



ATTITUDE OF TAX RETURN AMONG THE INVESTORS OF NATIONAL SAVING CERTIFICATE IN BANGLADESH

Ashish Basak

Assistant Professor, Department of Business Administration, Shanto-Mariam University of Creative Technology, Bangladesh.

ABSTRACT

Taxation plays a vital role in redistributing benefits and is crucial for economic development. Bangladesh is committed to enhancing revenue generation and maintaining fiscal discipline to achieve self-sufficiency. However, compared to other countries at similar stages of development, Bangladesh has one of the lowest tax-to-GDP ratios among SAARC nations. Despite some progress, there is still a need for improvement in performance. Enhancing tax compliance is pivotal in addressing this situation, and authorities have made tax returns mandatory for various categories, including individuals holding TIN certificates. Notably, individuals investing over Tk. Two lac in national savings certificates are required to submit a TIN certificate, making tax returns mandatory for them. This study aims to examine the influence of factors such as educational attainment, understanding of tax laws, tax office notices, and income level on the willingness of NSC investors to file tax returns. The research findings indicate that the attitude towards tax returns is influenced by those factors, which have been taken into account for the study.

KEYWORDS: Taxation, Tax Return, Tax Authority, individual assessee, TIN, NSC, Bangladesh

1. INTRODUCTION

Inadequate collection of public revenue poses a significant challenge for the majority of emerging and transitional nations within the present economic environment. The level of tax effort in Bangladesh is quite disappointing. The number of individuals submitting income tax returns is exceedingly low that represents less than 1% among the population. According to a study conducted across multiple countries by Fenochetto and Pessino (2013) showed that the Bangladeshi economy only taxes 43% of its potential taxable revenue, which is one of the lowest effort ratios in the world. In Bangladesh's economy, there is significant variability in income earnings, and the consequences of tax evasion penalties can vary for individuals with high and low incomes, particularly if the penalties are based on the act of evasion rather than the amount of taxable revenue. (Daily Star ,2022). Due to geographical disparities in public infrastructure, people living in rural areas find it challenging to receive information on tax declarations, filings, and returns. Low e-literacy rate makes the issue even more complicated, as the government has adopted a strategy to digitize the tax disclosure system; On the other hand, low literacy rates among adult taxpayers would further limit compliance. Bangladesh is a developing nation with a high population density that possesses a middle-income status. Income tax as the main source of direct taxation in Bangladesh and more than one-third of income tax comes from individuals (Hyman, 2010). According to the record of the National Board of Revenue (NBR) there are 46 lac Tax Payer's Identification Number (TIN) holders in Bangladesh who are required to submit tax return.

The number of taxpayers who are currently submitting the tax returns is around 20-22 lakhs, indicating the need for proactive

measures to curb tax evasion and ensure that the remaining eligible taxpayers are included within the tax system. (GOB, 2020 p. 12). However, more than 50 per cent of TIN holder does not submit their tax return in the assessment year 2019-2020 (Hossain, 2019) which is a significant concern and the National Board of Revenue (NBR) decides to issue notice against about 23.5 lac default TIN holders ("NBR," 2019). The overall budget deficit is 6.0 per cent of GDP in the FY 2020-2021 which was 5.0 per cent in the last fiscal year in Bangladesh (GOB, 2020 p. 12). Implementation of the budget is a great challenge due to about one-third (33.45 per cent) of the budget is a deficit in the FY 2020-2021 which was more than one-fourth (27.79 per cent) in FY 2019-2020 in Bangladesh. The national savings initiatives in Bangladesh work as a means of savings for the general population, simultaneously performing as a crucial domestic source to address budget deficits. According to the recent tax policy, individuals who invest more than Tk. 2 lac in national savings certificates must file tax returns. This paper aims to explore the attitude of investors towards tax returns on National Saving Certificates in Bangladesh, shedding light on their motivations, perceptions, and decision-making processes when it comes to investing in this government-backed scheme.

