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Understanding VAT Revenue Potential in Bangladesh: A Comparative Assessment of Public Evidence on Tax Expenditure and Revenue Administration

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Abstract: Value-added tax (VAT) is an important source of domestic revenue in Bangladesh, yet concerns remain about the size of tax concessions, the effectiveness of revenue administration, and the extent to which potential revenue is translated into actual collections. This article examines publicly available evidence on Bangladesh's VAT revenue potential through a comparative documentary analysis of the National Board of Revenue's (NBR) VAT Expenditure Study Report, a 2025 presentation by the Centre for Policy Dialogue (CPD), and earlier methodological work on measuring the VAT gap. The analysis distinguishes tax expenditure estimates from potential-versus-actual VAT calculations and from comprehensive VAT-gap measurement. The NBR report estimates total VAT tax expenditure for 2022 at BDT 1,295,701.35 million, equivalent to 3.26% of GDP, compared with net VAT revenue of 2.63% of GDP. CPD's calculations for FY2022–23 report a VAT gap of BDT 188,080.546 crore under an effective-rate scenario of 11.73%. Under a separate 15% standard-rate scenario, potential VAT is reported at BDT 409,357.335 crore; subtracting actual collections produces an arithmetic difference of BDT 277,320.445 crore. However, inconsistencies within the published presentations require caution. These estimates are not directly interchangeable and do not establish how much additional revenue could necessarily be collected. The paper's contribution is to demonstrate that published estimates cannot be combined into a single recoverable-revenue figure, and to specify the reconciliation and data requirements for a credible VAT-gap assessment. Transparent tax-expenditure reporting, improved reconciliation of published estimates, and access to administrative data are essential for evidence-based revenue reform.

Keywords: *Value-Added Tax; Tax Expenditure; VAT Gap; Fiscal Policy; Tax Transparency.*

1. Introduction

Domestic revenue mobilisation is central to Bangladesh's fiscal capacity, public service delivery, and long-term development. Value-added tax (VAT) is an important component of the country's tax system. Its performance depends not only on statutory rates but also on the breadth of the taxable base, exemptions and concessions, registration coverage, compliance, administrative capability, and the effectiveness of enforcement.

A distinction is necessary between the revenue that might theoretically be associated with a tax base and the amount that can realistically be collected. Tax exemptions and other concessions reduce the tax payable under a defined benchmark system. Non-compliance, including evasion and failures to register or report transactions, can also reduce collections. These mechanisms interact, but they are not the same. A sound assessment of VAT revenue potential must therefore distinguish tax-policy choices from administrative and compliance weaknesses.

Several forms of evidence are available for Bangladesh. The National Board of Revenue (NBR) has published a VAT Expenditure Study Report estimating revenue forgone through VAT tax expenditures. The Centre for Policy Dialogue (CPD) has presented calculations comparing potential VAT revenue with actual collections under specified rate assumptions. Earlier methodological work by Rinaudo (2014) addressed the measurement of the VAT gap in Bangladesh, while the International Monetary Fund's Revenue Administration Gap Analysis Program (RA-GAP) provides a broader framework for estimating VAT theoretical liabilities and analysing the gap between potential and actual revenue (Hutton, 2017).

These sources offer useful but different perspectives. Their estimates cannot be combined into a single measure without examining their definitions, benchmarks, periods, and data. In particular, tax expenditure is not equivalent to the complete VAT policy gap, and a potential-versus-actual calculation

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based on selected consumption data is not necessarily a comprehensive estimate of recoverable revenue.

This article examines the following research question: What does publicly available evidence establish about VAT tax expenditure and revenue potential in Bangladesh, and what limitations affect comparisons of these estimates?

The article has three objectives. First, it examines the scale and composition of VAT tax expenditure reported by NBR. Second, it assesses CPD's published potential-versus-actual VAT calculations and identifies relevant numerical inconsistencies. Third, it considers what these estimates imply for VAT policy and revenue administration, while identifying the evidence required for a more comprehensive VAT-gap assessment.

The paper makes a documentary and analytical contribution rather than claiming to produce a new, comprehensive VAT-gap estimate. Its conclusions are limited to the sources examined and the calculations explicitly identified in the analysis.

The paper proceeds as follows. Section 2 reviews the literature on VAT efficiency, tax expenditure, and VAT-gap measurement, and sets out the conceptual framework. Section 3 describes the documentary methodology and the criteria used to compare the selected sources. Section 4 presents the findings: NBR's VATE estimates, CPD's two potential-versus-actual scenarios, and the numerical inconsistencies identified in both sources. Section 5 discusses what the evidence establishes, its policy implications, and the data required for a more comprehensive VAT-gap assessment. Section 6 sets out policy recommendations, and Section 7 concludes with a forward research agenda.

