



Tax Expenditure Estimation in the Direct Tax of Bangladesh

Financial Year: 2022-2023

National Board of Revenue, Bangladesh

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Disclaimer

This report has been prepared as a useful reference for the readers and stakeholders as well as for the policy makers for proper apprehension of the tax policy implications of tax expenditure. In case of any conflict, the original erstwhile Income Tax Ordinance, 1984 and the Income Tax Act, 2023 shall prevail.

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PREFACE

Taxation is fundamental to financing public services, such as infrastructure development and fueling economic growth. As the primary source of government revenue, it plays a pivotal role in shaping the relationship between the state and its citizens. A well-structured tax system not only ensures sufficient revenue but also promotes fair wealth distribution, helping to mitigate income inequality and create a more just society. The government of Bangladesh has made taxation and domestic resource mobilization as key components of its economic policies, recognizing their crucial role in the nation's growth and development.

Tax revenue is critical for covering both the government's operational and developmental costs. To achieve economic independence, sustainable growth, and long-term prosperity, it is crucial that tax revenues grow at a sustainable pace. However, maintaining a balance between tax expenditure and revenue collection is a challenge for any government. Tax expenditures—such as exemptions, deductions, and credits—result in significant revenue loss, particularly in developing countries like Bangladesh. Therefore, it is important to assess the impact of tax expenditures on overall revenue generation. Understanding the revenue loss due to these measures is essential for effective tax administration and policy formulation. Such analysis helps identify which tax incentives continue to be beneficial and which may no longer serve their intended purpose.

In this context, the National Board of Revenue (NBR) has released a report on tax expenditure for the third time. The report estimates the fiscal cost of tax expenditures related to direct taxes for the fiscal year 2022-2023 and aims to improve fiscal transparency and budget accountability. The NBR's report follows international best practices in fiscal governance, using established methodologies to provide a detailed overview of tax expenditures. This initiative is a significant step forward; not only in strengthening policy formulation but also in helping the country achieve its target tax-to-GDP ratio. It represents an important milestone in the continuous improvement of Bangladesh's tax administration, enhancing the system's accuracy and effectiveness.

I would like to acknowledge and thank the project supervisors and all the team members for their efforts in preparing this report. It is anticipated that this report will be updated annually, providing valuable insights and data to inform effective policymaking and boost resource mobilization from direct taxes in Bangladesh.

(Md. Abdur Rahman Khan FCMA)

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and

Chairman, National Board of Revenue

Bangladesh.

ACRONYMS

BDT	Bangladesh Taka
CITE	Corporate Income Tax Expenditure
FY	Financial/Fiscal Year
GDP	Gross Domestic Product
GTED	The Global Tax Expenditures Database
IT	Information Technology
NBR	National Board of Revenue
PITE	Personal Income Tax Expenditure
SME	Small and Medium Enterprises
TE	Tax Expenditure

EXECUTIVE SUMMARY

Tax expenditure reporting has become an essential instrument for Bangladesh in strengthening domestic revenue mobilization and enhancing fiscal transparency. The FY2022-2023 Direct Tax Expenditure Report estimates forgone revenue at BDT 107,132 crore, equivalent to 2.39 percent of GDP and 99 percent of direct tax collection. These expenditures reflect deviations from the benchmark tax system through exemptions, rebates, and preferential rates, functioning as indirect subsidies to achieve social and economic objectives. Recent budgetary measures have further emphasized rationalization, with the withdrawal of certain long-term exemptions and the decision not to extend scheduled concessions.

International experience demonstrates that countries adopt diverse approaches in reporting and integrating tax expenditures into fiscal policy. While some include multi-year projections as part of the budgetary framework, others publish annexes or treat tax expenditures as subsidy equivalents. Lessons from regional peers reinforce the value of cost-benefit analysis, modernized data systems, and structured evaluations in aligning incentives with national priorities.

With a backdrop of significant restructuring of the existing zones, involving readjustment of jurisdictions and transfer of return data among the existing and new zones, the tax expenditure for the FY 2022–2023 is estimated through uprating the preceding sample, using the nominal GDP growth rate (overall or sectoral, given data availability). Corporate income tax expenditure is estimated at BDT 73,989 crore, representing 69 percent of the total, and is concentrated in Microcredit and Social Welfare, Power and Energy, and Garments, Textiles, and Accessories. Personal income tax expenditure is estimated BDT 33,143 crore, accounting for 31 percent of the total, with notable allocations to salary relief. While this approach ensures continuity, it cannot fully capture behavioral or policy shifts in the absence of new micro data.

The report objectives are fourfold. These are to quantify the magnitude of direct tax expenditures over the period under review, to establish a framework for continuous monitoring and evaluation consistent with fiscal goals, to inform policy design by furnishing granular and decision useful estimates with sectoral breakdowns, and to enhance transparency by making expenditure information accessible to stakeholders and the public.

Building on the estimation results, the report advances a coherent reform agenda focused on rationalization and accountability. Probable policy suggestions include phasing out non-targeted exemptions through time bound provisions and sunset clauses, explicitly aligning incentives with national development priorities including export diversification, green transition, SME growth, gender equity and regional balance to strengthen domestic resource mobilization without raising statutory rates.

Overall, the report reaffirms the central role of tax expenditure analysis in strengthening evidence-based policy design, improving fiscal oversight, and enhancing transparency in public finance management. The continuation of annual reporting, alongside ongoing efforts to rationalize exemptions and preferential treatments, reflects the country's growing alignment with international best practices in tax governance. With an enhanced automation of the tax administration system and data availability, future reports are expected to be based on a comprehensive micro data based estimation, thereby equipping policymakers with more precise and actionable evidence to balance revenue mobilization imperatives with broader social and economic development objectives.

