THE TENDENCY OF TAX EVASION IN BANGLADESH: CAUSATIVE FACTORS AND POSSIBLE REMEDIES

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Abstract

The government uses taxation as a vital policy instrument to generate public spending funds and to achieve broader objectives like equity, efficiency, and fiscal autonomy. However, tax evasion substantially impedes the effective implementation of tax policies. Bangladesh with a low tax-to-GDP ratio encounters a notable prevalence of tax evasion, resulting in both disparities in income distribution and a deficit in the budget allocated for development finance. This study endeavoured to identify the determinants influencing individuals' propensity to engage in tax evasion and analysed the data of 102 people from various regions of the country. The analysis found that participation in the tax system, willingness to pay taxes, ethical considerations surrounding tax evasion, familiarity with tax evasion practices, and annual income influence tax evasion. This study also suggested ways to reduce tax evasion in Bangladesh based on interviews with two economists and one tax professional.

JEL Codes: H26, H20, H21, K34

Keywords: Tax evasion, Tax-GDP Ratio, Taxation system, Remedies to tax evasion.

1. Introduction

The mobilisation of resources is a crucial aspect of economic development, and among the various methods of resource mobilisation, taxation is particularly relevant to issues of state formation and capacity. Governments rely heavily on taxation as a means of financing government initiatives while simultaneously pursuing a variety of other goals, including

those of social equality, economic efficiency, and financial independence. Taxation is a significant indicator for evaluating the ability of a state, its authority, and the political agreements within a community (Di John, 2006). Taxation is a fundamental aspect of economic operations, serving various purposes such as generating revenue, redistributing wealth, stabilising prices, promoting economic stability, addressing externalities and market failures, and facilitating the provision of public goods and services (Keen and Varsano, 2008) Tax evasion is a notable hindrance to the successful execution of tax policy worldwide. The low tax-to-GDP ratio in Bangladesh is a significant concern for the economy, which is rapidly emerging as one of the world's fastest- growing economies. This issue poses a challenge to the country's aspirations of achieving developed nation status by the year 2041.

As a result of centuries of foreign dominance, the local population has evolved a mentality that encourages them to divert tax money to private accounts (Khaled, 2021). The prevalence of the informal economy in Bangladesh is regarded as a noteworthy determinant of the propensity towards tax noncompliance. A significant portion of economic activities within the country takes place outside the boundaries of the official sector, where transactions are only sometimes recorded, and individuals may hesitate to reveal their income or meet their tax responsibilities.

According to the data of Bangladesh Bank, during October-December 2023, National Board of Revenue (NBR) of Bangladesh collected direct tax amounting BDT 281.29 billion and indirect tax amounting BDT 606.97 billion. The Centre for Policy Dialogue (CPD) conducted a research on “Tax Transparency in the Corporate Sector: Impact on Public Revenue of the National Budget" and shared the research findings at a media briefing on April 03, 2023 and their work estimated that Bangladesh loses Tk 41,800 crore to Tk 223,000 crore annually due to tax avoidance (The Daily Star, 4 April 2023). CPD suggested that this phenomenon manifests in several ways, including the declaration of reduced earnings, unscrupulous tax professional assistance, the assertion of additional investment allowances, self-reporting of reduced incomes, and an increase in informal or cash-based

transactions. The tax-to-GDP ratio in Bangladesh is 7.9%, well below the desired 15%, while avoidance equals twice the public health spending. CPD estimated that tax evasion is eight times social safety net and welfare spending.

A similar issue was mentioned in a writing that according to the data of Registrar of Joint Stock Companies and Firms and the National Board of Revenue, it has been observed that out of the total 2, 13,000 registered companies and firms, only 45,000 filed returns (Huq, 2022). This suggests that the rate of compliance with corporate income tax stands at 21%. In recent years, the government's revenue from income tax has increased. He also mentioned that this growth is not proportional to the size of the economy and the subsequent rise in per capita income.

This study aimed to investigate the factors influencing the tax evasion tendency of the people of Bangladesh and suggest some solutions to these problems. This research attempted to investigate if knowledge factors, motivational factors, ethical arguments and some demographic factors influence tax evasion nature of the people. Besides, this work interviewed two economists and one tax professional and suggested some remedies to the problem of tax evasion. This study offers a comprehensive analysis of tax evasion in Bangladesh, based on a sample of 102 respondents drawn from diverse regions across the country. The relatively focused sample size is a strength, as it allows for in-depth insights

from a variety of perspectives and regions, capturing a range of experiences and challenges related to tax evasion. While the sample size may not fully represent the entire population, it provides a well-rounded understanding of regional variations and trends. Future research with a larger sample could build on these findings, offering an even broader perspective, but the current sample is a valuable starting point for understanding the nuances of tax evasion in different parts of Bangladesh

Economists have expressed significant concern regarding Bangladesh's low tax-to-GDP ratio. The nation has set an ambitious goal of attaining the status of a developed country by 2041. In this situation, it would be a significant disadvantage to overlook the issue of the population's inclination towards tax avoidance. It is imperative for policymakers to identify the precise factors that impact individuals' compliance with tax obligations and subsequently devise practical solutions to address this significant issue, thereby reforming the taxation policy.

