The Role of Government Reform in Improving Voluntary Tax Compliance in the Digital Economy: The Bangladesh Experience

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Agenda

1. Introduction and aims

- The rapid growth of the digital economy has posed increased pressures for revenue administrations around the world in their efforts to enhance voluntary tax compliance by meeting taxpayers' obligations (Migai et al. 2018; OECD, 2014).

- This is particularly relevant to the developing countries in the Asia and the Pacific region, where tax agencies are struggling to capture adequate tax information with a conventional tax filing system and inadequate human resources (Gueydi and Abdellatif, 2018).

- There is a growing need for a well-functioning tax administrative system, such as the use of advanced tax technology that has the potential to systematically gather and process taxpayers' information, thereby assist both the taxpayers and the tax authority to meet their tax obligations (KPMG, 2018).

1. Introduction and aims

- In the context of a tax system of a developing country like Bangladesh, this can enhance citizen-state relations through improving tax compliance.

- While the adoption of digitization in taxation in the developing countries in Asia and the Pacific region is relatively new, there is no such comprehensive study that examines the role of tax digitization and automation in enhancing tax compliance.

- This research aims to fill the gap in the literature by exploring the role of tax digitization and automation which are undertaken by the income tax wing of the National Board of Revenue (NBR) in Bangladesh in enhancing voluntary tax compliance.

2. Review of key literature

- A well-functioning tax system is an important condition for strong, sustained and inclusive economic development (Carnahan, 2015).

- This is more relevant to developing countries in the Asia and the Pacific region including Bangladesh, which is facing a sharp decline in foreign aid, while at the same time is experiencing a high level of public expenditure (Sarker, 2015).

2. Review of key literature

- During recent years, the business case for the adoption of the new technologies in the tax function has gained further momentum.

- While tax authorities worldwide are bringing newer initiatives including tax codes to deal with these digital business models, it remains unknown to what extent taxpayers, tax officials and civil society perceive about the key global and country-specific trends directly impacting tax functions and the future of digital tax.

- Hence, this research aims to explore the role of government reforms concerning digitization and automation of the tax system in enhancing voluntary tax compliance, using an in-depth case study of the income tax system in Bangladesh.

3. Theoretical background

- The theoretical foundation of this study is anchored on the theory of economic growth in the era of a digital economy (Qu et al., 2016).

- At the macro level, how governments mobilise internal resources and spend them on public goods and services, and more importantly, how fiscal policy is used to steer the economy, are critical for the well-being of societies (Gupta et al., 2017).

- Scholars find that through transforming the way tax administrations collect, process, and act on information, the use of digital technology can reshape the way governments bring tax reforms to design and implement their tax system, spending, and macro-fiscal policies (Chen et al., 2017).

3. Theoretical background

Scholars of behavioral economics posit that the implementation of digital technology can have significant positive effects (Sunstein and Thaler, 2009).