CHAPTER 01

INTRODUCTION

Tax expenditure reporting demonstrates the extent to which tax incentives affect government revenues. Bangladesh published its first Direct Tax Expenditure Report in 2023 and continues to publish this report annually. This provides policymakers with essential insights into the underlying choices in tax policy, especially the balance between revenue forgone and the pursuit of social and economic objectives. For Bangladesh, identifying and estimating tax expenditure is crucial for domestic revenue mobilization. In Fiscal Year 2022-2023, direct tax accounted for 32.9% of the total collection of the National Board of Revenue (NBR, 2024, pg. 16). The revenue generation is dependent on the tax base and effective tax rate. However, there exists some deviation from the normal tax code in the form of exemptions, deductions, rebates, credits, and special rates. The tax incentives provided are often perceived as an indirect subsidy to the intended taxpayers to pursue some social and economic objectives. The OECD defines tax expenditures as reductions in tax liabilities in comparison with a benchmark tax system and explains that they may take different forms such as exemptions, allowances, credits, rate relief and deferral.

The National Budget Speech 2025-26 highlighted the Government's focus on rationalizing tax expenditure. As part of the rationalization, tax exemptions for certain sectors scheduled to expire on 30 June, 2025, have not been extended and existing Statutory Regulatory Orders granting long term exemptions or reduced rates have been revoked. Bangladesh's adoption of direct tax expenditure reporting in 2023 aligned the country with emerging global best practices (MoF, 2025, pg. 44). With a backdrop of significant restructuring of the existing zones, involving readjustment of jurisdictions and transfer of return data among the existing and new zones, the tax expenditure for the FY 2022–2023 is estimated through uprating the preceding sample, using the nominal GDP growth rate (overall or sectoral, given data availability). This approach adheres to established international approaches for years when fresh micro-data are unavailable. The revenue that would otherwise have been collected, if there had been no such

preferential measures, is estimated as tax expenditure, following revenue foregone method. In line with that, the estimated tax expenditures from the direct taxes for the FY 2022-2023 amounts Taka 1,07,132 crore which is 2.39% of the GDP. For FY2021-2022, the estimate was Taka 1,15,056 crore, equivalent to 2.9% of the GDP.

This report presents an analysis of tax expenditures within the scope of Income Tax (Personal and Corporate) for the financial year 2022-2023. It intends to describe the several steps of tax expenditure estimation and to report the revenue impact of tax expenditures in the existing tax structures of Bangladesh. The objectives of this Tax Expenditure Report are:

Estimation: To quantify and assess the extent of tax expenditures in direct taxes over the specified period.

Monitoring and Evaluation: To establish a framework for continuous monitoring and evaluation of tax expenditures, ensuring alignment with fiscal goals.

Informed Policy Design: To furnish valuable data and insights that can guide the formulation of well-informed tax policies and structures.

Transparency Enhancement: To bolster transparency by making information on national tax expenditures readily accessible to stakeholders and the public.

This report is organized as follows. Chapter 2 provides country experiences on tax expenditure reporting and designing tax incentives, Chapter 3 presents the estimation results. Chapter 4 provides concluding remarks. A detailed tax expenditure inventory is attached to the Appendix of the report.

CHAPTER 02

COUNTRY EXPERIENCES

Tax expenditure reporting is considered to be part of government's fiscal policy which contributes in establishing a well-balanced economy and ensuring fiscal transparency. The developing countries and the transitioning economies are yet to comprehend the inference of tax expenditure reporting due to lack of practical implications and technical knowledge. Some countries like Australia, Belgium, Canada, the Netherlands and the United States have adopted tax expenditure accounting and scrutiny through integrating such with the budgetary process (Swift *et al.*, 2004).

It is believed by the tax experts that if tax expenditure reporting is integrated in the budget as part of government outlay analysis, it would be an adjunct to create best policy outcomes. Tax expenditure has been included in the budgetary document as a subsidy report by Germany (Hallerberg, 2014). In some countries, tax expenditure is attached as an annex to the budgetary report. However, in many countries, it is not obligatory to report on tax expenditures (Aliu *et al.*, 2022). Some countries report once in every two years instead of following the global practice of reporting annually. However, some countries provide estimates for longer periods (Redonda & Neubig, 2018). This window of estimate depends on a number of factors like policy priority, complexity of estimation, variation in methods used and constraints regarding data collection.

Benchmarking in a tax expenditure report is highly specific to country profiles. For example, in France and Germany, exemption on food stuffs is considered to be a benchmark because of considering such tax relief as part of the national redistributive policy (Redonda and Haldenwang, 2024; Cléaud *et al.*, 2019). Whereas, such exemptions on cultural activities are considered to be expenditure (Burton & Stewart, 2011).

The quality and magnitude of tax expenditure reporting vary significantly across countries (von Haldenwang *et al.*, 2023). Non-reporting and under-reporting of tax expenditures are

commonly encountered because of lack of transparency, limited trained workforce, weak administrative capacity and inaccurate and manual database (Redonda and von Haldenwang, 2024). Many countries do not analyze or report the expenditures that they list in the inventory in a comprehensive manner. According to Global Tax Expenditures Database (GTED), 109 countries have never reported on tax expenditures.

For Bhutan, it was a significant milestone in reforming tax policy, to complete the first comprehensive tax expenditure evaluation for the financial year 2020-2021. In the National Budget for the Financial Year 2024-2025, the revenue forgone, which is described as “fiscal incentives” therein, was estimated to be around 52 million USD. CIT constituted only 5% of the expenditures while Sales tax and Customs Duty contributed to 94% of the expenditures (Department of Revenue and Customs, 2025).