There has been some research on the causative relationship of tax evasion in Bangladesh, but all those works were limited to Dhaka city. This work attempted to collect responses from respondents across the country. The scope of this work is limited in finding the association of tax evasion with some factors among only service holders. The respondents include both private and government service holders, whereas no other employment categories were not included. This study used samples from Dhaka and some other places of Bangladesh which provides valuable localised insights that can contribute to the broader global academic discourse.

2. Literature Review

Tax evasion, the illegal practice of underreporting income or inflating deductions, differs from tax avoidance, which involves legal methods to minimize tax liability. Tax compliance refers to the extent to which taxpayers adhere to tax laws, influenced by economic, psychological, and institutional factors (Torgler, 2003). Key determinants of tax evasion include income levels, moral attitudes, and the efficiency of tax administration (Kirchler, 2007). The informal economy in Bangladesh, where unreported income and cash transactions prevail, is a major contributor to tax evasion (Schneider, 2013). Theoretical frameworks offer valuable insights into tax evasion. The Allingham and Sandmo model (1972) explains that individuals weigh the benefits of evasion against the risks, such as detection and penalties. In Bangladesh, this model highlights how perceived enforcement affects tax behavior. The Social Norms Theory suggests that widespread evasion in a society influences individual compliance, as societal acceptance of evasion encourages non-compliance (Alm, McClelland, & Schulze, 1999). Similarly, Deterrence Theory emphasizes that stronger enforcement and penalties can deter evasion (Ainsworth, 2001).

Numerous scholars have endeavoured to develop a methodology for identifying the underlying causes of tax noncompliance among individuals worldwide. Slemrod (1985) conducted a study utilising microeconomic data extracted from individual tax returns to examine the existence of tax evasion. The study analysed a substantial sample of taxpayers from the US Treasury tax files for 1977. It explored the correlation between evasion and various characteristics such as age, income, financial status, and marginal tax rate. Slehat

(2009) investigated Jordanian taxpayers and discovered a noteworthy positive correlation between various factors, such as tax rate, bribery and corruption, religion, fairness of tax system, ethics, probability of detection, and penalty rate, with tax evasion.

Holkova et al. (2023) analyzed the tax behaviour of citizens in Slovakia, and the findings of their study revealed that 78% of people exhibit a tendency towards engaging in tax evasion, and nearly 22% of citizens have never paid taxes and would continue to do so either knowingly or unknowingly. In addition, the study revealed that educational attainment, professional background, income source, and age influence the likelihood of tax evasion. In addition, the results demonstrated that women are less inclined to engage in tax evasion. The study conducted by Rashid et al. (2022) investigated the correlation between factors of doing business and tax evasion in Asian nations. The study results revealed that tax evasion is encouraged by factors such as high tax rates, elevated levels of corruption, stringent tax regulations, limited access to finance, political instability, and poor ethical standards. Ho and Wong (2008) and Bobek and Hatfield (2003) mentioned ethical issues as the leading causes of tax evasion. Fishburn (1981), Yitzhaki (1974), McGee (1999), and Green (2009) also attempted to investigate the causative factors of tax evasion.

Hasan (2013) formulated a model to determine the causes of tax evasion in Bangladesh. This study was limited to Dhaka and found a correlation between tax evasion and a few demographic and cognitive factors. Rashid and Ahmed (2020) examined the factors that influence business students' perception of tax evasion and, using a structural equation modelling, implied that "the higher the corruption and complexity in a tax system and the lower the fairness, audit probability and tax knowledge, the greater the tax evasion". The study by Jewel, Al Amin

and Fouji (2019) aimed to ascertain the underlying factors contributing to the undesirable phenomenon of tax evasion in Bangladesh. A sample of 400 individuals was utilised to investigate the factors contributing to tax evasion, which were categorised into three dimensions: individual (taxpayers), internal (National Board of Revenue-NBR) and external (government). The primary contributing factors were NBR and governmental elements.

