other related issues. To put it otherwise, they do not find any motivation to take the challenges of tax reform. The capacity of the tax bureaucrats must be increased through proper training and incentives. Tetlow et (2020) state, “For civil servants to play an effective role in tax reform, they need to have the capacity to engage in long-term strategic thinking and planning – investing for windows of opportunity. This needs to take place alongside pressing short-term work, most notably preparing budget policies.”

Government of Bangladesh should think of the issue and involve the bureaucrats in the implementation of tax reforms and remove their apathy for reform.

5.0 Conclusion

Despite arguments for and against the TPIR system, it is established through empirical studies that proper presence of a strong TPIR system boosts voluntary compliance to a great extent. For a developing country like Bangladesh TPIR can be of great help to increase tax compliance. One thin, however, should be borne in mind that TPIR is not the panacea for tax compliance problem. At the same time, it is imperative that a robust tax culture is developed in Bangladesh over the years. Also, there must be appropriate penal provisions in the tax statute to discourage collusion between the parties involved in the process of third-party information reporting. To reduce tax evasion opportunity to do so must be reduced through increasing visibility of income as Lederman (2020) states, “Information reporting thus decreases the perceived opportunity to evade tax. It is not surprising that there is a strong correlation between the presence or robustness of TPIR and reporting compliance. Opportunity is an essential element of fraud and similar wrongdoing.” However,

information is not enough. The information received through TPIR must be analyzed and matched by expert hand. As Solheim (2019) comments, “TPIR is a bit like cooking. Fantastic raw materials will not end up as gourmet meals on their own. You need a talented and skilled chef and a kitchen with the right tools, as well... TPIR is a superb ingredient in the hands of a skilled chef in a well-equipped kitchen, but add that you really need a close partnership with your suppliers to make it happen without prohibitive costs.” 

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