The Public Finance Management Act 2019 legally requires the Federal Government of Pakistan to include an estimate of tax expenditures in the Finance Bill each year in order to enhance fiscal transparency (Federal Board of Revenue [FBR], Government of Pakistan, 2025). Pakistan has been reporting tax expenditure estimation annually since financial year 2020, demonstrating consistency in reporting, a trait highlighted by Redonda, Von Haldenwang & Aliu (2021) as essential to “create a consistent cross-country information on TEs, ensuring a certain level of comparability” (Companion paper to the Global Tax Expenditures Database). Over a 15-year period, Pakistan’s tax expenditure averaged 2.1% of GDP which is considerably lower than global average of 4% (Global Tax Expenditure Database available at <https://gted.taxexpenditures.org/>). Pakistan has also formulated a Tax Expenditure Reporting (TER) manual to guide current and future officials to streamline the tax expenditure reporting in a structured way.

The Philippines has been a regional icon for playing an innovative role in embedding fiscal discipline within its tax incentive framework. Under the CREATE Act, the country mandates ex-ante cost-benefit analysis and enforces performance monitoring of approved incentives. The Fiscal Incentives Registration and Monitoring System (FIRMS) remains pivotal to this framework which facilitates administrative transparency and efficient data collection. FIRMS is designed to ensure data accuracy through rigorous validation processes which has strengthened tax expenditure management.

India has regularized its tax expenditure reporting by integrating the same with the annual budget since 2006. According to the Global Tax Expenditures Transparency Index, India scored 52.7 out of 100. India is yet to include the GST (introduced in 2017) exemptions as part of the revenue forgone in the tax expenditure report. According to Tax Expenditures Country Report (October, 2024), tax expenditures for FY2022-23 constituted 1.5% of the GDP while the gross tax revenue for the same year was 11.3% of GDP.

The Maldives has integrated tax expenditure reporting into its broader agenda of tax administration modernization. Recent reforms include redesigning tax return forms to ensure they capture detailed exemption and deduction data critical for expenditure analysis. In 2024, the Maldives published its Tax Expenditure Report, adopting a new methodology to measure revenue forgone from import duties. The report revealed that Tax expenditure for CIT accounted for 4.9 percent of total CIT collections in FY2023, while Individual Income Tax (IIT) expenditure constituted 42.2 percent of IIT collections in the same year.

The growing alignment with international best practices in tax expenditure reporting reflects a global commitment to transparency, accountability, and efficiency in tax policy. By adopting the revenue forgone method and strengthening data systems, countries are better equipped to assess the real fiscal cost of tax incentives. Standardized reporting frameworks and ex-ante evaluations not only enhance comparability across jurisdictions but also ensure that incentives are aligned with national development priorities and yield measurable economic benefits. Ultimately, comprehensive and well-structured tax expenditure reports provide policymakers with a robust foundation for balancing revenue needs with strategic policy objectives.

CHAPTER 03

TAX EXPENDITURE ESTIMATION

3.1 Benchmark and Methodology

This report corresponds to:

- Financial year 2022-2023 (July 01, 2022-June 30, 2023)
- Assessment year 2023-2024.

The benchmark tax system is followed as mentioned in the previous Tax Expenditure Report 2021-2022 (NBR, 2024a).

The income tax department of Bangladesh has undergone major administrative reforms during 2023-2025 period, including creation of additional 10 taxes zones and three units in Phase one of the reform process. This led to a significant restructuring of the existing zones, involving readjustment of jurisdictions and transfer of files and return data among the existing and new zones. With a manual paper-based filing system in the absence of complete automation, collecting a reliable and representative sample of tax returns from the field offices was absolutely challenging during this transitional phase. Attempting to do so associated a risk of obtaining incomplete, inconsistent, or erroneous data, which would undermine the validity of the tax expenditure estimates.

Against this backdrop, the tax expenditure for the FY 2022–2023 is estimated through uprating the sample used for the preceding year, *i.e.*, FY 2021–2022. The previous sample is uprated using the nominal GDP growth rate (overall or sectoral, given data availability) for FY 2022-2023.

The FY 2021–2022 Sample:

In FY 2021–2022, microdata was obtained from a random sample of income tax returns submitted to various tax circle offices. The returns were collected using a standardized questionnaire to ensure consistency. The final sample consisted of 32,905 individual taxpayers, 702 firms, and 3,044 companies. (NBR, 2024a).

Zonal, Sectoral and Item-Wise Estimation

As in the previous years' estimations, weighted means were calculated based on the distribution of income groups among individuals and firms, as well as by tax zones. This approach ensured that the estimates reflected the underlying taxpayer population and regional variations. Additionally, item-wise tax expenditure estimations for Personal Income Tax (PIT) were also conducted when sufficient data was available. (NBR, 2023).

As in the previous year, tax expenditures were estimated for the same key sectors such as IT/Software, Garments, Textiles and Accessories, Power and Energy, Poultry and Fisheries, Microcredit/Social Welfare, Economic Zones and Hi-Tech Industries. Sectoral tax expenditures from FY 2021–2022 were scaled by the GDP growth rate to produce estimates for FY 2022–2023.

The intra-sector breakdown of tax expenditure items was maintained based on historical data, allowing continued identification of specific tax relief categories within each sector. Taxpayers and entities that did not fall into these sectors were categorized under “Others”.

As in the previous years, the tax expenditure is estimated following the revenue foregone method. The estimation of tax expenditures under revenue foregone method measures the potential revenue gain that would have been realized had there been no such tax expenditure measures. The underlying assumption is that the tax base would not be affected in the absence of such measures, *i.e.*, taxpayers' behavior would not change in the absence of the tax expenditure measures. (details in 2020-2021 report; NBR, 2023)

Projection-based Approach: Underlying Assumptions

The projection-based approach, *i.e.*, uprating of the previous sample, adheres to a few primary underlying assumptions, *viz.*, a stable tax policy, a stable sectoral composition or structure in the economy, constant taxpayer behavior and unitary tax buoyancy (*i.e.*, the tax base grows at the same rate as the economy does). The tax legislation or basic structure of tax policy nor the sectoral composition or structure in the economy has undergone any major changes during the projection period. The analysis assumes no behavioral change in response to the tax expenditure over the period. The assumption of unitary tax buoyancy is consistent with research findings, which estimates tax buoyancy in Bangladesh direct tax to be slightly higher

than one (Begum, 2007, Yusuf and SM, 2013). With these assumptions, the projection-based approach provides a practical and widely accepted means to estimate tax expenditures in the absence of updated microdata.