This is particularly true for taxation, in which compliance is determined by a range of complex mix of financial, social, moral and psychological factors.
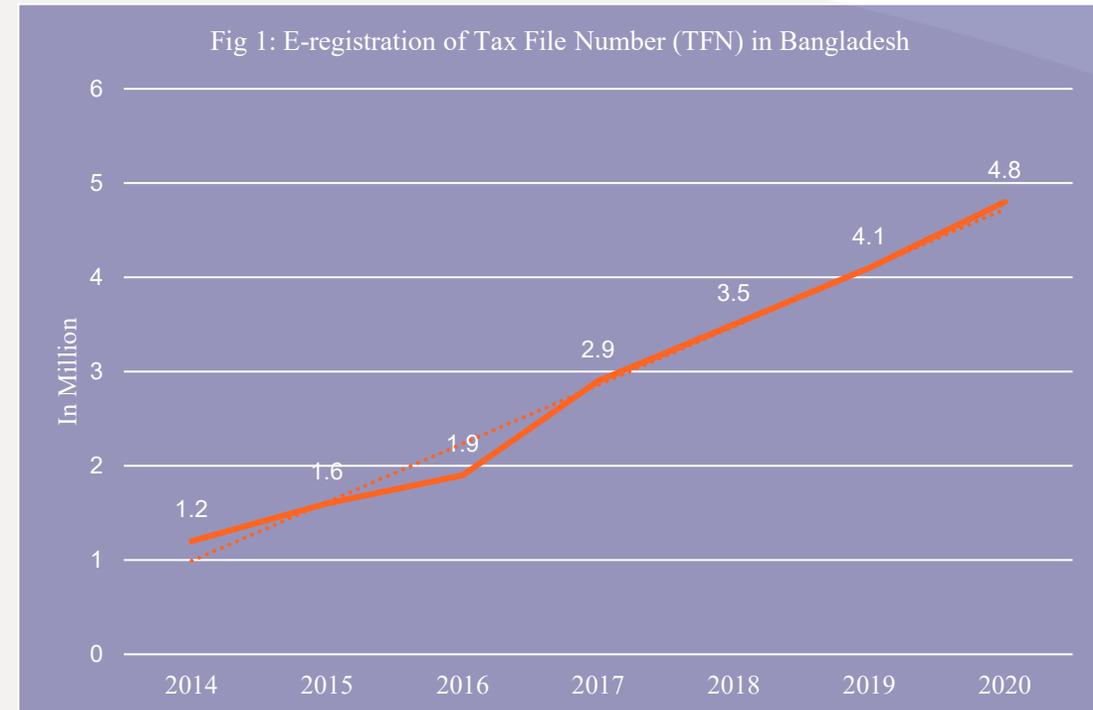
While behavioural economics has demonstrated how a small shift towards digitization can lead to behavioural change, it can also help to move from traditional paper-based filing to an online system, thereby could significantly impact compliance (IMF, 2015).

4. The context: Digitization of income tax in Bangladesh

- The National Board of Revenue (NBR) in Bangladesh gather and verify electronic information for the tax credit and tax refund for over 4.9 million taxpayers.

- NBR is the apex authority for tax administration in Bangladesh, and a pioneer in adopting digitization and automation and is responsible for collecting tax revenues.

- NBR has implemented a range of initiatives as part of the modernization of the income tax administration, including computerization of tax administration with much greater reliance on an accounts-based audit system to promote tax governance.

4. The context: Digitization of income tax in Bangladesh

- The benefit of digitization is evident from the sharp increase in tax registration in Bangladesh.

- Since the introduction of e-TIN (electronic tax identification number) system in 2014, the number of tax registrations started to jump, and tripled in the last five years between 2015 and 2020, as shown below (see Fig 1):

Fig 1: E-registration of Tax File Number (TFN) in Bangladesh

In Million

- 2014: 1.2
- 2015: 1.6
- 2016: 1.9
- 2017: 2.9
- 2018: 3.5
- 2019: 4.1
- 2020: 4.8

Source: National Board of Revenue, Bangladesh

5. Materials and methods

- The research collects qualitative data on five key areas to better understand the stakeholders' perspectives of the digitation of the personal income taxation in Bangladesh.

- As COVID-19 has an impact on the tax administration's efforts and capability of revenue collection, the role of the digitization of the tax system in coping with pandemic was also investigated.

- The five key areas include:

  - *Taxpayers' awareness;*

  - *Impact of digitization;*

  - *Taxation and the UN Sustainable Development Goals (SDGs);*

  - *Challenges and remedies of digitization; and*

  - *Tax developments in response to COVID-19.*

5. Materials and methods

Data source

- An in-depth semi-structured key informant's online survey was used to collect primary data for the research.

Survey administration

- A single-staged survey was administered for two weeks (from 03 March 2020 – 17 March 2020), including a follow up of the procedure for a further two weeks (from 16 July 2020 – 30 July 2020).

- Taxpayers and tax officials participated in the survey were from the capital city and other major cities, ensuring a sound regional distribution of the respondents.

- *Anonymity* and confidentiality of participants were always maintained. No personal information and identities were collected.

6. Results

Table 1: Summary of Sample Participants' characteristics (N=78)

	n	%
Gender		
Males	66	85
Females	12	15
Location		
Capital City	31	40
Regional areas	47	60
Occupation		
Taxpayers	41	53
Tax officials	16	21
Tax Accountants	10	13
Member of the Civil Society	6	7
Students	5	6

6.1 Taxpayer awareness

- Taxpayers' awareness has important implications to enhance understanding and consciousness that encourage taxpayers to pay taxes (Savitri and Musfialdy, 2016).

