

An Empirical Study on Black Money in the Economy of Bangladesh

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ABSTRACT

One of the major reasons of social and financial inequality in Bangladesh is the large volume of black money circulating in the economy. The aggregate amount of black money generated between 1972 and 2025 is estimated at Tk. 16,96,60,870.98 million, and this figure continues to rise annually due to weak tax policies, poor governance, and administrative corruption. Holders of black money often transfer illicit financial assets from Bangladesh to other countries, particularly to developed ones. Any income that remains undeclared to the authorities—regardless of whether its source is legal or illegal—is categorized as black money.

Over the years, successive governments have offered opportunities to legalize black money by paying a relatively small penalty, often not exceeding 15 percent of the concealed income or asset value. This rate is nearly half of the highest regular tax rate, thereby discouraging compliant taxpayers. The inadequate financial ethics of the broader society, together with inefficiencies within tax collection agencies and the negligence of responsible officials, have been the key factors behind the persistent expansion of the extent of black money market since independence. It is estimated that black money constitutes approximately 33.33% of Bangladesh's GDP annually, significantly contributing to the growth of the country's shadow economy, which has serious macroeconomic consequences, including reduced availability of public goods, increased governmental dependence on corporatocracy, and a widening gap in social and economic inequality.

ARTICLE HISTORY

Received: May 05, 2025

1st Revision: June 12, 2025

2nd Revision: Aug. 23, 2025

3rd Revision: Sept. 22, 2025

Accepted: October 14, 2025

Online Publication: Nov. 2025

KEYWORDS

Black Money, Untaxed Money, GDP, Shadow Economy, Tax Administration, Tax Policy, Income Tax Act, Illicit Financial Flow.

1. Introduction

Black money refers to funds generated through illegal means or obtained surreptitiously, as well as income that remains unreported to tax

authorities to evade taxation. Frederic Slider notes that black money proliferates primarily through governmental mismanagement and weak tax administration. According to Global Financial Integrity (GFI) in Washington, the darkest sources of black money include the sale of counterfeit goods, human trafficking, smuggling, and other illicit activities. The scale and nature of black money vary across countries, but it is universally recognized as a component of the shadow or underground economy—also known as the informal economy—which encompasses economic activities that are not recorded by the government and remain outside the scope of taxation. In many contexts, the concepts of black money and the shadow economy are used interchangeably due to their overlapping characteristics. Both phenomena exert detrimental effects on a country's economic structure and can even pose serious threats to political and economic stability. Therefore, a wide range of measures at national and international levels is essential to effectively combat this persistent challenge.

Bangladesh is not an exception to this global challenge. In such a context, it is essential for the government to be informed about the volume and dynamics of black money circulating in the economy. This knowledge enables policymakers to make informed decisions aimed at maximizing tax revenue and raising public awareness about the adverse effects of hidden income. Black money remains one of the most pressing issues for many countries worldwide. However, accurately identifying its magnitude is inherently difficult because it is unrecorded and excluded from the formal economy. Consequently, most calculations of black money rely on estimation techniques.

Despite these challenges, effective tax policies and strong oversight of tax administration can play pivotal roles in reducing the prevalence of

black money. Historical data indicate that the volume of black money in Bangladesh has been rising steadily since independence in 1971. To address this issue, all earning citizens—except those officially exempted—must report their income to the appropriate authority in the prescribed format and timeframe and must pay taxes promptly as required by law.

Otherwise, any income that remains undeclared and untaxed will be considered illegal and thus categorized as black money. Black money refers not only to earnings derived from unlawful activities but also to legitimate income that has been concealed from tax authorities or on which taxes have not been paid. Appropriate policies, rules, and regulations for tax collection—along with their effective implementation by government agencies—can reduce financial inequality within a country. In contrast, black money exacerbates economic disparities and creates financial imbalances. At times, governments provide opportunities for black money holders to legitimize their concealed assets by offering concessional tax rates and allowing such income to be declared in tax returns.

The implementation of sound policies and a strong, efficient tax administration plays a crucial role in curbing black money in any nation. Given the backdrops, the study aims to examine the key determinants of black money in Bangladesh. It also seeks to identify the various processes used to whiten black money and to analyze the impact of black money on the national economy. Furthermore, the study attempts to assess the measures undertaken by the Government of Bangladesh to mitigate the negative consequences of black money.

2. Literature Review

Waris and Latif (2013) argued that all black money is linked to crime

and corruption. However, this assertion does not fully align with real-world conditions. Many individual and business taxpayers conceal their actual income not to engage in illegal or corrupt activities, but to enhance their personal standard of living or accumulate greater wealth. Schneider and Enste (2002) in their study *Hiding in the Shadows: The Growth of the Underground Economy*, note that at least two-thirds of the income generated within the shadow economy in developed countries—such as Germany, Australia, and England—is eventually spent in the formal economy. However, this pattern tends to be reversed in many underdeveloped and developing nations.

Empirical studies suggest that participants in the shadow economy in such developing countries often invest in illicit or informal sectors that remain outside the scope of indirect taxation, with the ultimate aim of transferring their wealth to developed countries. Barakat has identified corruption as the primary driver of black money in the Bangladeshi economy. Nevertheless, there is broad consensus that good governance, effective tax administration, and sound tax policy form the essential foundation for regulating black money in any economy.