This projection-based approach has been adopted to address the practical realities of tax administration during a period of transition and to ensure the continuity of tax expenditure reporting (Brown, 2007; Harding *et al.*, 2010). It enables timely estimation despite data collection challenges and aligns with international best practices when new data is unavailable. Using GDP growth as a scaling factor is a common practice in many countries and research institutions, where tax expenditure reports are sometimes updated annually through growth adjustments rather than fresh sampling. This method maintains consistency over time while adapting to available data constraints.

3.2 Estimation Results

3.2.1 Corporate Income Tax

The total volume of Corporate Income Tax Expenditure (CITE) estimated stands at BDT 73,989 crore, distributed across eleven identified sectors and categories. The highest expenditure extends to the Microcredit and Social Welfare sector, which amounts BDT 12,589 crore or 17.01% of the total corporate tax expenditure. The Power and Energy sector followed, amounting BDT 7,987 crore, equivalent to 10.79% of the aggregate amount.

In addition, an expenditure of BDT 6,254 crore, representing 8.45%, is accorded to Share Capital Gains. The Garments, Textiles, and Accessories sector amounts BDT 5,829 crore, comprising 7.88% of the total. In support of industrial diversification and infrastructure, Economic Zones and Hi-Tech expenditure stands at BDT 4,638 crore or 6.27% of the CITE.

Table 1: Corporate Income Tax Expenditure FY 2022-2023

Sl.	Sector	CITE (in crore BDT)	% of Total CITE
1	Microcredit/Social welfare	12,589	17.01
2	Power and energy	7,987	10.79
3	Share capital gain	6,254	8.45
4	Garments/Textiles/Accessories	5,829	7.88
5	Economic zones and Hi-Tech	4,638	6.27
6	Dividend	2,730	3.69
7	Exports other than garments	2,041	2.76
8	Export cash incentive	1,521	2.06
9	IT/Software	1,151	1.56
10	Education	326	0.44
11	Poultry/Fisheries	187	0.25
12	Other	28,736	38.84
Total		73,989	100.00

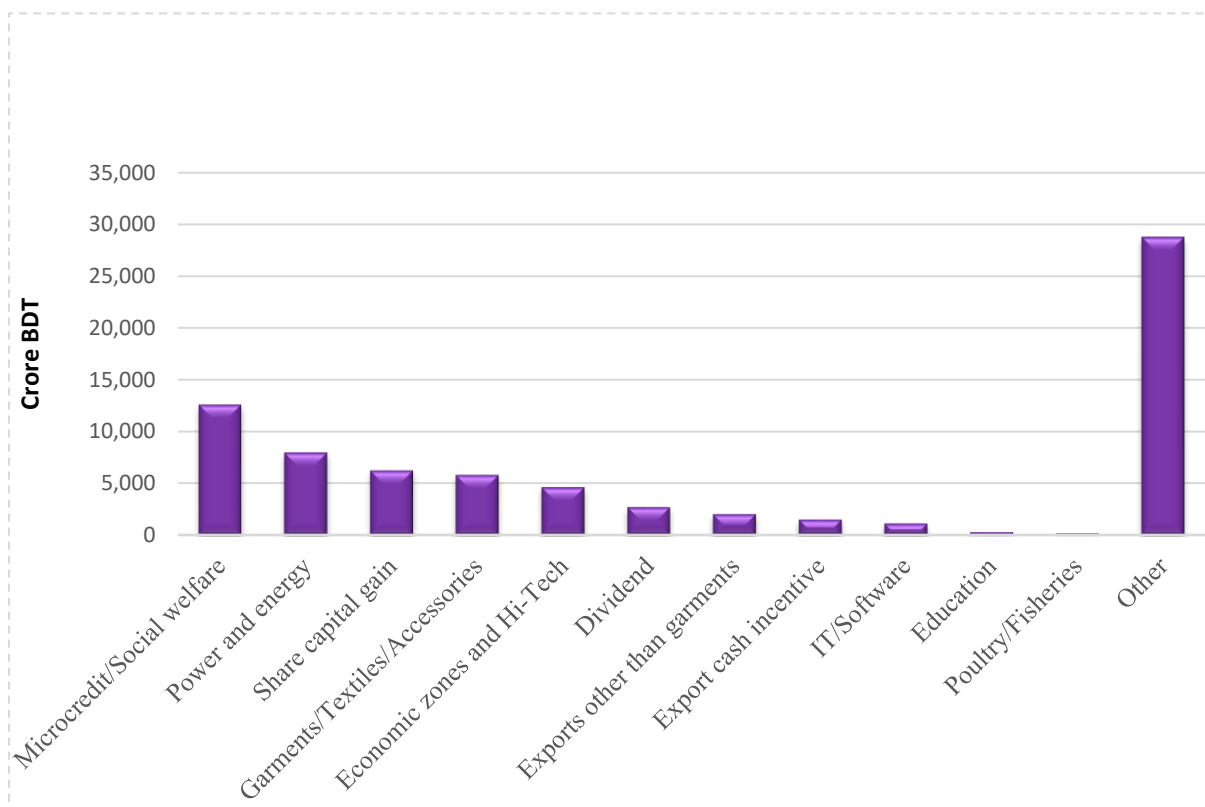


Figure 1 : Sectoral Contribution in Estimated Corporate Tax Expenditure (Crore BDT) FY 2022-2023