- Among the participants, a large majority of them (95%) were found to be aware of NBR's tax automation and digitization reform.

- Female respondents have shown a relatively higher level of awareness about government reforms.

Participants responses:

- *"Awareness needs to be built up with round the year tax workshops and seminars. NBR can arrange the workshops and seminars with corporate officials, Tax Practitioners and Lawyers. Presentations can be given to general taxpayers during Income Tax Fair which is now very popular among them. Building awareness will increase taxpayers' education, timely lodgment of return, and timely tax payment".* (Senior Private Sector Official and Taxpayer, Male)

- *"To bring the people in confidence for the new system is a challenge. Awareness program can help to bring people in confidence".* (Member of the civil society, Male)

6.2 Impact of Digitization

- Digitization of a tax system has a range of benefits, including fighting corruption, enhancing tax compliance and achieving sustainable development goals (Fanea-Ivanovici et al. 2019).

- About 60% of the respondents thought that digitization of a tax system has important implications in improving good governance in the income tax administration in Bangladesh.

Participants responses:

- *"Because of the digital transformation, income tax collection will be fairer & more trustworthy resulting to increase in the number of income taxpayers. It will also lessen public sufferings, thereby can bring the taxpayers and NBR closer to each other".*(Member of the civil society, Female).

- *"Adoption of tax digitalization will smoothen the process of getting e-TIN (Tax File Number). Though it is a clumsy and rudimentary approach to submit tax returns online, yet online tax payments is effective".* [Tax official, Male]

6.3 Taxation and the UN Sustainable Development Goals (SDGs)

- Effective tax policy and administration is instrumental to facilitate economic growth, and in doing so, support the UN SDGs (ICC, 2018);

- More than three quarters (78%) of respondents said that the digitization of the tax system can play an important role in enhancing inclusive and sustained economic growth, SDG #8.

Participants responses:

- *"It will help to increase the pace of the income tax submission and will motivate more people to contribute to the economic development of our country".* [Civil Society, Female]

- *"Actually, it will increase the accountability of the Government and we hope that our Government will ensure the development of the entire community".* [Taxpayer, Male]

6.4 Challenges and remedies of digitization

- The shift to a data-based digital economy and more importantly a shift from a manual to an online tax system can pose many challenges for the taxpayers as well as the tax administration (Chen et al., 2019).

- A range of challenges were identified: including,
  - *the low level of computer literacy and technological knowledge among the taxpayers, particularly those who are senior citizens;*
  - *the lack of proper collaboration between tax authority and taxpayers;*
  - *the lack of manpower and equipment; and*
  - *corruption in the tax system.*

Participants responses:

- *"Most of the people have fears of technology. I mean they do not know how to use a computer or a technological device properly. To educate the people about the benefit of paying tax and about the technologies will be the key challenge in my view.* [Taxpayer, Male]

- *"There is a need for proper planning to integrate different stakeholders and sectors and within the business environment a place of commitment to adopt the process alongside the tax officials for the change in the business process due to digitization. Policy-makers also require long term vision to create an example for corruption-free revenue system".* [Tax Official, Male]

6.5 Tax developments in response to COVID-19

- In most countries, the COVID-19 pandemic has caused a major decline in tax revenue (IMF, 2020).

- Overall, participants had positive views on the potential role of a digitized tax system, as they expressed the views that such a system will reduce human interactions, hence will create a hassle-free tax system.

Participants responses:

- *"Tax returns can be lodged through online system ensuring social distance".* [Taxpayer, Male]

- *"It is a great advantage of the digitized tax system that we can fulfil our tax obligations online during a pandemic like COVID-19. As a taxpayer, I am happy that I don't have to go to the tax office, and I can pay my taxes online".* [Taxpayer, Male]

7. Conclusions and policy recommendations

- Overall, the study reveals that while digitization and automation of the tax system are still at an early stage, such initiatives have important implications in improving good governance in the income tax administration in Bangladesh.

- The study also reveals that the use of digital technologies in providing tax services can enhancing tax compliance.

- From a policy perspective, the study will provide insights about the role of future reforms in terms of tax policy and administration in the digital economy.

- This would help to develop a well-functioning revenue system, which is necessary for strong, sustained and inclusive economic development in the region.

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