

## Gift tax Compliance in Bangladesh: Evidence from Dhaka City

Md. Islam Biswas\*

### Abstract

*Gift tax has been in the Bangladeshi Tax Laws since 1985 (amended in 1990) but collection from this source is very limited. The study examined the level of compliance (why gift tax is not collected) of gift tax among taxpayers in Dhaka City. In order to carry out the study, a total 200 respondents were sampled using the random sampling technique. The collected data were analyzed using hypothesis testing. The results of the study revealed that the level of compliance of gift tax is very low. The key reason identified by the study for the low level of compliance with gift tax among Bangladeshi taxpayers is unawareness of gift tax obligations; practice of deception to pay, apathy of tax enforcing officials and complexity of payment system. The study therefore recommends that the Bangladeshi Tax Authority step up consciousness on the gift tax law to improve revenue from gift tax.*

### Introduction

Since taxation is compulsory levy on individuals entities and property by a tax authority for the purposes of supporting its expenditure (Sally,1999; Nakyea,2008;Alabede,2014;Bruce-Twum,2014), incomes and/or gifts are usually subject matter of taxation. Incomes are usually paid openly and directly to the beneficiaries (that is the person earning the income) and are, most of the time documented. Hence, they are easily identified and assessed for tax. However, that is not the case of gifts received or receivable. per the section-2 (f) of the gift Tax Act, 1990, Gift means transfer by one person to another of any existing moveable or immovable property made voluntarily and without any consideration in money or money's worth. In Bangladesh, gift tax is leviable on the taxable gift made at the rate specified in the schedule to the Gift Tax Act, 1990.Although the tax law in Bangladesh, specially Gift Tax Act-1990, provides for this, in practice compliance is almost non-existent (Terkper,2003;Gatsiand Acquah,2010 and Bruce-twum,2014). Interestingly, this observation was also made by Tusubira and Nkote (2013)in Uganda, suggesting that noncompliance is a problem(Andreoni et al.,1998) in taxation systems in other parts of the world (Abdul-Razzak and Adafula,2013). To the researcher, compliance with gift tax is both statutory and a civic obligation. Accordingly, non-compliance may result in liability. The purpose of this paper therefore is to educate the public on the provisions of the tax law relating to gift tax and the responsibilities of the taxpayers to abide by the law, whilst recommending ways of improving the collection rate. As observed by Gatsi and Acquah (2010),Bruce-Twum (2014) and others around the world, notably McKerchar and Evans (2003), Tusubria and Nkote (2013) and Aladede (2014), lack of knowledge of tax law and its provisions account for the non-compliance with tax among taxpayers. Currently, the level of compliance is almost non-existing; meanwhile it is perceived that people do receive gifts almost on daily basis

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\*Assistant Professor, Department of Accounting, Bangladesh University of Business and Technology (BUBT)

ranging from cash gift, hampers, cars, and other tangible assets. It is hoped that the following specific research question shall be answered: Why do Bangladeshi not to comply with gift tax?

### **Review of Relevant Literature**

Since tax revenue has been accepted as the most important source of revenue for government (Sally,1999; Nakyea,2008; Martina et al., 2008;MaKerchar and Evans,2009; Abdul-Razak and Adafula 2013; Bruce-Twum,2014), every effort should be made to assist the government, not only to maintain the level of tax revenue but also to create voluntary compliance among taxpayers of a country like Bangladesh. To the researcher, this is very important in the advent of the current financial situation facing developing nations after the financial crunch from the western world leading to massive reductions in donations and grants emanating from the developed world to the developing world from which Bangladesh is not an exception. Many scholars and analysts asserts that for Bangladesh to have adequate financial resources to fiancé its developmental programs and agenda (Moss and Majerowicz,2012), it needs to properly develop its taxation system in order to take more tax revenue (Nakyea,2008;Martina et al., 2008; Makerchar and Evans,2009; Gatsi and Acquah,2010; Abdul-razak and Adafula,2013). This accounts for the recent moves by the government of the day to introduce new taxes to raise tax revenues for development projects and financing of recurrent budget items. In assessing a taxpayer's tax liability and income are usually and easily indentified and assessed for tax even if the taxpayer attempts not to disclose it (Dressler, 2002; Akhand, 2012).This may be partly because income is mostly paid by one party to the other leaving a trail; also , it is paid in the open directly to the beneficiary ;in addition ,most of the time, the income received is usually documented. After the independence, Bangladesh adopted the Gift tax Act, 1963 with some change and relevant modifications which was in force in Pakistan. Later, it was replaced in 1985 through section 4 of Finance Ordinance and came into force again on 1<sup>st</sup> July 1990 in the name of the Gift Tax Act, 1990(Act No.44 of 1990).In Bangladesh, gift tax is leviable on the taxable gift made at the rate specified in the schedule to the Gift Tax Act, 1990. Under the Gift tax Act, 1990, it is now payable by donor and applicable only for gift of domestic property donated except to spouse, blood-related family members and dependent relative, government recognized educational, religious, charitable disaster-management or medical establishment, local authorities and some other prescribed persons. A number of gifts are exempted from tax under section 4 of the Gift Tax Act, 1990: i) Gift of property situated outside Bangladesh. ii) Where the beneficiary is the government or any local authority. iii) Gifts to any educational institutions including polytechnic institute recognized by any university or education board established under any law in force in Bangladesh or recognized or run by the government. iv) Gifts to any hospital recognized or run or aided by the government or any local authority. v) Gifts to any flood or disaster management fund established or approved by the government.vi) Gifts to any institution established in Bangladesh under any law in force for religious or charitable purpose in respect of a gift up to 20% (twenty percent) of his assessed income in the relevant assessment year or Tk.100000(one lac),whichever is less. vii) Gifts to any dependent relative up to Tk.20000 on the occasion of his/her marriage. viii) Gifts by way of payment of policies of insurance or annuities to any persons(other than his wife) who is dependent upon him for