2. Literature Review and Conceptual Framework

2.1 VAT revenue potential and tax efficiency

VAT revenue performance reflects both the design of the tax system and the effectiveness with which its rules are administered. A broad taxable base with limited exemptions can increase the amount of consumption subject to VAT, although the distributional and economic consequences of removing concessions must also be considered (Bird & Gendron, 2007). Conversely, weak registration, under-reporting, ineffective verification, and inadequate enforcement can reduce actual collections even where statutory provisions appear comprehensive (Keen, 2013).

Revenue performance should not be assessed from the statutory rate alone. The effective tax burden depends on the taxable base, exemptions, thresholds, compliance behaviour, and the administrative capacity to identify and collect liabilities. Keen (2013) provides the standard decomposition through C-efficiency—the ratio of actual VAT revenue to the product of the standard rate and the consumption base—and shows that developing economies typically exhibit C-efficiency of 0.35–0.45, compared with 0.55–0.65 in advanced economies. Keen and Lockwood (2010) demonstrate that VAT adoption alone does not guarantee higher revenue; institutional quality is critical for realising revenue potential. de Mooij, Hebous, and Keen (2025) confirm that VAT is an efficient revenue-raiser but caution against its misuse for non-revenue objectives, which erode efficiency and complicate rate structures.

The distinction is important for Bangladesh because the sources examined in this article measure different aspects of VAT performance. The NBR report estimates tax expenditure relative to a benchmark system. CPD estimates potential revenue using specified consumption and rate assumptions. RA-GAP, by contrast, provides a methodology for estimating theoretical VAT liabilities and examining the gap between theoretical and actual revenue. These approaches can inform one another, but they do not produce identical measures.

2.2 Tax expenditure and the benchmark system

Tax expenditure generally refers to revenue forgone as a result of provisions that depart from a defined benchmark tax system (Heady & Mansour, 2019). Such provisions may include exemptions, reduced rates, zero-rating, or other preferential treatments. The estimated amount depends on how the benchmark is defined, which provisions are included, and the methodology used to estimate the revenue that would have arisen under the benchmark.

Heady and Mansour (2019) emphasise the importance of transparent tax-expenditure reporting for fiscal analysis and accountability. A tax-expenditure estimate can make the fiscal implications of policy concessions more visible, but it is not automatically an estimate of revenue that the government could collect by abolishing every concession. Some provisions may pursue social, economic, or administrative objectives, while behavioural responses to policy changes may affect the amount ultimately collected. Redonda and Neubig (2018) find that tax-expenditure reporting quality varies widely across developing economies and that cross-country comparisons require careful attention to benchmark definitions.

The NBR study uses a revenue-forgone approach. This estimates the revenue associated with specified tax treatments relative to a benchmark and does not fully incorporate behavioural changes that might occur if those treatments were removed. Consequently, the reported total should be understood as a benchmark-dependent estimate of tax expenditure, not as a direct forecast of additional collections from tax reform.

2.3 VAT-gap measurement and revenue administration

The VAT gap is commonly understood as the difference between the VAT revenue theoretically due under a specified tax system and the revenue actually collected, subject to the definitions and adjustments used in the estimation. Hutton (2017) describes the IMF's RA-GAP methodology for assessing VAT theoretical liabilities and the difference between theoretical and actual revenue. The IMF (2017) defines the tax gap as the difference between potential and actual revenue, decomposed into compliance and policy gaps.

Conceptually, the overall difference can be analysed through policy and compliance dimensions. The policy component reflects departures from a defined benchmark tax system, while the compliance component concerns liabilities that are not paid because of non-compliance. The exact decomposition depends

on the methodology, the benchmark, and the revenue data used. Administrative explanations may also require separate analysis of collection practices, timing, and data quality. Cevik et al. (2019), using RA-GAP data across 24 countries, find that a larger services share in consumption reduces VAT efficiency and increases compliance gaps, underscoring the structural determinants of gap magnitude.

A comprehensive VAT-gap estimate therefore requires more than applying the statutory rate to a selected measure of consumption. It requires an appropriately constructed theoretical tax base, treatment of exemptions and other adjustments, and a consistent measure of actual or accrued revenue. Differences in timing, tax coverage, input credits, thresholds, and other features can affect comparability.

Rinaudo's methodological work on Bangladesh provides relevant background for measuring the VAT gap in the country (Rinaudo, 2014). Its importance lies in the measurement problem it addresses; it should not be treated as equivalent to the more recent NBR tax-expenditure estimate or CPD's rate-based calculations without verifying their respective definitions and data.