2. LITERATURE REVIEW

2.1 Non-compliance

The issue of not following to income tax regulations is a significant concern for Bangladesh, as stated by Sarkar et al. (2015). Considering individual perspectives, Jackson and Milliron (1986) identified 14 significant factors associated with tax evasion. They found that beliefs, personal standards, and perceived behavioural regulation are the primary factors



affecting compliance issues in the informal sector. In contrast, in a cross-country investigation of tax evasion, Riahi-Belkaoui (2004) concentrated on criteria other than an individual's level. Richardson (2006) integrated the parameters proposed by Jackson and Milliron (1986) at the individual level with the cross-country framework developed by Riahi-Belkaoui (2004) to further explain the idea of tax evasion. The result demonstrated that the level of avoidance of taxes across countries reduces with lower levels of complexity and higher levels of general education, services income source, fairness, and tax morale. According to Burton, Karlinsky, and Blanthorne (2005), people perceive tax evasion as a lesser-level crime than other criminal behaviors, which complicates the scenario of income tax non-compliance behaviour. Therefore, Kasipillai and Jabbar (2006) suggest that tax compliance relies on taxpayers' societal views and behavioural traits; occasionally, a complex confluence of occurrences may also act as a catalyst. There was controversy among the definitions of non-compliance since different scholars used various criteria to define it. According to McBarnet (2001), non-compliance is the intentional or involuntary failure to submit a return.

James and Alley (2002), on the other hand, stressed the significance of putting restrictions on the consistency and specificity of the definition. They suggested defining tax non-compliance as the failure to meet tax responsibilities, which would cover both actions that break the law and those that do not, rather than merely defining it as the failure to pay taxes. Different nations have various degrees of tax compliance because tax morale varies depending on culture (Alm & Torgler, 2006).

2.2 Income Level and Income Tax Non-compliance

The study conducted by Muibi & Sinbo (2013) suggests that higher earners have a better track record of paying their taxes than those with lower incomes. When compared to middle-class earners, Kong and Wang's (2014) experiment showed that high- and low-class earners were more inclined to be in non-compliance with tax laws. The research result of Witte and Woodbury (1985) suggests that people belong to middle income level are more respectful toward compliant of the tax law. Although people's non-compliance attitude is influenced by their financial level, it is unclear to what extent.

2.3 Role of Tax Knowledge and Tax Morale on Income Tax Non-compliance

Research has shown that a person's level of income tax compliance increases with their level of knowledge about taxes. (Obid, 2004). According to a study conducted by Fallan (1999) revealed that while men and women had varied levels of tax knowledge, men made their own decisions about compliance, while women considered others' attitude to show compliance behaviour (Fallan, 1999). In contrast, having a deep understanding of taxes can occasionally result in very poor tax compliance by exposing opportunities for tax evasion (Groenland & van Veldhoven, 1983). Tax morale is a reflection of a person's mindset as well as their actions. (Torgler, 2003). Moral obligation plays an important part in terms of non-compliance attitude (Bobek & Hatfield,

2003). Although Asian nations are well-known for having moral tax policies (e.g., Japan, China, India and Bangladesh), Non-compliance conduct continues to be a serious problem. (Torgler, 2004). However, more non-compliant behaviour is seen among people when they possess poor tax morale (Witte & Woodbury, 1985).

2.4 Tax Return for Individual Tax Payer

As per the guidelines outlined by the Income Tax Guidelines for individual taxpayers, individuals holding a Tax Identification Number (TIN) are required to fulfil their obligation by filing tax returns (NBR, 2021). However, individuals who possess a TIN solely for purposes such as obtaining a credit card or selling land, and currently have no income, are exempted from submitting tax returns (Daily Star, 2021). The National Board of Revenue (NBR), the tax authority, has made it obligatory for individuals in 22 specific areas, including those with 12-digit TINs, to file tax returns. Additionally, individuals employed in the public sector with a basic salary of Tk.16,000 or higher are also required to submit their tax returns. This requirement extends to individuals who hold positions as partners, shareholding directors, or shareholding employees in a business. Moreover, individuals who own cars, possess trade licenses issued by local government authorities, or work in various professions are also expected to comply with these regulations. Furthermore, individuals wishing to open savings accounts with the Post Office exceeding Tk. two lakh are obligated to file tax returns (NBR, 2021). Lastly, individuals who have purchased national savings certificates worth more than Tk. two lakh are also required to submit their tax returns.

3. RESEARCH FRAMEWORK

In this study, the researcher has pursued multiple objectives in order to accomplish the research aim. The study has incorporated a theoretical framework and an analytical model to guide the research process. The specific research objectives were as follows:

- a) To explore the relationship between the education level and the tax returns attitude of the NSC investors.
- b) To examine the connection between income tax awareness and the tax returns attitude of the NSC investors.
- c) To explore the association between the notification from tax office and the tax returns attitude of the NSC investors.
- d) To investigate the link between annual income and the tax return attitude of the NSC investors.