support and maintenance up to Tk.20000. ix) Gifts under will. x) Gifts in contemplation of death. xi) Gifts to sons, daughter, father, mother, his/her spouse, own brothers or sisters.

Without prejudice to the above provisions, gift tax shall not be charged under this Act in respect of gifts made by any persons during any financial year subject to maximum Tk.20000 in the value; i.e. basic exemption is of Tk.20000. The government may also accept any classes of gift or persons from the tax payable under this Act by way of gazette Notification. The few empirical studies on gift tax in Bangladesh attempted to provide some answers to the above questions as follows Gatsi and Acquah(2010), in their study on information asymmetry and gift tax, concluded that gift tax is one of the conduits through which tax revenue can be enhanced for development with a call on Bangladesh Revenue Authority for better education on the tax. Later, Bruce-twum (2014) tried to determine the extent of knowledge about gift tax epically in the and reached the conclusion that the level of awareness is very low, resulting in non-compliance with gift tax in Bangladesh. Empirically, there were a series of research studies on taxation and tax compliance in general; for example: enhancing voluntary tax compliance by reducing compliance costs (Jenkins and Forlemu,1993); tax compliance costs for the SMEs business sector (Evans et.al.,2013); and social norms and tax compliance(onu and oats,2014),all undertaken in advanced economics. An addition to the above, there have been studies undertaken on making large corporations tax compliance in other developing economics like Bangladesh (Akhand, 2012); and income tax compliance among SMEs in Uganda (Tusubira and Nkote, 2013). In Ghana, income tax non-compliance among Ghanaian self employed (Baba and Asante, 2012) and taxpayer's attitude and its influence on tax compliance decision (Abdul-Razak and Adafula, 2013) are some of the available compliance studies; however they failed to estimate the level of noncompliance. Although some levels of research works have been done on gifts tax compliance, notably Gatsi and Acquah's (2010),study on information and gift tax in Ghana and Bruce-Twum's(2014) Gift tax compliance in Ghana, an Empirical study, the researchers in determining the level of awareness and/or compliance with gift tax did not use a very large sample size. No work has been done in Bangladesh related to gift tax. Therefore, this research aims to fill this research gap by assessing the level of compliance with gift tax among the Bangladeshi taxpayer's generally.

### **Objectives of the study**

The present system of gift tax administration in Bangladesh has failed to achieve a satisfactory level of compliance, since it first came into effect almost twenty five years ago. The objective of this study is to highlight the issues of reluctance to pay gift tax and make recommendations on ways in which assessment can be successfully implemented

### **Research Methodology**

The research design consists of the following issues:

**Nature of the study:** The researcher followed descriptive method of research to fulfill the purpose of this research.

**Sources of Data:** Primary data has been collected through structured questionnaire. Survey method is used for data collection. Secondary data has been collected through different articles, books, journal, published report and relevant websites.

**Population:** The individual person within the age of 25 to 60 years from Dhaka City who paid income tax in the last year.

**Sampling Frame:** The sampling frame of this study is the database of the income taxpayer's who paid tax in the last year.

**Sampling Technique:** Random sampling procedure was used for selecting different level of persons to generate reliable representative data. Richard and David (2005) inferred that simple random sampling method allows each possible sample to have equal probability of being picked and each item to have an equal chance of being included in the sample of the entire population.

**Sample Size:** A 200 samples of individual were selected from Dhaka City within the age of 25 to 60 years of both male and female. The sample was representative of the entire population, so result from this research can be generalized.

**Data analysis:** Data analysis has been done using hypothesis testing using Chi-Square test. SPSS 21 software has been used to find out the output.

### Limitation of the study

There are some limitations of this study. Therefore the paper may lack some crucial data.

i) Necessary data and information are neither adequate nor available. Because NBR does not disclose the total picture of gift tax system. ii) As gift tax is not common in Bangladesh so the tax payer faced lots of problem to pay gift tax. iii) Gift tax involves double taxation.