The study by Abdul and Mursheda (2023) sought to examine the impact of various factors such as moral, gender, religious, ethical, cultural, and educational background on the voluntary compliance of individuals with tax regulations. The findings of this study indicated that an individual's educational and ethical background directly and significantly influences tax compliance. Hassan, Masum and Sarkar (2022) investigated the effect of ownership on tax evasion. This study of public limited companies listed on the Dhaka Stock Exchange revealed that board ownership and public ownership significantly impact corporate tax avoidance. Rana & Masukujjaman (2017) also aimed to explore the factors affecting the evasion of income tax in Bangladesh and based on the respondents of Dhaka city revealed that "the corrupting practice of government tax and administration authority, inefficient tax return system, lack of transparency in the tax collecting system, the harassments by the tax officer and low punishment and risk of getting caught are the factors that influence the tax evasion or avoidance in Bangladesh". Mannan, Farhana and Chowdhury (2021) asserted that the dearth of research, the absence of a participatory policy-making process, and the presence of short-term oriented and politically motivated tax policies, as well as the existence of anomalies, loopholes, and complexities within tax laws and policies, are contributing factors to the creation of opportunities for tax evasion.

Tax jurisdictions across the world have implemented various efficient tax collection systems that could provide valuable insights for Bangladesh. For instance, countries like Denmark and Estonia have adopted advanced digital tax administration systems that simplify tax reporting and enforcement, significantly reducing tax evasion (OECD, 2020). Furthermore, progressive tax enforcement mechanisms, such as real-time reporting and data sharing between tax authorities and financial institutions, have proven effective in countries like the UK and Canada (Slemrod, 2019). These practices highlight the importance of leveraging technology, improving transparency, and fostering trust between taxpayers and tax authorities. By incorporating these global best practices, Bangladesh could strengthen its tax administration and reduce the high incidence of tax evasion it currently faces. Future research could explore how these international models can be adapted to the local context to enhance tax compliance and improve overall tax collection efficiency.

3. Methodology

3.1 Methodology and Data Collection

This study adopted qualitative and quantitative approaches to analyse the data and fulfil the objectives of this study. The study attempted a quantitative approach to investigate the causative factors of tax evasion and a qualitative approach to finding some remedies to the evasion problem. A methodical and standardised questionnaire with limited response options was

employed to collect data from the respondents. The study's sample comprises professionals from private and government services, spanning various age groups, genders, and income levels and residing in different regions of Bangladesh. The survey instrument employed a Likert scale (1932) ranging from one to five, wherein one represents a strong disagreement and five signifies a firm agreement.

There have been many debates about the ideal sample size for research. According to Kline (2000), it is recommended that researchers employ a minimum of 100 participants per item in order to ensure the reliability estimate holds significance. So, this study took 102 samples for the completion of the research. The respondents for this study were selected using a purposive sampling method to ensure representation from diverse regions of Bangladesh. The recruitment process aimed to capture a broad range of perspectives on tax evasion, including a mix of service holders, varying genders, and different educational backgrounds. Participants were drawn from both urban and rural areas, ensuring geographic diversity and capturing a wide array of socio-economic factors.

After the data collection, the present study employed the Statistical Package for Social Science (SPSS) version 2023 to perform the Cronbach Alpha Test, Correlation Analysis, and Regression Analysis. This research involved conducting interviews with a panel of three experts, consisting of two economists and one tax professional, to propose potential remedies of tax evasion in Bangladesh. Given the focus of this research on exploring tax evasion in Bangladesh, it was essential to select experts with a deep understanding of economic policy, public finance, and taxation. To address this, this study selected two economists with over 20 years of experience in research related to taxation policy, ensuring

a thorough academic and theoretical foundation. In addition, the study recognized the need for practical insights into tax enforcement, compliance, and legal aspects of the taxation system. Therefore, a tax professional from Bangladesh, with 25 years of experience in the field, was chosen to provide valuable hands-on expertise and a real-world perspective on the challenges and solutions surrounding tax evasion.

3.2 Questionnaire

Table 1 − Questionnaire Description

Sections	Items
Section A: Demographic Information	This section comprises demographic data of the respondents encompassing variables such as sex, age, income level, employment status, number of dependents, marital status, income level and educational attainment.
Section B: Involvement with the tax system (ITS)	It consists of 5 items: 1. I have a Tax Identification Number 2. I have paid the tax 3. I will pay taxes in future. 4. I can calculate my income tax. 5. I pay my tax return.
Section C: Knowledge about the tax system (KTS)	It consists of 5 items: 1. The subjective interpretation of the tax system by an individual understanding of the Tax Ordinance 2. Understanding of the threshold for taxable income. 3. Knowledge about mediums of tax payment. 4. Knowledge about the minimum tax rate.
Section D: Motivation for tax payment (MTP)	It consists of 7 items: 1. It ensures the economic development of the country. 2. There is no way for me to escape tax. 3. Paying taxes is my duty as a citizen. 4. Paying taxes declares my obedience to the government. 5. Tax laws are easy to understand, and tax calculation is very easy for me. 6. My friends and colleagues pay taxes with honesty. 7. I pay tax for fear of tax audit and prosecution.
Section E: Reasons for tax evasion (TE)	It consists of 9 items: 1. The allocation of tax revenues needs to be conducted more efficiently. 2. Corruption erodes the funds contributed by taxpayers. 3. The tax rate in Bangladesh is significantly elevated. 4. The progressive nature of the tax rate in Bangladesh needs to be improved. 5. The process of tax calculation is highly intricate. 6. The government needs more transparency regarding the allocation of tax revenue. 7. The taxation burden is disproportionate to the benefits obtained. 8. Income tax officers tend to request bribes without regard for compliance. 9. The tax payment needs to align with the level of quality in the provision of public services.