To fulfil the research objectives the following hypotheses were developed.

H1: There is significant relationship between exist between education level and the tax returns attitude of the NSC investors.

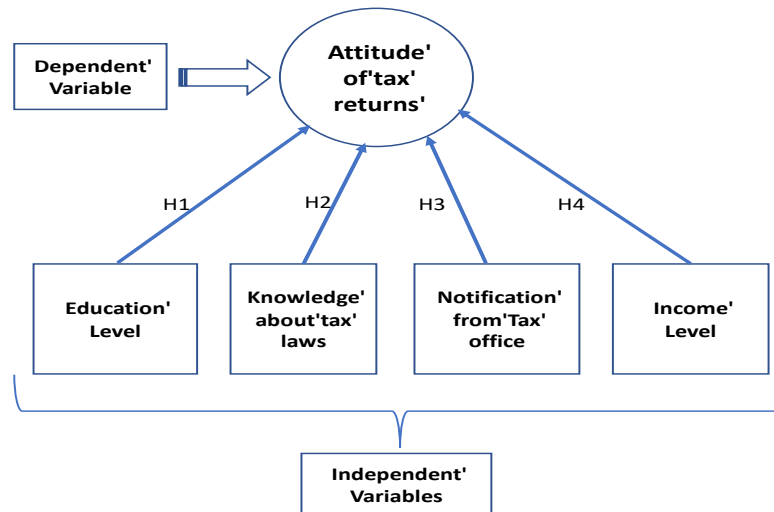
H2: There is positive relationship between the level of income tax knowledge and the tax returns attitude of NSC depositors

H3: There is a significant relationship between the notification from tax office and the tax returns attitude of the NSC investors.

H4: There is strong positive relationship between annual income and the tax return attitude of the NSC savers.



Figure: 'Theoretical' Framework



4. RESEARCH DESIGN AND METHOD

This research is characterized as descriptive research, employing a survey questionnaire to gather quantitative data aiming to investigate the factors influencing individuals' attitudes towards tax returns. The research employs a combination of primary and secondary data sources. The primary data was collected during the income year 2021-22 through interviews conducted with a total of 300 NSC investors selected randomly from Tangail, Gazipur, and Dhaka districts in Bangladesh. The original data obtained from this process provided valuable insights into people's understanding of tax laws, attitudes, and behaviours pertaining to the tax system in Bangladesh.

5. DATA ANALYSIS TECHNIQUES

For the purpose of data analysis, the researcher employed both graphical and descriptive approaches using SPSS version 25.0 and EXCEL. The graphical approach was utilized to visually

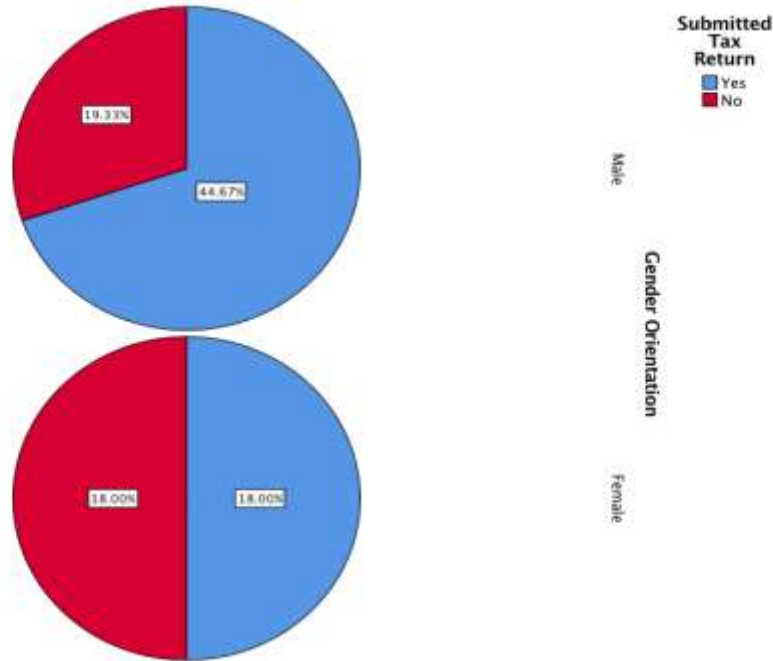
represent various parameters that provide insights into the behaviours and perspectives of investors regarding tax returns. Additionally, descriptive analysis techniques were employed to further analyse and summarize the data collected. Throughout the research process, a commitment to impartiality and objectivity was maintained in analysing the gathered data in order to draw meaningful conclusions. The information was obtained through conducting personal interviews with the investors, and visits were made to the offices of the Bangladesh National Savings Bureau to collect the necessary data.