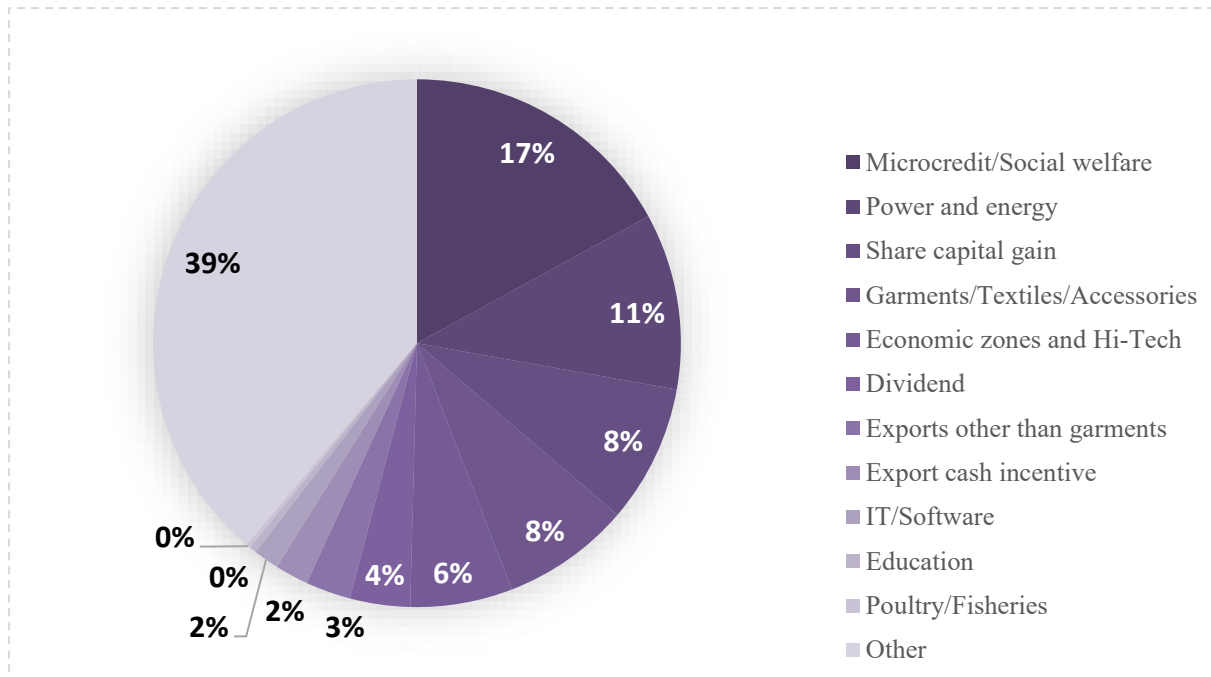


Figure 2 : Sectoral Contribution in Estimated Corporate Tax Expenditure (Percentage) FY 2022-2023

Furthermore, the expenditure in Dividend category amounts to BDT 2,730 crore, constituting 3.69% of the total. Exports, excluding garments, are provided with BDT 2,041 crore expenditures, while BDT 1,521 crore was disbursed under the Export Cash Incentive framework. The Information Technology and Software sector received BDT 1,151 crore, equating to 1.56% of the total allocation.

Additionally, Education was allocated BDT 326 crore, representing 0.44%, and the Poultry and Fisheries sector received BDT 187 crore, corresponding to 0.25%. A substantial portion of BDT 8,736 crore, or 38.84%, was grouped under the category of “Other,” encompassing a broad range of activities not specifically delineated within the principal classifications.

3.2.2 Personal Income Tax

The total volume of Personal Income Tax Expenditure (PITE) stands at BDT 33,143 crore, allocated across four distinct categories. The Salary segment accounted for BDT 5,325 crore, representing 16.07% of the total expenditure, reflecting a significant portion allocated to employment-based income relief.

Table 2 : Personal Tax Expenditure FY 2022-2023

Sl.	PIT	PITE (in crore BDT)	% of Total PITE
1	Salary	5,325	16.07
2	Poultry/Fisheries	2,671	8.06
3	Share capital gain	817	2.47
4	Other	24,330	73.41
Total		33,143	100.00

Following that, the Poultry and Fisheries sector received an exemption of BDT 2,671 crore, comprising 8.06% of the total. The Share Capital Gain category amounts BDT 817 crore, which constitutes 2.47% of the overall exemption amount.

Finally, the “Other” category recorded the highest exemption amounting to BDT 24,330 crore, representing 73.41% of the total PITE. This classification includes a range of activities or sources of income not explicitly detailed in the primary categories.

3.3 Total Tax Expenditure in Direct Taxes

The total estimated Tax Expenditure (TE) for the reporting period stands at BDT 107,132 crore, which represents 2.39% of nominal GDP (BDT 4,490,842 crore) and 99% of direct tax collection (BDT 108,204 crore). This amount is comprised of both Corporate Income Tax Expenditure and Personal Income Tax Expenditure, which together provide a comprehensive view of forgone direct tax revenue under current tax expenditure policies.