Section F: Techniques of tax evasion (KTE)	It consists of 5 items: 1. Over claiming tax deductions, exemptions, and credits. 2. Demonstrating the inclusion of personal expenditures as business-related expenses. 3. Engaging in the practice of offering incentives to tax officials with low morale. 4. The act of concealing a significant portion of one's earnings.
Section G: Ethical arguments for tax evasion (EATE)	It consists of 6 items: 1. A considerable proportion of the funds collected is diverted towards the personal gain of corrupt politicians or their relatives and affiliates. 2. The current tax rates are excessively elevated. 3. A significant proportion of the funds collected is allocated towards projects that do not yield personal benefits. 4. The likelihood of being apprehended is minimal. 5. Government offices must be more effectively fulfilling their duty to serve the citizens. 6. In certain instances, individuals are compelled to offer government entities bribes to obtain necessary services

4. Result and discussion

4.1 Demographic Factors

This study collected data from service holders belonging to both the public and private sectors. The higher percentage of the respondents was government service holders, whereas a good portion was private job holders. 42.7% of the respondents were in government services. As the respondents of this study were service holders, most of their education level is graduation or post-graduation. 28.6% of the respondents were graduates, and 71.4% were postgraduates.

Among the respondents, the majority of the persons had 4 dependents in the family, which covers 32.35% of the respondents. Among the rest of the respondents, 21.57% had 3 dependents, 26.47% had 2 dependents, and 12.75% had single dependents and 5% had no dependent. Besides, fifty-eight respondents were married, and the rest 44 was unmarried. In addition, this study collected data from respondents in 5 income group. Maximum number of the respondents belongs to the group BDT 350000-500000.

While the study utilizes a sample of 102 respondents from diverse regions of Bangladesh, this size is intentionally selected to provide in-depth, region-specific insights into tax evasion. The diversity of the sample ensures a comprehensive understanding of local variations, offering valuable perspectives on tax compliance across urban and rural areas. While a larger sample could further strengthen generalizability, the current sample effectively captures key regional differences and provides a solid foundation for further research.

4.2 Descriptive Statistics

Descriptive statistics is of utmost importance in concisely and comprehensively presenting the fundamental characteristics inherent in a given dataset. Comparing datasets, data

communication, exploration, summarisation, and hypothesis generation can be beneficial. As Manikandan (2011) stated, the mean denotes the central value within a set of numbers. The

calculation yields a numerical representation of the average, serving as a measure of central tendency.

Table 2 − Descriptive Statistics of the Variables

	N	Min	Max	Mean	Std. Deviation
ITS	102	1.00	1.80	1.0961	.20437
KTS	102	2.00	4.00	2.7235	.42126
MTP	102	1.00	2.86	2.2955	.44192
TE	102	1.78	3.78	2.6688	.51145
KTE	102	1.60	4.60	2.6843	.89639
EATE	102	2.33	5.00	3.5833	.71552
Valid N (listwise)	102				

Table 2 presents the dependent and independent variables' average values and standard deviations. The variable 'Tax Evasion' (TE) exhibits a mean value of 2.6688 and a standard deviation of 0.51145. Among the independent variables examined, the variable labelled 'Ethical Argument for Tax Evasion' (EATE) exhibits the highest average score of 3.5833 on a five-point scale, with a standard deviation of 0.71552. However, the variable 'Involvement with Tax System' (ITS) exhibits a mean value of 1.0961 and a standard deviation 0.20437.

4.3 Reliability Test

Reliability assessment is crucial for a dataset as it evaluates the consistency and stability of measurements or observations contained within the dataset. The primary emphasis lies in assessing how the data and measurements can be deemed reliable in faithfully representing the fundamental constructs or phenomena under examination. Reliability refers to the extent to which an instrument consistently and accurately evaluates a hypothesis and aids in determining the quality of the generated data (Churchill & Peter 1984).

This study adopted Cronbach's Alpha test for testing reliability. Cronbach's Alpha is a statistical measure that assesses the internal consistency of a set of items, precisely measuring their degree of similarity (Streiner, 2003). Table 3 presents a comprehensive range of values for Cronbach's Alpha, which is a measure used to assess the reliability of a scale or instrument.

With 5 items, the dependent variable TE shows a good value for Alpha. Four independent variables show good value for Alpha, while two of the independent variable shows moderate value for Alpha. Overall, the findings of this test indicate that the variables exhibit a satisfactory degree of reliability.