2.4 Bangladesh-specific evidence

Bangladesh's VAT productivity remains low by regional standards. The World Bank (2025) reports that the country's tax-to-GDP ratio was 6.7% in FY25, less than half the 15% threshold considered minimally necessary for development financing, and notes that tax exemptions are "estimated to be nearly as large as the actual tax collection." An earlier World Bank assessment (2024) documents implementation delays in the VAT and Supplementary Duty Act 2012, multiple rates undermining input credit, and weak administrative capacity as persistent constraints. These findings frame the empirical evidence examined in Section 4.

2.5 Analytical framework for this article

This article uses three complementary evidence categories:

1. VAT tax expenditure: NBR's estimates of revenue forgone relative to a benchmark tax system.
2. Potential-versus-actual VAT calculations: CPD's calculations using specified consumption measures and alternative rate assumptions.
3. VAT-gap methodology: The measurement principles discussed in Rinaudo (2014) and the IMF's RA-GAP framework (Hutton, 2017).

The categories are compared in terms of their measurement objectives, reference periods, assumptions, and limitations. The analysis does not add their figures together or interpret them as components of one fully reconciled estimate.

The framework also distinguishes policy implications from empirical findings. The existence of substantial reported tax expenditure raises questions about the design and transparency of VAT policy, but it does not by itself establish that the reported amount could be recovered through reform.

3. Data and Methodology

3.1 Research design

The study uses secondary-source documentary analysis. It reviews publicly available reports and presentations relevant to VAT tax expenditure, VAT revenue potential, and VAT-gap measurement in Bangladesh. The principal sources are:

- NBR's VAT Expenditure Study Report;
- CPD's presentation *Reform in Corporate Tax and VAT: A Justice Perspective for NBR*, dated 26 August 2025;
- Rinaudo's methodological work on measuring the VAT gap in Bangladesh; and
- Hutton's IMF guidance on the RA-GAP VAT-gap model.

Heady and Mansour (2019), Redonda and Neubig (2018), Keen (2013), and the IMF (2017) provide additional conceptual and comparative guidance.

The sources were selected because they address distinct but related aspects of VAT revenue performance. The NBR report provides official estimates of VAT tax expenditure. The CPD presentation supplies potential-versus-actual calculations under specified rate assumptions. The methodological sources provide a basis for interpreting the differences between these measures. All sources were accessed on 25 October 2026; figures are as published and have not been updated.

3.2 Documentary extraction and comparison

The analysis extracted the reported values, reference periods, rate assumptions, GDP ratios, and methodological explanations available in the selected documents. It then compared the measures according to the following criteria: the concept being measured; the benchmark or rate assumption used; the reference period; the reported potential or revenue-forgone amount; the relationship with actual VAT collections; and the limitations and internal consistency of the published figures.

Where a value is calculated by subtracting actual revenue from a published potential-revenue figure, it is explicitly identified as an arithmetic calculation made for this article rather than as a separately reported estimate by the original source. No new national VAT theoretical liability was constructed. No comprehensive VAT-gap estimate was independently calculated. The article also does not estimate econometric relationships or claim causal effects because the necessary administrative and sector-level data were not assembled for such analysis.

3.3 Treatment of NBR tax-expenditure estimates

The NBR report's reported amounts are presented in their published units. The analysis distinguishes total VAT tax expenditure, non-structural tax expenditure, the implied structural component, and the separately reported combination of structural expenditure and non-compliance. The report contains an apparent inconsistency in the presentation of structural expenditure. Its executive summary and detailed table do not use the structural label consistently. The analysis therefore reports the relevant figures separately and flags the

inconsistency rather than silently selecting one figure as definitive.

A further reconciliation issue concerns the reported First Schedule and SRO components of non-structural tax expenditure. Their sum does not equal the published non-structural total. This difference is disclosed in the findings.

3.4 Treatment of CPD potential-versus-actual calculations

CPD presents two rate scenarios: an effective-rate scenario of 11.73% and a standard-rate scenario of 15%. The presentation uses Private Final Consumption Expenditure (PFCE), adjusts consumption using food-expenditure information from the Household Income and Expenditure Survey (HIES) 2022, and applies the specified rate assumptions to derive potential VAT estimates.

The analysis reproduces the figures shown in the relevant CPD tables for FY2020–21, FY2021–22, and FY2022–23. For the 15% scenario, the difference between potential revenue and actual revenue is calculated arithmetically for this article. This difference is not presented as a separate CPD-reported VAT-gap estimate.

The article also checks whether CPD's narrative statements about the proportion of potential revenue represented by actual collections are consistent with the table values.