Table 3 : Total Tax Expenditure in Direct Taxes FY 2022-2023

Category	in crore BDT	% of Total Estimated Tax Expenditure	% of Direct Tax Collection	% of GDP
Corporate Income Tax Expenditure	73,989	69	68.38	1.65
Personal Income Tax Expenditure	33,143	31	30.63	0.74
Total	107,132	100	99.01	2.39

Of the total, Corporate Income Tax Expenditure accounts for BDT 73,989 crore, which is 69% of the total estimated TE in direct taxes. This amount is equivalent to 68.38% of direct tax

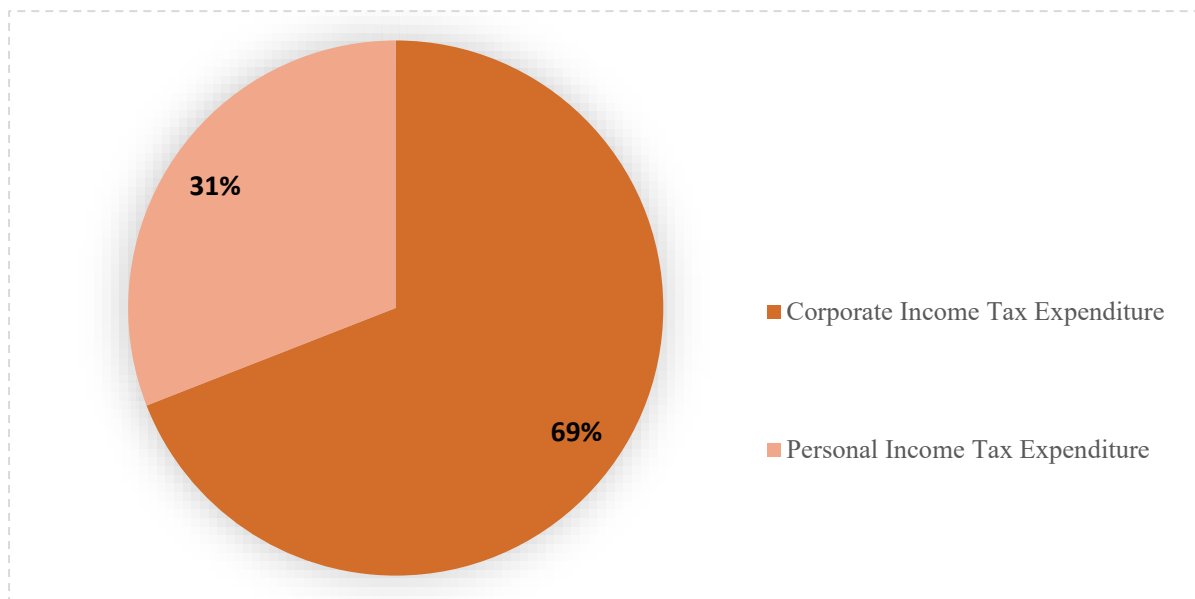


Figure 3 : Total Tax Expenditure in Direct Taxes FY 2022-2023

collection and 1.65% of GDP. Personal Income Tax Expenditure amounts to BDT 33,143 crore, representing 31% of total TE in direct taxes, 30.63% of direct tax collection, and 0.74% of GDP.

Table 4 : Total Tax Expenditure (Crore BDT) FY 2022-2023

Sl.	Sector	TE (in crore BDT)	% of Total TE
1	Microcredit/Social welfare	12,589	11.75
2	Power and energy	7,987	7.46
3	Share capital gain	7,071	6.60
4	Garments/Textiles/Accessories	5,829	5.44
5	Salary	5,325	4.97
6	Economic zones and Hi-Tech	4,638	4.33
7	Poultry/Fisheries	2,858	2.67
8	Dividend	2,730	2.55
9	Exports other than garments	2,041	1.91
10	Export cash incentive	1,521	1.42
11	IT/Software	1,151	1.07
12	Education	326	0.30
13	Other	53,066	49.53
Total		107,132	100.00

In sectoral terms, the largest share of tax expenditure falls under the category "Other", which includes a broad range of unspecified or aggregated exemptions. This category alone amounts to BDT 53,066 crore, accounting for 49.53% of the total Tax Expenditure.

Among the identifiable sectors, Microcredit and Social Welfare received the highest allocation, at BDT 12,589 crore (11.75%), followed by Power and Energy with BDT 7,987 crore (7.46%), and Share Capital Gain with BDT 7,071 crore (6.60%). The Garments/Textiles/Accessories sector received BDT 5,829 crore (5.44%), while the Salary segment accounted for BDT 5,325 crore (4.97%).