Table 3 − Reliability Statistics of the Variables

Variable Name	Number of Items	Cronbach's Alpha	Relationship
Tax Evasion (TE)	5	.858	Good
Involvement with Tax System (ITS)	5	.693	Moderate
Knowledge of Tax System (KTS)	5	.635	Moderate
Motivation for Tax Payment (MTP)	7	.732	Good
Ethical Argument of Tax Evasion (EATE)	6	.877	Good
Knowledge of Tax Evasion (KTE)	5	.854	Good
Overall	37	.739	Good

4.4 Test for Normality and Formation of Linear Regression Model

For testing normality, this study took the following Hypothesis:

H0: Data set are normally distributed

H1: Data set are not normally distributed

The test for normality shows the following results:

Table 4 − Test for normality

	Kolmogorov-Smirnov		
	Statistic	df	Sig.
Education	.441	102	.002
Yearly_income	.263	102	.061
ITS	.416	102	.201
KTS	.168	102	.103
MTP	.155	102	.067
TE	.160	102	.082
KTE	.170	102	.012
EATE	.127	102	.123

Given that the sample size in this study is 102, the subsequent analysis employed the Kolmogorov-Smirnov Test. According to the findings, it was seen that two variables, namely Education and Knowledge of Tax Evasion, exhibited p-values below .05 at a 95% confidence level. Consequently, it was determined that these two variables deviated from a normal distribution. In contrast, the remaining variables exhibit a normal distribution.

The implication of this result suggests that the investigation should employ a linear regression model. The regression equation can be derived using the following way:

$$\boldsymbol{TE} = \propto -\beta_1 \boldsymbol{Yearly\_income} + \beta_2 \mathbf{EATE} -- \beta_3 \mathbf{ITS} -- \beta_4 \mathbf{KTS} -- \beta_5 \mathbf{MTP} + \boldsymbol{\varepsilon} \qquad (1)$$

Where,

$\propto$ = Constant

β_1 = Correlation coefficient of Yearly_income

β_2 = Correlation coefficient of Ethical Argument of Tax Evasion

β_3 = Correlation coefficient of Involvement with Tax System

β_4 = Correlation coefficient of Knowledge of Tax System

β_5 = Correlation coefficient of Motivation to Tax Payment

ε = Error Term

4.5 Analysis of Correlation

The statistical technique known as correlation can be employed to ascertain the presence of a substantial association and the extent to which two variables are interconnected (Taylor, 1990). The Pearson correlation coefficient was employed to assess the strength and direction of the linear association between the dependent variable and the identified intellectual variables. The strength of the association between the dependent variable (DV) and independent variable (IV) can be measured by assessing the magnitude of the correlation coefficient. In statistical analysis, relationships between variables are deemed to be statistically significant when the p-value falls below the thresholds of 0.01 and 0.05, corresponding to the 99% and 95% confidence intervals, respectively.

4.5.1 Correlation with Demographic Factors

The following table shows the correlation between the dependent variable TE with some demographic factors. Table 5 shows how the demographic factors are associated with the tax evasion tendency of people.

Tax evasion exhibits a statistically significant negative correlation with annual income, as evidenced by a 99% confidence interval. This finding suggests that the inclination to engage in tax evasion diminishes as annual income rises. In contrast, a decrease in annual income corresponds to an increase in the likelihood of tax evasion.

A negative correlation is observed between tax evasion and both sex and education, suggesting that females and individuals with lower levels of education have a higher tendency to engage in tax evasion. However, the result is insignificant. In contrast, it is observed that there exists a positive correlation between tax evasion (TE) and marital status, as well as the number of dependents. This implies that individuals who are married or have more dependents tend to engage in tax evasion to a greater extent. The obtained result does not exhibit statistical significance.

Table 5 − Analysis of Pearson's Correlation for demographic factors

		TE	Yearly income	Sex	Marital condition	Dependents	Education
TE	Pearson Correlation	1	-.401**	-.101	.127	.168	-.193
	Sig. (2-tailed)		<.001	.315	.202	.092	.052
	N	102	102	102	102	102	102
Yearly income	Pearson Correlation	-.401**	1	-.548**	-.404**	.165	-.057
	Sig. (2-tailed)	<.001	.087	<.001	<.001	.097	.567
	N	102	102	102	102	102	102
Sex	Pearson Correlation	-.101	-.548**	1	.259**	-.008	.205*
	Sig. (2-tailed)	.315	<.001		.009	.934	.039
	N	102	102	102	102	102	102
Marital condition	Pearson Correlation	.127	-.404**	.259**	1	-.467**	.205*
	Sig. (2-tailed)	.202	<.001	.009		<.001	.039
	N	102	102	102	102	102	102
Dependents	Pearson Correlation	.168	.165	-.008	-.467**	1	.026
	Sig. (2-tailed)	.092	.097	.934	<.001		.796
	N	102	102	102	102	102	102

** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).

4.5.2 Correlation with Other Dependent Variables

Table 6 presents the correlation coefficients between the dependent variable TE with the identified independent variables. A negative correlation exists between Tax Evasion (TE) and Motivation to Tax payment, indicating that an increase in motivation to pay taxes is associated with a decrease in the tendency to engage in tax evasion. The outcome is statistically significant at a confidence level of 99%. Tax evasion shows a positive correlation with Knowledge of Tax Evasion, meaning that a person with more knowledge of evasion has a higher tendency to evasion. This result is significant at a 99% confidence interval.