6. RESULTS AND DISCUSSION

The participants for the study were selected on random basis that represent 64% of male and 36% of female participants. It has been observed that the tendency to submit tax return is higher among men compare to their counterparts.



Figure: Proportion of the male and female participants



From the data collected for the study show that about 71% of male investors of NSC has submitted their tax returns where 29% of them have not submitted tax returns. On the other hand, about 50% of the female investors submitted their tax returns in

the income year where other half of them have not submitted their tax returns.

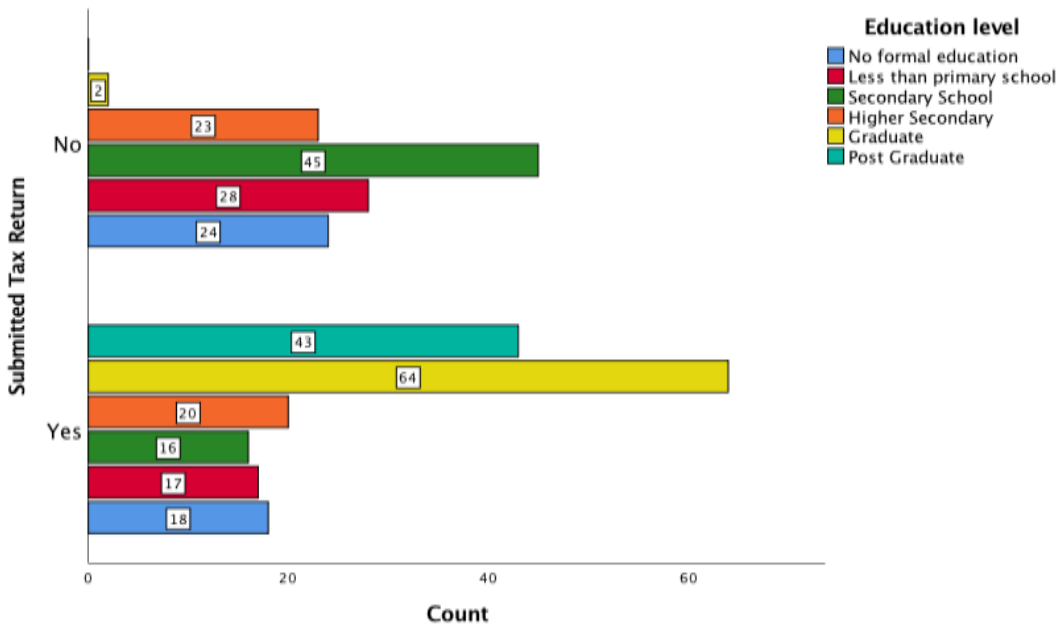


Figure: Relationship between the educational level and the tax submission rate

Our analysis indicates that level of education has influence on the tax submission rate. It is obvious that higher educated people are much more aware about the tax returns. 68% of graduate degree holders submitted their tax return and 43% of the post graduated people submitted their tax return. The

tendency to submit tax return is below 20% among the people who have educational qualification below graduation degree. On the other hand, people who have educational qualification up to higher secondary level or no formal education tend not to submit tax returns.