### Analysis and Findings

**Table 01: Demographic Profile of Respondents**

	Category	Frequency	%		Category	Frequency	%
Sex	Male	148	74%	Occupation	Service	173	87%
	Female	52	24%		Business	20	10%
Age	30-40	54	27%		Others	7	3%
	41-50	76	38%		Income (Monthly)	Less than 30000	50
	51-60	70	35%	30000-60000		85	32%
			Above-60000	65		43%	

The demographic profile of respondents reveals that 148 (being 74%) are male out of the sample of 200, while 52 (24%) are female. The age characteristics of the sample studied reveals that those between the age of 30-40 years are about 27%, 41-50 years about 38% and the rest is 35%. The occupation characteristics shows that 87% are service holder, business man and others are 10% and 3% respectively. The monthly income reveals that 25% whose income is less 30,000, 32% whose income is from 30,000 to 60,000 and 43% whose income is more than 60,000.

### Hypothesis testing

In order to achieve the objective of the study the researcher has formulated the following hypothesis using Chi-square test at 5% significance level which helped in analyzing the dependency of variables using SPSS software.

**Hypothesis:** Association between unconsciousness of gift tax and compliance of gift tax.

H<sub>A</sub>: There is an association between unconsciousness of gift tax and compliance of gift tax.

H<sub>o</sub>: There is no association between unconsciousness of gift tax and compliance of gift tax.

**Table 02: Chi-Square test**

	Value	Degree of Freedom	Asymp.sig(2-tailed value)
Pearson Chi-Square	15.298	16	0.003

The result reveals that there is a strong association between unconsciousness and compliance of gift tax as the sig.value is less than 0.05,i.e. 0.003. So it can be said that the donors do not pay the gift tax for their unconsciousness of gift tax law. Hence, the factor is very important to compliance of gift to the gift tax payers’.

**Hypothesis:** Association between practice of deception to pay and compliance of gift tax.

H<sub>A</sub>: There is an association between practice of deception to pay and compliance of gift tax.

H<sub>o</sub>: There is no association between practice of deception to pay and compliance of gift tax.

**Table 03: Chi-Square test**

	Value	Degree of Freedom	Asymp.sig(2-tailed value)
Pearson Chi-square	25.985	16	0.035

The Chi-square test (table 03) shows that there is a strong association between practice of deception to pay and compliance of gift tax as the sig. value is < 0.05,i.e.0.035. So the result says that the donors also do not pay gift tax intentionally. Thus the tax authority should be careful to collect gift tax from the donor.

**Hypothesis:** Association between apathy of tax enforcing officials and compliance of gift tax.

H<sub>A</sub>: There is an association between apathy of tax enforcing officials and compliance of gift tax.

H<sub>o</sub>: There is no association between apathy of tax enforcing officials and compliance of gift tax.

**Table 04: Chi-Square test**

	Value	Degree of Freedom	Asymp.sig(2-tailed value)
Pearson Chi-square	18.95	16	0.039

The result (table 04) shows that there is also a strong association between apathy of tax enforcing officials and compliance of gift tax. The tax official of our country is very indifferent to collect gift tax from the tax payers.

**Hypothesis:** Association between complexity of payment system and compliance of gift tax.

H<sub>A</sub>: There is an association between complexity of payment system and compliance of gift tax.

H<sub>o</sub>: There is no association between complexity of payment system and compliance of gift tax.

**Table 05: Chi-Square test**

	Value	Degree of Freedom	Asymp.sig(2-tailed value)
Pearson Chi-square	27.95	16	.042

After analyzing the responses the study reveals that there is also strong association between complexity of payment system of gift tax and compliance of gift tax as the sig. value is less 0.05 i.e.0.042. So, the complexity of payment system of gift tax, many of the payer's are not interested to pay gift tax.

### **Conclusion and Recommendation**

Gift tax may be one of the sources through which tax revenue can be enhanced for the development of Bangladesh. The study reveals that the level of non-compliance is very high among the Bangladeshi (Dhaka City) taxpayers. Some of the factors identified by the study for the low level of compliance with gift tax among taxpayers are unconsciousness of gift tax obligation; practice of deception to pay, apathy of tax enforcing officials and complexity of payment system. It is obvious from the study that low level of tax education provided by the tax officials and non-enforcement on their part coupled with the unwillingness by the taxpayers to voluntarily comply large account for the very low level of compliance with gift tax among taxpayers in Bangladesh, especially in Dhaka city. The above findings are very striking as Bangladesh like all other developing countries; need to exploit taxation as a means of source of revenue. From the foregoing, it is therefore recommended that the tax authority should be take initiative to collect gift tax from the taxpayers. The following are the recommendations based on the findings of the study:

The first and most important recommendation would be to **improve communications with taxpayers**. However, more rigorous steps should be undertaken to disseminate information about gift tax procedures among taxpayers and information on their rights and obligations. This can be done through radio/TV (for brief messages about general obligations) as well as simple leaflets (for more detailed information about procedures) and regular seminars to answer questions from taxpayers. These mass scale campaigns could be done in partnership with mobile communications service providers.

The next most important recommendation would be **capacity development and sufficient manpower**. The need to increase training and improve the working environment of tax officials, as well as establish an information management system are also seen as important factors to be met for better tax administration.

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