Additionally, two additional essential findings are derived from Table 05. Motivation to Tax Payment exhibits a notable inverse correlation with the ethical justification for engaging in tax evasion. Conversely, a positive correlation exists between engagement with the tax system and Motivation to Tax Payments.

Table 6 − Analysis of Pearson's Correlation

		ITS	KTS	MTP	TE	KTE	EATE
ITS	Pearson Correlation	1	.077	.249*	.086	.061	-.107
	Sig. (2-tailed)		.442	.011	.388	.541	.284
	N	102	102	102	102	102	102
KTS	Pearson Correlation	.077	1	.030	-.081	-.144	-.013
	Sig. (2-tailed)	.442		.765	.419	.148	.900
	N	102	102	102	102	102	102
MTP	Pearson Correlation	.249*	.030	1	-.259**	-.106	-.360**
	Sig. (2-tailed)	.011	.765		.009	.287	<.001
	N	102	102	102	102	102	102
TE	Pearson Correlation	.086	-.081	-.259**	1	.401**	.092
	Sig. (2-tailed)	.388	.419	.009		<.001	.359
	N	102	102	102	102	102	102
KTE	Pearson Correlation	.061	-.144	-.106	.401**	1	.069
	Sig. (2-tailed)	.541	.148	.287	<.001		.493
	N	102	102	102	102	102	102
EATE	Pearson Correlation	-.107	-.013	-.360**	.092	.069	1
	Sig. (2-tailed)	.284	.900	<.001	.359	.493	
	N	102	102	102	102	102	102

* Correlation is significant at the 0.05 level (2-tailed).
** Correlation is significant at the 0.01 level (2-tailed).

4.6 Analysis of ANOVA

The primary objective of Analysis of Variance (ANOVA) is to assess the variability of means across distinct groups by using a statistical formula (Anderson, 2001). In diverse settings, this method is employed to evaluate the conjecture that certain groups exhibit statistically significant disparities in their means compared to others. Table 7 shows the result of the ANOVA Test.

Table 7 − Result of ANOVA Test

	Model	Sum of Squares	Df	Mean Square	F	Sig
1	Regression	15.664	8	1.958	16.932	<.001[a]
	Residual	10.755	93	.116		
	Total	26.419	101			

Dependent variable: TE
a. Predictors: (Constant), Yearly_income, Education, KTS, ITS, MTP, marital_condition, EATE, Sex

A P-value of less than 0.05 indicates a significant relationship between Dependent and independent variables. The F-value of 16.932 indicates that the variation between the group is greater than within the groups.

4.7 Regression Analysis

McKelvey and Zavoina (1975) assert that regression analysis is a statistical modelling technique involving a sequence of computations to estimate the associations between a dependent variable and multiple independent variables.

Table 8 − Result of Regression Analysis

	Unstandardised Coefficients		Standardised Coefficients		
Model	B	Std. Error	Beta	T	Sig.
1 (Constant)	42.3	.629	41.5	4.507	<.001
ITS	-.439	.186	-.175	-2.354	.021
KTS	-.055	.082	-.046	-.674	.502
MTP	-.517	.094	-.446	5.523	<.001
EATE	.436	.060	.610	7.229	<.001
Sex	-.548	.097	-.496	-5.655	<.001
Marital condition	.207	.088	.187	2.340	.021
Education	-.033	.078	-.030	-.422	.674
Yearly income	-.606	.063	-.881	-9.557	<.001

Dependent variable: TE

At a 95% confidence interval, the result shows significant values for the variables MTP, ITS, EATE, Sex, marital_condition and Yearly_income as the significance values are less than .05.

The result indicates that Tax Evasion has the strongest positive relation with the Ethical Argument of Tax Evasion. Besides, Tax Evasion has a positive association with marital conditions. On the other hand, Tax Evasion has a negative association with Involvement with the Tax System, Knowledge of the Tax System, Sex, Education Level and Yearly Income. This interprets that a 1% increase in Involvement with the Tax system will reduce Tax Evasion by .439%, whereas a 1% increase in Motivation of Tax Payment will reduce Tax Evasion by - .517%.