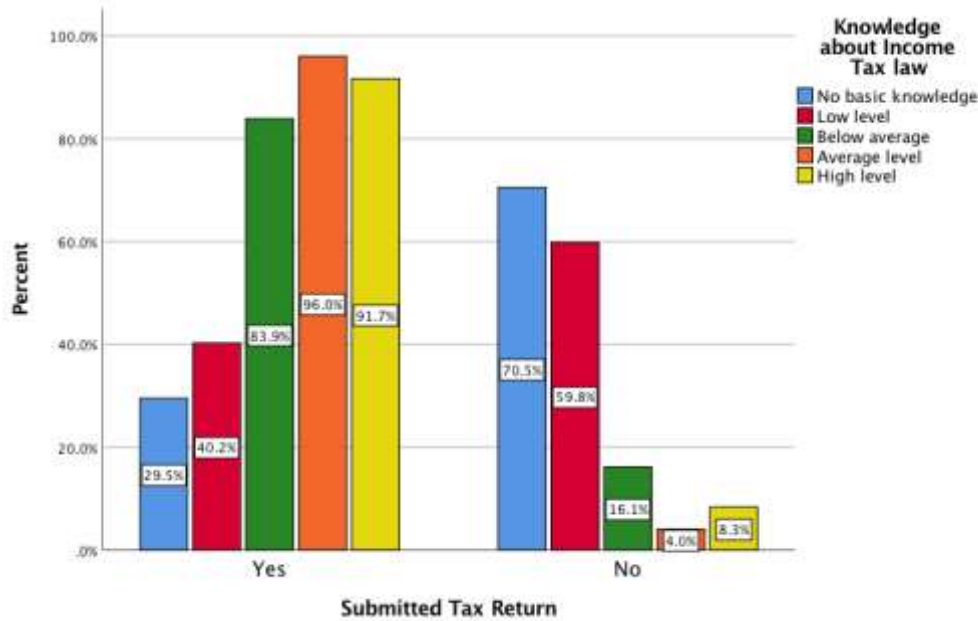


Figure: Relationship between the knowledge about income tax law and tax returns attitude

The finding from the analysis of the data suggests that people with higher tax knowledge comply more with the tax law. This study shows that above 90% investors have submitted tax returns who have knowledge about income tax law in higher or above average level. Among the investors who have submitted tax returns, about 83% of people having below average level of knowledge about tax law and less than 40% of people have tax knowledge either low level or no basic knowledge. In contrast,

it has been noticed that people who don't have even basic level of knowledge about income tax law are reluctant to submit tax returns. People who have not submitted tax returns, represent 70% of them don't have basic knowledge and about 60% of the investors have low level of knowledge about Income tax law. Few people with average or higher level of tax knowledge have not submitted tax returns.

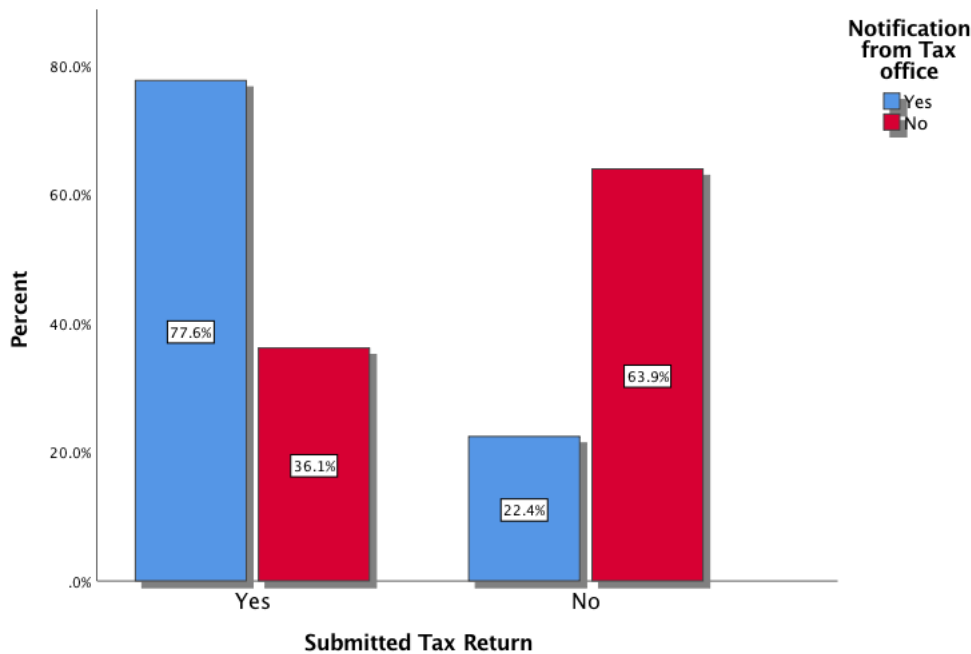


Figure: Relationship between the notification from the tax office and the tax returns attitude



It has been observed that notification from the tax office has positive impact on the tax returns. About 77% of people submitted tax returns who received notification from the tax office where about 36% of investors have not submitted tax return in spite of receiving notification from the tax office.