3.5 Methodological limitations

This research is limited by the scope and quality of the published evidence. The selected sources use different measurement approaches and assumptions. The article does not independently verify the underlying administrative datasets or reconstruct the theoretical VAT base used by each source. The study therefore supports a comparative assessment of published evidence, not a definitive measurement of Bangladesh's total VAT gap. The findings should be interpreted in light of the methodological differences and numerical inconsistencies identified below.

4. Findings

4.1 NBR's estimate of VAT tax expenditure

NBR's VAT Expenditure Study Report estimates total VAT tax expenditure for 2022 at BDT 1,295,701.35 million, equivalent to 3.26% of GDP. The report also gives net VAT revenue of BDT 1,042,629.74 million, or 2.63% of GDP. The reported total tax-expenditure amount is therefore substantial in relation to net VAT revenue. It indicates that, under the benchmark and assumptions used in the study, tax treatments classified as tax expenditures are associated with a large amount of revenue forgone.

Table 1. Selected estimates from NBR's VAT Expenditure Study Report

Measure	Amount (BDT million)	Percentage of GDP
Non-structural VAT tax expenditure	1,148,299	2.89
— of which First Schedule	1,053,749	2.65
— of which SROs	61,027	0.24
Structural VAT expenditure (implied)	147,402	0.37
Structural expenditure plus non-compliance (as labelled in detailed table)	235,392	0.59
Total VAT tax expenditure, 2022	1,295,701	3.26
Net VAT revenue	1,042,629.74	2.63

Source: NBR, VAT Expenditure Study Report, detailed summary table. Amounts and labels are reproduced from the report; the structural-expenditure inconsistency is discussed in the text.

Note: The executive summary labels BDT 235,392 million (0.59% of GDP) as structural VAT expenditure. The detailed table separately reports implied structural expenditure of BDT 147,402 million (0.37% of GDP) and labels BDT 235,392 million as structural expenditure plus non-compliance. These figures should not be treated as interchangeable. The non-compliance component (approximately BDT 87,990 million, or 0.22% of GDP) is not separately specified in the published table.

Two qualifications are important. First, the executive summary appears to label BDT 235,392 million, or 0.59% of GDP, as structural VAT expenditure. The detailed table separately reports implied structural expenditure of BDT 147,402 million, or 0.37% of GDP, and labels BDT 235,392 million as structural expenditure plus non-compliance. These figures should not be treated as interchangeable. The discrepancy requires clarification from the source.

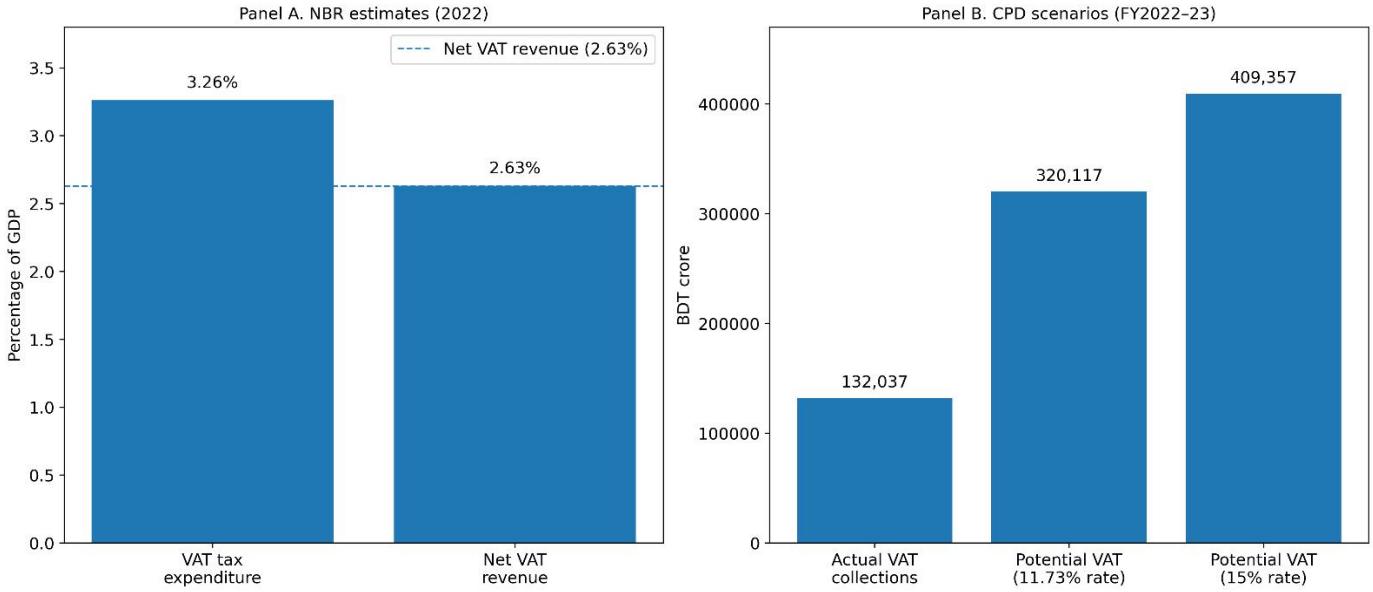
Second, the First Schedule component of BDT 1,053,749 million and the SRO component of BDT 61,027 million sum to BDT 1,114,776 million. This is BDT 33,523 million below the reported non-structural total of BDT 1,148,299 million. The available figures do not provide a reconciliation of this difference. It is therefore reported as an unresolved discrepancy rather than attributed to a particular category.