Among demographic factors, a 1% increase in yearly income will cause a reduction in Tax Evasion by .60%. Since the participants in this study were individuals who held service positions and possessed a minimum level of education equivalent to a bachelor's degree, it was observed that the variable of Education Level did not yield any statistically significant findings. With the significant results obtained, the following regression equation can be formed from (1):

$$TE = 42.3 - .606Yearly\_income + .436\text{EATE} - .439\text{ITS} - .055\text{KTS} - 517\text{MTP} + \varepsilon$$

Or,

$$E(TE) = E\,(42.3 - .606Yearly\_income + .436EATE - .439ITS - .055KTS - .517MTP + \varepsilon)$$

Or,

$$\boldsymbol{TE = 42.3 - .606Yearly\_income + .436EATE - .439ITS - .055ITS - .517MTP} \quad (2)$$

4.8 Test for Multicollinearity

Multicollinearity challenges conventional methodologies' predictive and classificatory efficacy (Naes and Mavek, 2021). Multicollinearity in the context of regression analysis arises when a strong correlation exists between two or more predictor variables, leading to a lack of distinct and independent information provided by these variables inside the regression model. The detection of multicollinearity can be accomplished by utilising a metric referred to as the variance inflation factor (VIF). This metric quantifies the correlation and magnitude among the predictor variables inside a regression model.

Table 9 − Test for Multicollinearity

	Unstandardised coefficients		Standardised coefficients	T	Sig.	95.0% confidence interval for B		Collinearity statistics	
	B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
(Constant)	1.118	.490		2.282	.025	.145	2.090		
ITS	-.180	200	-.072	-.897	.372	-.577	.218	.904	1.107
KTS	.010	.094	.008	.107	.915	-.177	.197	.964	1.037
MTP	.585	.101	.505	5.77	<.001	.384	.786	.755	1.324
KTE	.092	.053	.161	1.73	.086	-.013	.196	.677	1.476
EATE	.328	.068	.459	4.80	<.001	.193	.464	.635	1.574
Yearly income	-.376	.071	-.547	-5.28	<.001	-.517	-.235	.541	1.848

Dependent Variable: TE

The low level of multicollinearity observed in all situations, as shown by the VIF values slightly exceeding 1 but remaining below 2, suggests that the regression output is likely reliable.

4.9 Test for Heteroscedasticity

Heteroskedasticity pertains to instances in which the dispersion of the error terms is not constant across various levels of the independent variable. The occurrence of heteroskedasticity inside the model results in a breach of the regression assumption and tends to yield skewed outcomes. For the purpose of testing heteroscedasticity, this study took the following hypothesis:

H_0: Heteroscedasticity is present

H_1: Heteroscedasticity is not present

Table 10 shows the result obtained from regression analysis to test for heteroscedasticity.

Table 10 − Test for Heteroscedasticity

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	11.883	6	1.981	12.944	.001
Residual	14.536	95	.153		
Total	26.419	101			

a. Dependent variable: TE
b. Predictors: (Constant), Yearly_income, MTP, KTS, ITS, KTE, EATE

The statistical significance value indicates that the null hypothesis must be rejected, suggesting the absence of heteroscedasticity; thus, the result obtained in the regression model is reliable.

5. Solutions to Tax Evasion

The works of Allingham and Sandmo (1972) and Yitzhaki (1974) are considered seminal in studying the decision-making process of risk-averse taxpayers when determining the optimal amount of unreported income. These scholars have made significant contributions to understanding how individuals aim to maximise their expected utility while considering the risk of being audited by the government. Since that time, numerous extensive theoretical and empirical investigations have been conducted on tax evasion.

This study conducted interviews with two economists and one tax professional from Bangladesh to gain insights into potential strategies for enhancing the situation of tax evasion in Bangladesh. Based on the conducted interviews, this study has identified several solutions.

5.1 Increasing Provision of Tax at Source

One potential approach to improve tax compliance and mitigate tax evasion is by implementing an expanded Tax at Source system. A mechanism is employed wherein the payer withholds a specific percentage of the payment during the transaction, with the payee subsequently transferring this withheld amount to the government as tax. This approach can mitigate tax evasion by establishing a mechanism for directly collecting taxes from the primary source of income.

5.2 Tax credit provision

Implementing tax credit provisions in Bangladesh is a strategic measure aimed at stimulating compliance, fostering economic growth, and fostering investment. Tax credits enable taxpayers to decrease their tax obligation by a predetermined amount, expressed as a percentage of their qualified expenditures or as a fixed monetary value.

5.3 Non-monetary Incentive to Taxpayers

Non-financial incentives can play a substantial role in fostering tax compliance by offering taxpayers advantages that extend beyond mere monetary incentives. These incentives can cultivate a culture of tax compliance and bolster the overall rapport between taxpayers and tax authorities.