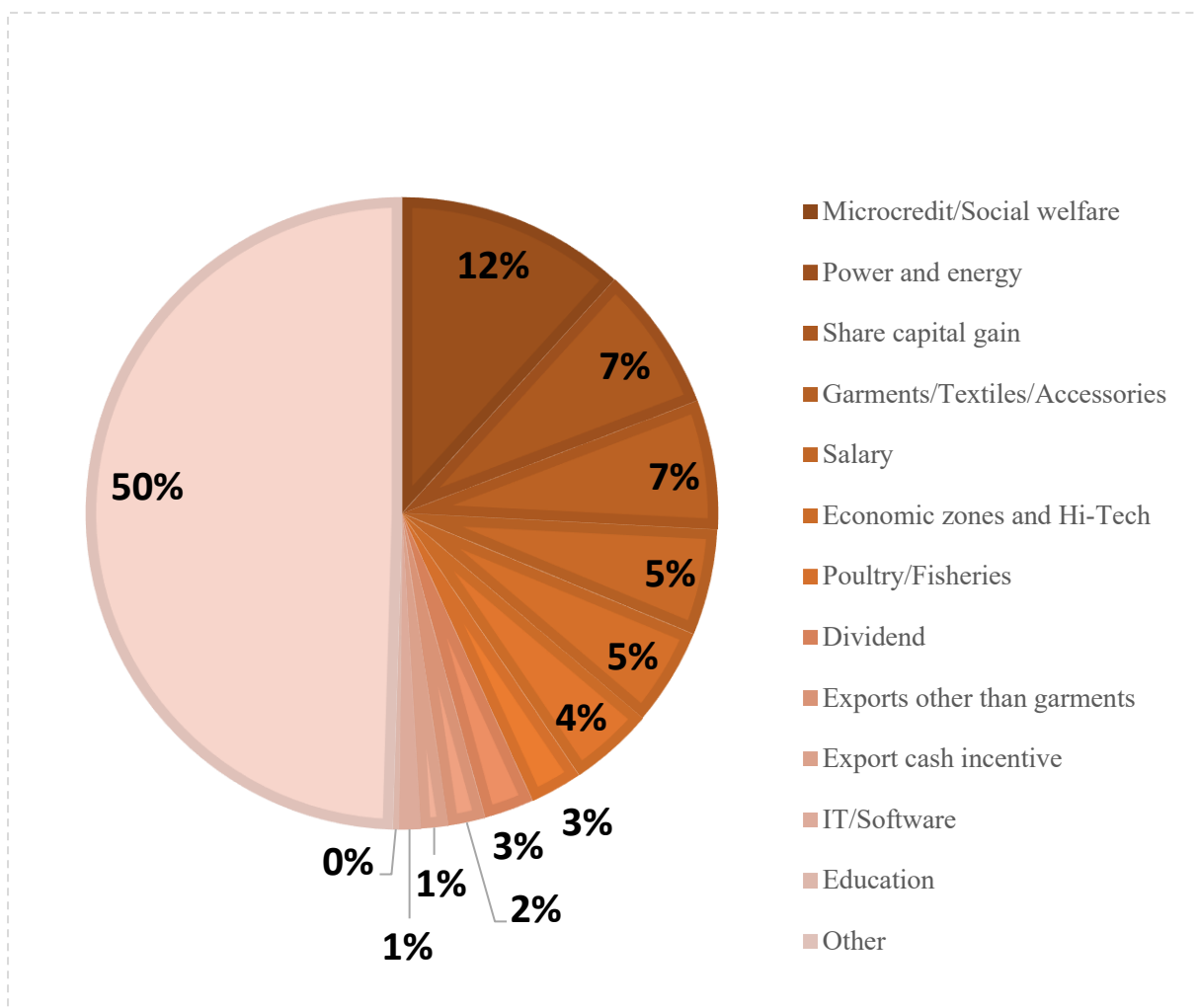


Figure 4 : Total Tax Expenditure in Direct Taxes FY 2022-2023

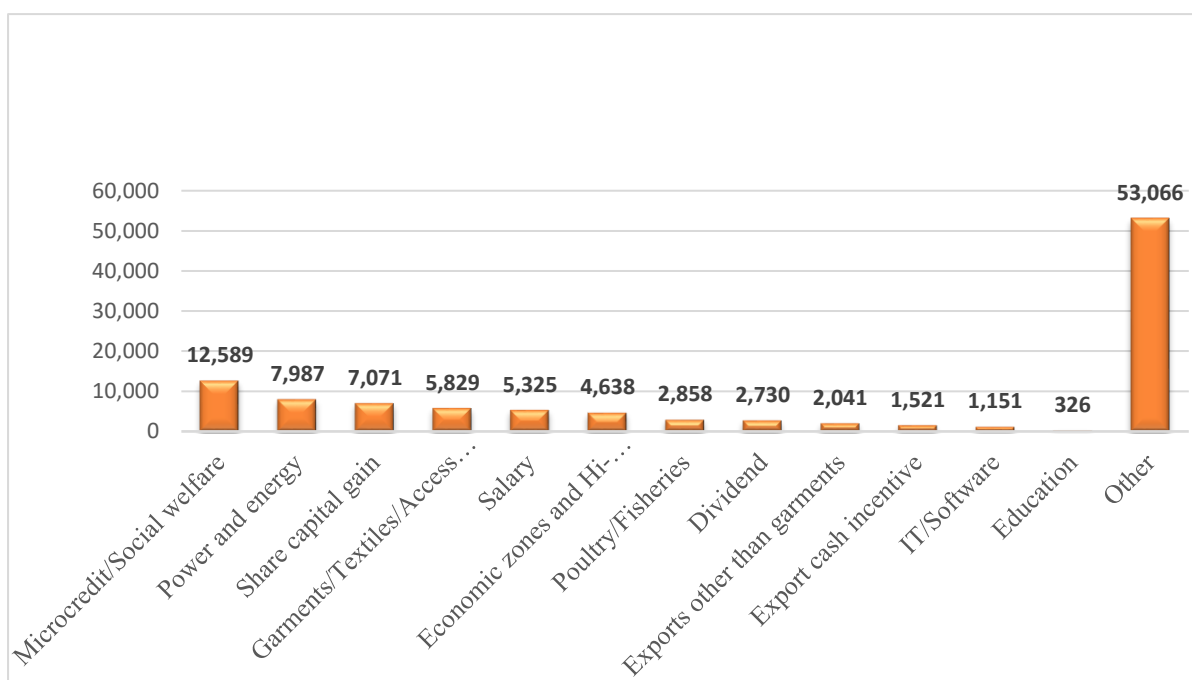


Figure 5 : Sectoral Contribution in Estimated Total Tax Expenditure (crore BDT) FY 2022-2023

Other notable expenditures include Economic Zones and Hi-Tech (BDT 4,638 crore; 4.33%), Poultry/Fisheries (BDT 2,858 crore; 2.67%), and Dividend (BDT 2,730 crore; 2.55%). Expenditures on Exports other than garments and Export Cash Incentives amounted to BDT 2,041 crore (1.91%) and BDT 1,521 crore (1.42%), respectively. The IT/Software sector amounted BDT 1,151 crore (1.07%), and Education sector comprised the smallest sectoral expenditure at BDT 326 crore (0.30%).

3.4 Interpreting the Estimation: Some Caveats

Tax expenditure reports serve as valuable tools for assessing the impact of various tax incentives and deductions on government revenue and the economy. However, like any analytical tool, this tax expenditure report has limitations that should be considered when interpreting their findings. The following caveats are worth noting.