Despite these inconsistencies, the headline estimates establish the scale of VAT tax expenditure as reported by NBR. Total tax expenditure is 3.26% of GDP, while net VAT revenue is 2.63% of GDP. This comparison is important for fiscal transparency, but it does not imply that all tax expenditure should be

eliminated or that the entire estimated amount could be recovered through policy changes.

Figure 1. VAT tax expenditure, net VAT revenue, and scenario-based potential VAT in Bangladesh

Panel A compares NBR's reported VAT tax expenditure (3.26% of GDP) with net VAT revenue (2.63% of GDP) for 2022. Panel B compares actual VAT collections with CPD's estimated potential VAT under the 11.73% effective-rate and 15% standard-rate scenarios for FY2022–23. Sources: NBR (VAT Expenditure Study Report); CPD (2025).



4.2 CPD's potential-versus-actual VAT estimates

CPD's presentation estimates potential VAT revenue using an effective-rate scenario of 11.73% and a separate standard-rate scenario of 15%. The two scenarios produce different estimates because they apply different rates to the consumption base used in the analysis.

Table 2. CPD's reported potential VAT, actual collections, and gap under the 11.73% effective-rate scenario

Fiscal year	Potential VAT (BDT crore)	Actual VAT (BDT crore)	Reported gap (BDT crore)
FY2020–21	246,192.1608	102,058.55	144,133.6108
FY2021–22	282,036.2256	116,935.04	165,101.1856
FY2022–23	320,117.4360	132,036.89	188,080.5460

Source: CPD (2025), presentation slides 42–43. Figures are reproduced from the presentation.

Under this scenario, CPD reports potential VAT of BDT 320,117.436 crore for FY2022–23, compared with actual collections of BDT 132,036.89 crore. The resulting reported gap is BDT 188,080.546 crore. This is a scenario-based estimate, dependent on the consumption measure, adjustments, and effective rate used. It should not be interpreted as a fully verified estimate of recoverable revenue.

4.3 The separate 15% standard-rate scenario

CPD also reports potential VAT under a 15% standard-rate assumption.

Table 3. CPD's reported potential VAT under the 15% standard-rate scenario

Fiscal year	Potential VAT (BDT crore)	Actual VAT (BDT crore)	Potential ÷ Actual (ratio)
FY2020–21	314,823.735	102,058.55	3.08
FY2021–22	360,660.135	116,935.04	3.08

FY2022–23	409,357.335	132,036.89	3.10

Source: CPD (2025), presentation slide 43. Ratios reproduce the relationship implied by the table's potential and actual values.

Note: CPD's 15% scenario applies the standard rate to a consumption base adjusted using HIES 2022 food-expenditure data. The scenario does not explicitly state whether it assumes full compliance, full registration, or the elimination of all exemptions. The resulting potential-revenue figure should therefore be interpreted as a hypothetical benchmark, not as a forecast of collections under a reformed system.

The final column indicates that potential revenue is approximately 3.10 times actual revenue in FY2022–23 under this scenario. This is a ratio of potential revenue to actual collections; it is not the ratio of additional revenue to actual collections.

For transparency, subtracting actual collections from CPD's reported potential amounts gives the following arithmetic differences.

Table 4. Arithmetic differences under the 15% scenario

Fiscal year	Potential VAT (BDT crore)	Actual VAT (BDT crore)	Arithmetic difference (BDT crore)
FY2020–21	314,823.735	102,058.55	212,765.185
FY2021–22	360,660.135	116,935.04	243,725.095
FY2022–23	409,357.335	132,036.89	277,320.445

Source: Author's arithmetic calculation from CPD (2025), slide 43. The differences in this table are not separately reported as VAT-gap estimates by CPD.