However, among the people who have not received any notification, above 63% of them have not submitted tax returns. However, about 22% of investors have not submitted tax returns despite of receiving the notice from the tax office.

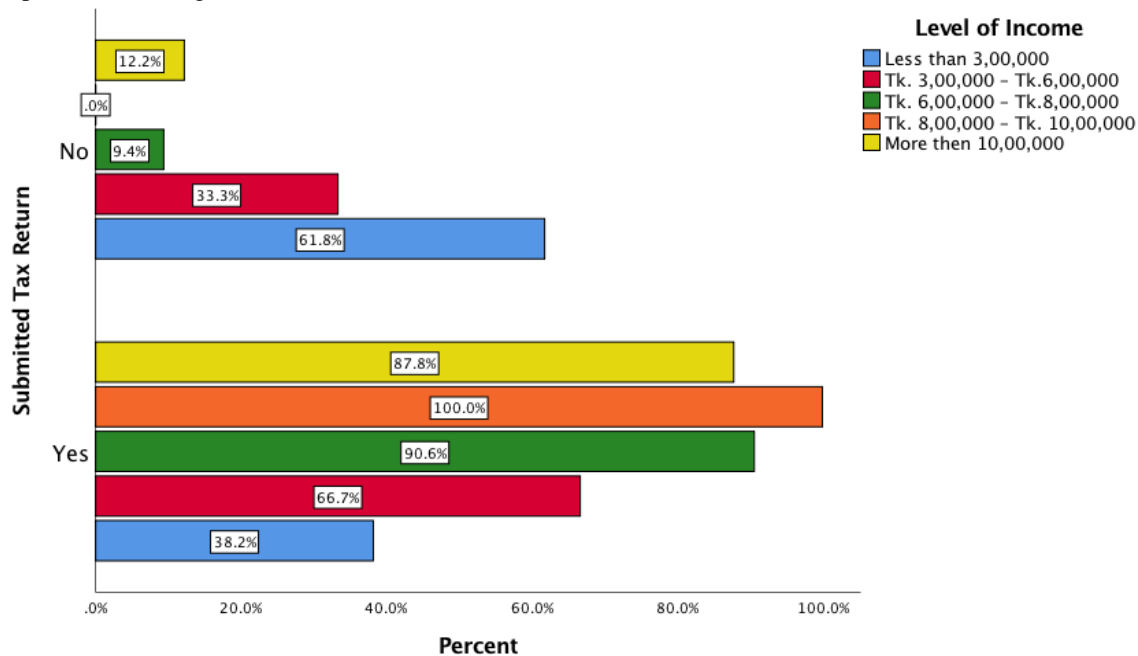


Figure: Association between the income level and the tax returns attitude

It has been found that people with higher income level tend to submit tax returns. If an individual's taxable income falls below the threshold limit, they are not required to prepare a tax file. However, if someone obtains a Taxpayer Identification Number (TIN), they are legally required to submit a tax return, regardless of their income being below the threshold limit. Around 90% of investors with the annual income level more than Tk.8,00,000 have submitted tax returns. On the other hand,

about 61% of the investors have not submitted tax returns who have annual income level less the Tk. 3,00,000.

To evaluate the hypothesis of the research, Pearson correlation test has been performed using SPSS software. Overall, it is witnessed that all the factors selected for the study have positive impact on the tax returns behaviour of the investors of NSCs.

	Submitted Tax Return	Education level	Knowledge about Income Tax law	Notification from Tax office
Submitted Tax Return	1			
Education level	.798**	1		
Knowledge about Income Tax law	.803**	.336**	1	
Notification from Tax office	.369**	.110	.222**	1
Level of Income	.453**	.565**	.397**	.243**

** . Correlation is significant at the 0.01 level (2-tailed)

Finding of H1: The study observed a robust and statistically significant positive correlation ($r = .798, p < 0.001$) between the attitude towards tax returns and education level.

Consequently, hypothesis H1 is supported, suggesting that an elevated level of education is associated with a greater likelihood of engaging in tax return behaviour. Finding of H2:



The analysis revealed a substantial and statistically significant positive correlation ($r = .803$, $p < 0.001$) between the attitude towards tax returns and tax knowledge among taxpayers. Consequently, hypothesis H2 receives support, suggesting that an enhancement in the foundational understanding of tax law among NSC investors is associated with an increased likelihood of engaging in tax return behaviour. Finding of H3: The study uncovered a statistically significant positive correlation ($r = .369$, $p < 0.001$) between the attitude towards tax returns and the notifications received from the tax office. Therefore, hypothesis H3 is supported, indicating that an increased level of notifications from the tax office may act as an encouragement for taxpayers to submit their tax returns. Finding of H4: The analysis revealed a statistically significant moderate positive correlation ($r = .453$, $p < 0.001$) between the attitude towards tax returns and the annual taxable income of NSC investors. As a result, hypothesis H4 is supported, indicating that individuals with a higher income level are more likely to be motivated to submit their tax returns.