There are various non-monetary benefits that individuals or organisations can receive. These include but are not limited to recognition and acknowledgement, priority services, access to resources and information, education and training opportunities, preferential treatment, networking opportunities, ease of conducting business, customised support and participation in decision-making processes, positive publicity, and numerous other advantages.

5.4 Simplification of Tax System

Implementing tax system simplification in Bangladesh can yield numerous advantages, such as heightened levels of compliance, diminished instances of tax evasion, enhanced operational efficacy, and the establishment of a more conducive business climate. A streamlined tax system can enhance taxpayer comprehension of their fiscal responsibilities, foster prompt and precise reporting, and stimulate economic expansion.

5.5 Strengthening Enforcement and Consequences

Enhancing the enforcement mechanisms and penalties associated with tax evasion in Bangladesh is a pivotal approach to discourage non-compliance and enhance the overall collection of tax revenue. Establishing a robust and efficient enforcement framework by tax authorities can serve as a means to deter tax evasion among individuals and businesses.

The process may encompass various measures such as rigorous audit and investigation procedures, utilisation of advanced data analytics, cross-referencing of information, implementation of whistleblower programs, imposition of penalties, initiation of criminal prosecutions, seizure and forfeiture of assets, blocklisting of offenders, public dissemination of convictions, fostering international cooperation, enhancing the frequency of audits, and incentivising compliance, among others.

5.6 Expansion of Tax Base

The implementation of a strategy aimed at broadening the tax base in Bangladesh has the potential to effectively mitigate tax evasion by encompassing income sources that would otherwise remain undisclosed. Including additional individuals and businesses within the formal tax system reduces the likelihood of tax evasion.

The process may encompass the incorporation of the informal sector, the resolution of underreporting issues, the expansion of income categories, the effective implementation of value-added tax (VAT), the sharing of data, the adoption of real-time reporting mechanisms, and collaboration with local government entities, among other factors.

5.7 Programs of Voluntary Compliance

Voluntary Compliance Programs (VCPs) have the potential to serve as effective mechanisms in mitigating tax evasion in Bangladesh. These programs operate by incentivising non-compliant taxpayers to address their tax liabilities, proactively avoiding harsh penalties. Voluntary Compliance Programs (VCPs) allow taxpayers to proactively disclose instances of prior non- compliance, thereby receiving mitigated penalties and legal ramifications.

5.8 Regular Review of Tax Policy

Engaging in periodic assessments of tax policies in Bangladesh can serve as a proactive strategy to mitigate tax evasion by ensuring the tax system's continued relevance, efficacy, and adaptability in light of evolving economic circumstances. The process entails the identification of loopholes and gaps, the revision of tax rates and thresholds, the closure of legal and regulatory loopholes, the analysis of international best practices, the examination of emerging tax evasion schemes, the simplification of complex regulations, the enhancement of administrative procedures, the promotion of compliance through incentives, and the monitoring of taxpayers' behavior.

6. Conclusion

Bangladesh's relatively low ratio of tax-to-GDP is a matter of considerable concern for the economy. The country is confronted with a significant prevalence of tax evasion, resulting in the hindrance on the path of its development. This research aimed to examine the underlying factors contributing to tax evasion and propose potential strategies to mitigate this phenomenon. The study determined that factors such as engagement with the tax system, motivation to comply with tax obligations, understanding of the tax system, and ethical considerations regarding tax evasion influence the occurrence of tax evasion. Additionally, certain demographic factors have been found to influence individuals' propensity for evasion. This work also identified some ideas which can work in reducing tax evasion tendency of the people. Suggestions include reviewing tax policy, expansion of tax bases, incentive to the tax-payers, simplification of the process and some others. Bangladesh must prioritise the issue of tax evasion and implement measures to address this problem to realise the nation's aspiration of attaining developed status. While this study provides valuable insights into tax evasion in Bangladesh, there are areas for future exploration.

The research successfully captures diverse perspectives from different regions, genders, educational backgrounds, and service holders, offering a solid foundation for understanding tax compliance in the country. However, the scope of this study could be expanded in future research by incorporating a larger sample size, which would allow for broader generalizations and deeper insights into regional and socio-economic variations. Additionally, exploring the long-term impact of policy changes, the role of digital technologies in enhancing tax compliance, and the influence of public trust in government institutions could provide further valuable contributions to the field. Overall, this study opens avenues for future research to refine and strengthen the understanding of tax evasion

and improve tax policy in Bangladesh. Countries like Denmark and Estonia have reduced tax evasion through digital tax systems, while the UK and Canada have used real-time reporting and data-sharing to enhance enforcement. Adapting such practices to the Bangladeshi context could improve tax collection efficiency. Future research could explore how these international models can be tailored to address Bangladesh's specific challenges with tax evasion. Bangladesh must prioritise the issue of tax evasion and implement measures to address this problem to realise the nation's aspiration of attaining developed status and fostering the establishment of a technologically advanced Bangladesh.

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