For FY2022–23, the arithmetic difference is BDT 277,320.445 crore. It is larger than the reported gap under the 11.73% scenario because the 15% assumption produces a higher potential-revenue estimate. The difference between the two scenarios demonstrates the sensitivity of potential-revenue calculations to the rate assumption. It also illustrates why the assumptions must be stated clearly when estimates are used in policy discussions.

4.4 An internal inconsistency in CPD's presentation

CPD's presentation includes a narrative statement that actual collections represent approximately 28–29% of the potential amount. This statement does not reconcile with the table values for FY2022–23.

Using the figures in the 15% table, actual revenue of BDT 132,036.89 crore represents approximately 32.3% of potential revenue of BDT 409,357.335 crore. Under the 11.73% scenario, actual revenue represents approximately 41.2% of the reported potential amount of BDT 320,117.436 crore.

These percentages are calculated from the table values. The discrepancy should not be resolved by choosing the narrative percentage over the tabulated figures without further evidence. Accordingly, this article reports the table values and identifies the inconsistency as a limitation of the source. The discrepancy does not invalidate every calculation in the presentation, but it reinforces the need for transparent reporting, clear definitions, and reconciliation between narrative statements and numerical tables.

4.5 Comparison of the evidence sources

The sources provide complementary information, but each answers a different question.

Table 5. Comparative characteristics of the principal evidence sources

Source	Main measurement focus	Contribution to this article	Principal limitation
NBR, VAT Expenditure Study Report	Revenue forgone relative to a benchmark tax system	Estimates the scale of reported VAT tax expenditure	Benchmark-dependent; apparent internal inconsistencies require clarification
CPD (2025)	Potential VAT under specified consumption and rate assumptions compared with actual collections	Provides scenario-based potential-versus-actual calculations	Sensitive to assumptions; narrative and table values are not fully consistent
Rinaudo (2014)	Methodological approach to measuring the VAT gap in Bangladesh	Provides earlier methodological context	Not directly interchangeable with the later estimates without comparing methods and data
Hutton	IMF RA-GAP VAT-gap methodology	Establishes the requirements	Full application depends on

(2017); IMF (2017)		for a more systematic VAT-gap assessment	suitable theoretical-liability and revenue data
Heady and Mansour (2019)	Tax-expenditure reporting	Supports interpretation of tax concessions and revenue-forgone estimates	General reporting guidance does not resolve Bangladesh-specific data discrepancies

Source: Author's comparison of the cited documents.

The NBR estimate is primarily a measure of policy-related revenue forgone relative to a benchmark. CPD's estimates compare potential and actual collections under specified rate assumptions. The RA-GAP framework addresses the more comprehensive measurement of theoretical VAT liabilities and the difference between theoretical and actual revenue. The estimates should not be added together. Nor should the difference between CPD's potential and actual revenue automatically be interpreted as the amount that could be collected through stronger enforcement. Such an interpretation would require verification of the potential tax base, the applicable policy rules, compliance behaviour, and collection feasibility.

5. Discussion

5.1 What the evidence establishes

The documentary evidence supports three principal conclusions. First, NBR's own study identifies substantial VAT tax expenditure relative to GDP. The reported total of 3.26% of GDP exceeds the reported net VAT revenue ratio of 2.63% of GDP. This comparison makes tax concessions an important subject for fiscal scrutiny. It does not, however, establish that all concessions are inefficient or that all estimated revenue forgone can be recovered.

Second, CPD's calculations demonstrate how potential-revenue estimates change under alternative rate assumptions. For FY2022–23, the reported potential is BDT 320,117.436 crore under the 11.73% effective-rate scenario and BDT 409,357.335 crore under the 15% standard-rate scenario. The difference between these estimates reflects the assumptions embedded in the scenarios. It should not be interpreted as an independently verified estimate of additional revenue from a particular reform.

Third, the numerical inconsistencies identified in both sources matter for policy interpretation. NBR's structural-expenditure labels and component totals require clarification. CPD's narrative statement about the proportion of potential revenue represented by actual collections does not match the percentages implied by its tables. These issues support the need for better reconciliation and disclosure of the assumptions, calculations, and definitions used in official and policy-oriented estimates.

5.2 Cross-country context

Bangladesh's total VATE of 3.26% of GDP sits at the upper end of the distribution for developing economies. Redonda and Neubig (2018) report revenue forgone through tax expenditures in a sample of low- and middle-income economies ranging from 1.38% of GDP (Burkina Faso) to 6.13% of GDP (Ghana), with most countries between 2% and 4%. Bangladesh's non-structural VATE alone (2.89% of GDP) is therefore high by regional standards. The World Bank's assessment that Bangladesh's tax exemptions are "nearly as large as the actual tax collection" (World Bank, 2025) corroborates this cross-country positioning. This comparison strengthens the case for exemption rationalization on both revenue and equity grounds, while cautioning that the appropriate benchmark for "excessive" VATE remains a matter of policy judgment rather than a cross-country threshold.