7. CONCLUSION

Taxes serve as a crucial source of government revenue in modern economies. The primary objective of taxation is to generate resources for the government to facilitate the provision of essential public services. In Bangladesh, the assessment of an individual's income tax relies on several legal frameworks, including The Income Tax Ordinance 1984, Income Tax Rule 1984, the Finance Act of each fiscal year, and Statutory Regulatory Orders (SRO). The National Board of Revenue (NBR), being the apex body, holds the authority to establish rules for implementing the provisions of this ordinance. As per the NBR, all individuals possessing a 12-digit e-TIN are required to annually submit a return detailing their income and expenses, irrespective of their actual taxable income.

In this study, I have attempted to investigate the factors that affect the tax returns behaviour of the investors of NSCs. This study suggests that there is positive correlation between tax return attitude of the investors and the factors such as educational qualification, knowledge about tax law, interaction from the tax office and income level, that indicate that tax returns would increase with the improvement of the associated factors. The following are recommended to improve the associated factors that contribute to uplift the amount of tax returns:

- To promote tax return compliance, it is advisable for the government to initiate additional awareness programs. These programs would aim to educate and inform individuals about the importance of filing tax returns. Furthermore, implementing a digitized process for tax return submission would be ideal, as it would streamline and simplify the entire procedure, making it more convenient for taxpayers
- Effective revenue mobilization requires a collaborative effort between the government and individuals. It is crucial for taxpayers to be aware of their civic duty in contributing to the revenue generation process. Taking personal responsibility and maintaining a responsible attitude towards tax compliance is of utmost importance. In the medium term, enhancing individuals' understanding of the

significance of systemic tax compliance for the overall economy can be achieved through educational initiatives at the school level, supported by government efforts. Such measures have the potential to enhance tax compliance levels.

- Tax offices should strive to enhance their professionalism to better meet the needs of the public. The existence of corruption within the taxation system can create a perception that discourages individuals from actively participating, despite their belief in fulfilling their civic duty. Therefore, it is essential to establish tax offices as institutions that are free from corruption. This can help build trust and confidence among taxpayers, encouraging their active engagement and compliance.
- Simplifying the process of submitting tax returns for lower-income groups can have positive effects on encouraging self-assessment. By making the return submission process more user-friendly and accessible for individuals in this category, it becomes easier for them to fulfil their tax obligations. Additionally, considering the provision of incentives to lower-income households to become taxpayers can be an effective approach. By offering benefits or rewards, such as tax credits or exemptions, these households may be motivated to actively participate in the tax system.
- The existing arrangement of having tax offices solely at the district level has created challenges for rural residents to access tax services and instruments. The observed low level of tax compliance in rural regions of Bangladesh may be a reflection of this issue. Therefore, a significant recommendation is to allocate resources in the budget for the recruitment of tax officials in rural areas and establish tax offices at the sub-district level. It is crucial to ensure the proper implementation and monitoring of these offices to minimize the potential for corruption. This step is strongly advised to enhance tax compliance and accessibility in rural areas.

8. REFERENCE

1. Alm, J., & Torgler, B. (2006). *Culture Differences and Tax Morale in the United States and in Europe*. *Journal of Economic Psychology*, 27(2), 224–246.
2. Bobek, D. D., & Hatfield, R. C. (2003). *An Investigation of the Theory of Planned Behavior and the Role of Moral Obligation in Tax Compliance*. *Behavioral Research in Accounting*, 15(1), 13–38. <https://doi.org/10.2308/bria.2003.15.1.13>
3. Burton, H. A., Karlinsky, S. S., & Blanthorne, C. (2005). *Perception of a White-Collar Crime: Tax evasion*. *The ATA Journal of Legal Tax Research*, 3(1), 35–48.
4. *Daily Star* (2022) *Have a TIN? Get ready to file tax return* <https://www.thedailystar.net/business/tax-and-customs/news/have-tin-get-ready-file-tax-return-2125466>
5. Fallan, L. (1999). *Gender, Exposure to Tax Knowledge, and Attitudes Towards Taxation; an Experimental Approach*. *Journal of Business Ethics*, 18(2), 173–184. Retrieved from <http://www.jstor.org/stable/25074044>
6. Fenochietto, R. and Pessino, C. (2013). *Understanding Countries' Tax Effort*. *IMF Working Paper No. 13/244*. Washington, D. C.: *International Monetary Fund (IMF)*. Available at:



- <https://www.imf.org/en/Publications/WP/Issues/2016/12/31/Understanding-Countries-Tax-Effort-41132>.
7. GOB(2020).BudgetSpeech2020-2021.MinistryofFinance,Governmentof the People's Republic of Bangladesh, Dhaka.
 8. Groenland, E. A. G., & van Veldhoven, G. M. (1983). *Tax Evasion Behavior: A Psychological Framework*. *Journal of Economic Psychology*, 3(2), 129–144.
 9. Hossain,R.(2019,December4).More than half of the TIN holders do not submit the return. *The Daily Ittefaq*.
 10. Hyman, D. N.(2010).*Public Finance: A Contemporary Application of Theory to Policy*, South-Western, Cengage Learning, USA. Tenth Edition
 11. Jackson, B. R., & Milliron, V. C. (1986). *Tax Compliance Research: Findings, Problems, and Prospects*. *Journal of Accounting Literature*, 5(1), 125–165.
 12. James, S., & Alley, C. (2002). *Tax Compliance, Self-Assessment and Tax Administration*. *Journal of Finance and Management in Public Service*, 2(2), 27–42.
 13. Kasipillai, J., & Jabbar, H.A. (2006). *Gender and Ethnicity Differences in Tax Compliance*. *Asian Academy of Management Journal*, 11(2), 73–88.
 14. Kong, F. & Wang, C. (2014). *The Determinants of Tax Evasion : A Literature Review*. *Gdanskie Studia Azji Wschodniej* 5, 70–78.
 15. M. Mavis(2021) 'Bangladesh has the lowest tax GDP ratio in South Asia' ; Retrieved from-
<https://www.dhakatribune.com/business/2022/03/20/nbr-bangladesh-has-the-lowest-tax-gdp-ratio>
 16. McBarnet, D. (2001). *When Compliance is not the Solution but the Problem: From Changes in Law to Changes in Attitude*. Centre for Tax System Integrity (CSTI), The Australian National UniversityRetrieved from <https://openresearch-repository.anu.edu.au/bitstream/1885/41635/2/WP18.pdf>
 17. Muibi, S. O., & Sinbo, O. O. (2013). *Macroeconomic Determinants of Tax Revenue in Nigeria (1970–2011)*, 28(1), 27–35
 18. NBR (2019). *Annual Report 2018-19. Research and Statistics Section, National Board of Revenue, Dhaka, Bangladesh*.
 19. Obid, S. N. S. (2004). *The influence of penalties on taxpayers' compliance: A comparison of the Theoretical Models*. *Iium Journal of Economic and Management*, 12(1) 1–31.
 20. Riahi-Belkaoui, A. (2004). *Relationship between Tax Compliance Internationally and Selected Determinants of Tax Morale*. *Journal of International Accounting, Auditing and Taxation*, 13(2), 135–143.
 21. Richardson, G. (2006). *Determinants of Tax Evasion: A Cross-Country Investigation*. *Journal of International Accounting, Auditing and Taxation*, 15(2), 150–169.
 22. Sarkar, S., Nodee, M., Musleh, M., & Reza, S. M. S. (2015). *VAT reform in Bangladesh : perspectives on Tax Morale*. *International Journal of Business and Management Study*, 2(2), 289–293.
 23. Torgler, B. (2004). *Tax Morale in Asian Countries*. *Journal of Asian Economics*, 15(2), 237–266.
 24. Torgler, B. (2003). *Tax Morale, Rule-Governed Behaviour and Trust*. *Constitutional Political Economy*, 14(2), 119–140.
<https://doi.org/10.1023/A:1023643622283>
 25. Witte, A. D., & Woodbury, D. F. (1985). *The Effect of Tax Laws and Tax Administration on Tax Compliance: The Case of the US Individual Income Tax*. *National Tax Journal*, 38(1), 1–13