- The revenue foregone method adopted in this report relies on the basic assumption that does not consider changes in taxpayers' behavior when a particular measure is eliminated. This methodology does not capture the potential impact of a particular incentive on the overall level of economic activity. The estimation is based on the *ceteris paribus* assumption, and as such, the elimination of a particular measure would not necessarily increase the revenue in the exact same proportion.
- There are multiple provisions interacting with one other and isolating the impact of a single provision is obviously a challenging task.
- The tax expenditure estimates are based on economic conditions at a specific point in time. Economic changes, such as recessions or booms, and/or the potential government policy changes can significantly affect the value and impact of tax expenditures.
- Accurate estimation of tax expenditures requires a comprehensive database. In the absence of comprehensive digitized system, this estimation is based on a sample data. Also, given the availability of data, the estimation is done for a few sectors. The estimation of tax expenditure related to each incentive measure has not been possible due to the lack of a well-organized institutional set-up and a comprehensive database or a complete online return system. With a greater sectoral breakdown, and preferably, with a separate estimate for each incentive measure would yield a more precise estimate. The tax expenditure delineated in this report is therefore an estimate based on the available data.
- It is important to recognize the limitations of the projection-based approach undertaken in this report. The estimates are dependent on the accuracy and representativeness of the baseline year (FY 2021–2022) and assume that the relationship between economic growth and tax expenditures remains stable. Changes in taxpayer behavior, non-linear responsiveness of tax base to economic growth, or minor policy amendments that may have occurred during the year cannot be directly captured without current microdata. Therefore, while this approach provides valuable insights into tax expenditure trends, it should be viewed as an interim solution.

Above all, it is important to note that the estimated revenue foregone due to tax expenditure measures does not necessarily imply that the government has waived this amount of money. The various incentive measures in the tax policy are in line with specific socio-economic goals. It is obvious that the incentive measures targeted to different sectors or groups have caused a considerable impact on the growth of the respective sectors that would otherwise not have occurred had there been no such incentives.

CHAPTER 04

POLICY IMPLICATIONS AND CONCLUDING REMARKS

Direct Tax expenditure is estimated as government revenue foregone through exemptions, deductions, rebates, preferential rates, and deferrals—represent an important dimension of fiscal policy. National Board of Revenue’s (NBR) Direct Tax Expenditure is reduced to 2.39% of GDP in FY 2022-2023 which was 2.9% in the previous financial year.

Nevertheless, such substantial foregone revenue, though intended to stimulate economic activity, attract investment, or support vulnerable groups, also entails significant trade-offs in terms of fiscal efficiency, equity, and transparency.

An effective and equitable tax system necessitates periodic review and rationalization of these expenditures. With the national tax-to-GDP ratio persistently trailing regional comparators, and public revenue pressures mounting, there is an urgent need for a recalibration of Bangladesh's tax expenditure regime.

A comprehensive review of all existing expenditures, with a view to phasing out provisions that are economically redundant or regressive is important. Sectors that have matured or no longer require fiscal support calls for a thorough re-examination. It is worth considering that all future tax expenditures be time-bound, subject to sunset clauses, and contingent upon the demonstration of clear public interest. Moreover, a greater accuracy of the tax expenditure reports is expected in future once tax data systems are more automated and the administration stabilizes following these reforms. The use of digital tax administration platforms can greatly enhance data collection and analysis.

The FY 2022–2023 report indicates that corporate tax expenditures accounted for approximately 69% of total direct tax expenditures which was approximately 62% in the previous financial year. Many of these benefits are awarded to large companies and sectors with relatively low employment intensity or limited technological spillover effects. Tax

expenditure policy aiming to positive externalities, such as corporate tax relief conditional on demonstrable performance indicators, including employment generation, export earnings, environmental compliance, or investment in backward linkages may be worth exploring.

The fiscal cost of tax expenditures in Bangladesh is substantial. As the government grapples with development financing gaps, subsidy rationalization and external debt sustainability, reforming the tax expenditure framework offers a powerful lever for enhancing domestic resource mobilization without raising nominal tax rates.

Tax expenditures should be designed and evaluated in light of their contribution to strategic policy objectives including export diversification, green energy, SME development, women's economic empowerment, and regional equity. For example, tax holidays could be repurposed to support climate-resilient infrastructure or digital entrepreneurship in under-served regions.

By adopting judiciously balancing revenue imperatives with growth incentives, equity, and social inclusion, Bangladesh can transform its tax incentive regime into a strategic, transparent, and accountable instrument of economic policy, well-aligned with the nation's long-term aspirations.

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APPENDIX

TAX EXPENDITURES INVENTORY: DIRECT TAXES OF BANGLADESH

This report corresponds to:

- Financial year 2022-2023 (July 01, 2022-June 30, 2023)
- Assessment year 2023-2024.

The tax expenditure inventory is followed as detailed in the Tax Expenditure Report 2021-2022 except for the insignificant changes and addition, based on The Income Tax Ordinance, 1984, SROs and Finance Act. The Income Tax Act, 2023 was enacted on 23 June 2023, repealing the Income Tax Ordinance, 1984. Changes and additions in FY 2022-2023 are mentioning bellow-

Title	Category	Description	Type	Objective	Legislative reference
Reduce rate for cotton production, cotton dying company	CIT	Income from the cotton production, cotton dying company enjoy the 15% reduce tax rate.	Reduce Rate	Industry assistance	159/Law/income tax/2021
Hospital	CIT	Four hospital runs by the Al-Basar International Foundation: Exemption For 05 years on Hospital Income depends on some condition.	Exemption	Healthcare	271/Law/income tax/2022
Export income	PIT/CIT	Any income received by an assessee (Individual, Farm and Hindu undivided Family) from export income are 50% tax free. For the other assessee the tax rate will be 10%-12%.	Exemption/ Reduce rate	Assistance of foreign remittance	210-Law/income tax-05 /2023