5.3 Policy implications of tax-expenditure reporting

Tax-expenditure estimates can improve fiscal transparency by making the estimated cost of preferential tax treatment visible alongside conventional budgetary expenditure. Their policy value is greatest when the benchmark system, covered provisions, calculation method, reference period, and limitations are clearly explained.

For Bangladesh, the reported scale of VAT tax expenditure supports a systematic review of concessions. Such a review should not be limited to identifying large amounts of revenue forgone. It should also consider the purpose of each concession, its intended beneficiaries, its distributional effects, its economic rationale, and the feasibility of alternative policy arrangements. The findings do not justify indiscriminate withdrawal of exemptions or preferential treatments. Some concessions may serve social or economic objectives, and the removal of a provision may produce behavioural responses that change the actual revenue outcome.

NBR's report would be more useful for policy assessment if the apparent inconsistencies in the structural and non-structural totals were reconciled and the relationship between individual components and aggregate estimates explained. Clear reconciliation would help policymakers distinguish substantive findings from differences arising from classification or presentation.

5.4 Implications for revenue administration

The comparison also highlights the importance of separating tax-policy choices from compliance and administrative performance. Tax expenditure arises from provisions of the tax system relative to a benchmark. Revenue administration concerns the identification, assessment, verification, and collection of liabilities under the applicable rules.

A potential-versus-actual difference can reflect more than non-compliance. It may be affected by the construction of the theoretical tax base, exemptions and thresholds, timing differences, the treatment of input credits, economic structure, consumption adjustments, and the choice of rate. Consequently, a scenario-based difference should not be attributed entirely to evasion or administrative failure.

A stronger evidence base would combine tax-expenditure reporting with systematic VAT-gap estimation and administrative indicators. Relevant indicators could include registration coverage, filing and payment compliance, arrears, audit coverage, audit yield, and the timeliness of collection. These measures would need consistent definitions and suitable time series before they could support reliable comparisons or causal analysis.

5.5 Toward a more comprehensive VAT-gap assessment

A more comprehensive assessment for Bangladesh would require a clearly specified theoretical VAT liability measure, consistent actual or accrued revenue data, and transparent treatment of policy provisions. It would also require documentation of the assumptions used to account for consumption, exemptions, thresholds, input credits, and other adjustments.

The RA-GAP framework provides a methodological basis for this work (Hutton, 2017; IMF, 2017). Its application would require access to suitable national accounts and supply-use information as well as administrative revenue data. These inputs would permit more systematic estimation and analysis of the differences between theoretical liability and actual revenue.

The existing public sources remain valuable starting points. NBR's tax-expenditure estimates provide information about the fiscal implications of tax treatments, while CPD's scenarios illustrate the sensitivity of potential-revenue calculations to rate assumptions. The methodological literature provides guidance on how these measures can be distinguished and how a more comprehensive estimate might be developed. The immediate priority is not to combine the published figures into a single headline number. It is to improve their comparability, reconcile internal inconsistencies, and document the assumptions sufficiently for independent scrutiny.

6. Policy Recommendations

The findings support the following recommendations, sequenced by implementation feasibility. The first three are "no-regret" actions that NBR can undertake without new data or legislation: they improve transparency and comparability at minimal cost.

6.1 Reconcile NBR's internal inconsistencies (Priority 1)

NBR should clearly distinguish structural and non-structural VAT tax expenditure and provide a reconciliation between the executive summary and detailed tables. The components of non-structural tax expenditure should also be reconciled with the reported aggregate total. Where a difference cannot be resolved, it should be disclosed with an explanation of its implications for interpretation. Feasibility: High. NBR's VAT Wing can issue a corrigendum or technical note clarifying the structural/non-structural labels and the First Schedule + SRO reconciliation gap. No new data required.

6.2 Publish clear benchmark definitions (Priority 2)

Tax-expenditure and VAT-gap reports should state the benchmark tax system, reference period, revenue measure, included provisions, and calculation method. Potential-revenue estimates should clearly identify the consumption base, rate assumption, adjustments, and any limitations that affect interpretation. Feasibility: High. NBR can append a methodology annex to the existing VATE report specifying the benchmark tax system, included provisions, and revenue measure.

6.3 Improve independent scrutiny of published estimates (Priority 3)

Reports should include reproducible tables, transparent calculations, and reconciliation checks between narrative claims and tabulated values. Where estimates differ because of alternative assumptions, the differences should be explained rather than presented as competing measures of the same concept. This would improve public understanding and reduce the risk of overstating the amount of revenue that can be recovered. Feasibility: Medium. Requires publishing reproducible tables and reconciliation checks. NBR has the capacity; political will is the constraint.

6.4 Conduct a transparent review of VAT concessions (Priority 4)

A structured review of concessions should assess their stated objectives, beneficiaries, estimated fiscal costs, and effectiveness. The purpose should be to identify which provisions remain justified, which require better targeting, and which could be revised. Decisions should consider distributional and economic consequences rather than treating all tax expenditure as avoidable revenue loss. Feasibility: Medium–Low. Requires inter-ministerial coordination (NBR, Finance Division, line ministries). The World Bank's Tax Expenditure Policy and Management Framework (2025) provides an institutional vehicle.

6.5 Strengthen administrative data and compliance measurement (Priority 5)

Relevant administrative indicators should be developed and reported consistently. These may include registration, filing, payment, arrears, audit coverage, and audit yield. Consistent definitions and time series would help distinguish policy-related revenue effects from compliance and collection issues. Feasibility: Low–Medium. Requires NBR to publish registration, filing, arrears, and audit coverage series. The e-VAT system generates the data; publication is the bottleneck.

6.6 Develop a transparent VAT-gap measurement programme (Priority 6)

A phased VAT-gap measurement programme could build on the existing public studies and the RA-GAP methodology. The programme should define the theoretical tax base, document its adjustments, and use consistent revenue data. Estimates should be accompanied by methodological notes, sensitivity analysis, and clear explanations of the uncertainty involved. Feasibility: Low. Requires sustained technical assistance (IMF RA-GAP or equivalent) and access to BBS supply-use tables. A medium-term objective.

7. Conclusion

This article has compared publicly available evidence on VAT tax expenditure and revenue potential in Bangladesh. NBR's VAT Expenditure Study Report estimates total VAT tax expenditure for 2022 at BDT 1,295,701.35 million, or 3.26% of GDP, compared with net VAT revenue of 2.63% of GDP. CPD's presentation reports a FY2022–23 potential-versus-actual gap of BDT 188,080.546 crore under an effective-rate scenario of 11.73%. Under a separate 15% standard-rate scenario, its reported potential is BDT 409,357.335 crore; subtracting actual collections yields an arithmetic difference of BDT 277,320.445 crore.

These figures illuminate different aspects of VAT revenue performance, but they are not interchangeable. Tax expenditure is a benchmark-dependent estimate of revenue forgone, while CPD's estimates depend on its selected consumption base and rate assumptions. Neither measure, on its own, establishes the amount of additional revenue that could necessarily be collected.

The analysis also identifies unresolved inconsistencies in the NBR and CPD presentations. These should be clarified before the estimates are used as a basis for precise fiscal targets or strong conclusions about recoverable revenue. The findings therefore point to three priorities: improve transparency in tax-expenditure reporting, strengthen the consistency of potential-revenue calculations, and develop the data required for a more comprehensive VAT-gap assessment.

Limitations. This study has several limitations. First, it is a documentary analysis of five principal sources; it does not independently verify the underlying administrative datasets or reconstruct the theoretical VAT base used by each source. Second, the NBR and CPD estimates use different methodologies, reference periods, and benchmark assumptions, and the paper's comparisons are therefore illustrative rather than definitive. Third, the numerical inconsistencies identified in the NBR and CPD sources remain unresolved pending clarification from those institutions. Fourth, the paper does not estimate econometric relationships or causal effects. The findings should be interpreted as a comparative assessment of published evidence, not as a definitive measurement of Bangladesh's total VAT gap or recoverable revenue.

7.1 Forward Research Agenda

Three research priorities follow from this study. First, a full RA-GAP decomposition using NBR administrative microdata and BBS supply-use tables would separate the policy gap from the compliance gap and provide a sectoral breakdown of revenue loss. The NBR's own 2014 methodology document specifies the required VTTL components and adjustments; implementation awaits data access (Rinaudo, 2014). Second, a panel econometric analysis across sectors and years could test whether digitalization, audit intensity, and governance quality are associated with VAT efficiency, using a fixed-effects or instrumental-variable strategy. Third, a distributional analysis of VATE using HIES microdata would assess whether the exemptions identified by NBR are progressive or regressive, complementing the Kuznets-ratio analysis in the NBR report itself. These priorities are sequenced: the first is a prerequisite for the second, and the third can proceed in parallel.

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