There is very limited research on black money in Bangladesh for several reasons, including scarcity of reliable information, insufficient government initiatives, and concerns related to safety and security. The volume of black money in the Bangladeshi economy has increased each year, contributing to the steady expansion of the country's shadow economy. Despite this growing challenge, the Government of Bangladesh has not taken substantial steps to address the issue, and policymakers have shown limited commitment to formulating effective policies, rules, and regulations to control black money. This research identifies the latest policies related to black money, examines their consequences, and provides an overall assessment of the current situation in Bangladesh. The findings will offer policymakers and government agencies a comprehensive understanding of the size, nature, and economic impact of black

money, which can support the development and implementation of more effective measures to combat it. Furthermore, educational institutions, researchers, and other stakeholders will also benefit from the insights presented in this study. If the Government of Bangladesh and relevant policymakers take appropriate and timely initiatives, the volume of black money in the economy can be significantly reduced. Such progress would not only increase government revenue but also contribute to improving the overall living standards of the population.

3. Limitations

Black money is generally calculated using estimation techniques, as no country can measure it directly. In fact, various estimation methods are also used worldwide to assess both black money and the shadow economy. Among these, the currency demand approach and the latent variable approach are the most widely applied. However, each method has limitations, and no single estimation technique is universally suitable for all countries. In Bangladesh, the lack of reliable data makes it difficult to present an accurate picture of black money using standard estimation methods (Khan and Rahman, 2024). Barakat (2022) applied an estimation method and concluded that approximately 33.33 percent of Bangladesh's GDP consists of black money. This approach is considered relatively appropriate for Bangladesh, as other methods are often costly, complex, and time-consuming. Although black money is a subset of the shadow or informal economy, in some cases, the two terms are treated as synonymous and used interchangeably.

The present study relies heavily on information obtained from relevant laws—such as the Income Tax Act 2023—and government circulars issued by the National Board of Revenue (NBR). However, future amendments to these laws or circulars may render certain details presented in this article inconsistent or invalid.

4. Methodology of the Study

The existence of black money in any economy has become a critical concern in recent times, not only in Bangladesh but across the globe. A major drawback of

black money is that it remains outside a country's official GDP, thereby distorting the true measure of economic performance. Black money is a key component of the dark or shadow economy, the size of which has been increasing steadily. This research is based on secondary data obtained from a wide range of sources, including survey reports, academic articles, publications of the International Monetary Fund (IMF), Global Financial Integrity reports, various reports of the Bangladesh Bureau of Statistics, contemporary studies on related issues, and relevant laws, rules, and regulations of Bangladesh. A mixed-method approach has been employed to provide a clear and comprehensive understanding of the state of black money in Bangladesh.

5. Findings and Discussion

The volume of black money in a country's economy depends on multiple factors, including the effectiveness of laws, policies, rules, and regulations, the proper application of legal provisions, an efficient tax collection system, strong tax administration, integrity and competence of relevant authorities, and overall good governance. Countries with effective governance and robust tax administration generally have lower levels of black money compared to those where governance is weak, opportunities for legitimizing black money are repeatedly provided, and punitive measures are lacking.

This situation is evident in Bangladesh, where the absence of comprehensive policies and weak governance has contributed to the accumulation of substantial black money. Political support for unaccountable leaders and their affiliates further exacerbates the problem. In fact, corporatocracy and kleptocracy are significant drivers of black money in Bangladesh, mirroring patterns observed in many other underdeveloped and developing countries.

6. Analysis of Post Data

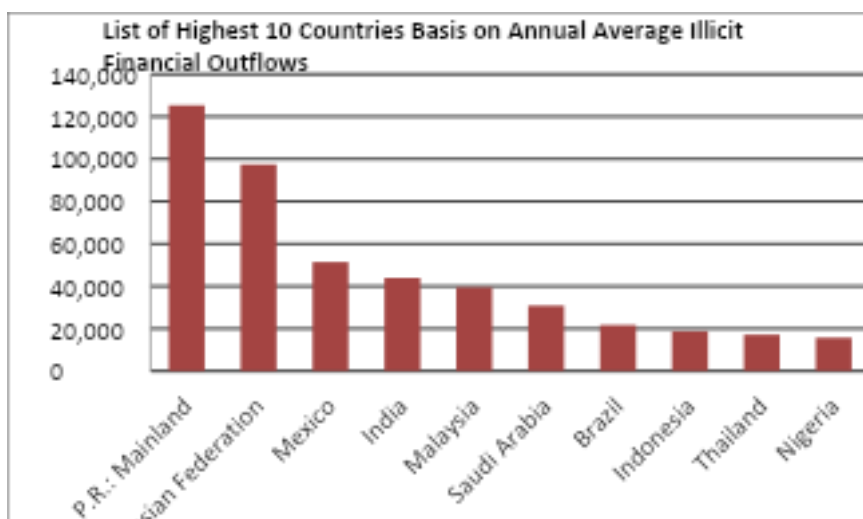
Effective good governance of a country plays an important role in reducing black money in the economy. Good governance by the state administration in developed countries is more effectively in place than developing and underdeveloped countries. As a result, the size of shadow economy of developed countries are lower than in the developing and underdeveloped countries. E.g., the size of shadow economy of the United State of America (USA) and Australia was 10% and of Switzerland was 9% of GDP in

1999-2001. Whereas, the Size of Shadow economy in Nigeria was 77% and in Egypt 69% in 1998-1999.

Friedrich Schneider and Dominik Enste in their research estimated total size of black money all over the world in percent of GDP of respective country as per the following table:

Serial	Country (Group)	Percentage of GDP
1	Developing	35-44
2	Transition	21-30
3	OPEC	14-16

Empirical data on illicit financial flow from Developing Countries can give a clear message on world black money flow because all illicit financial flows are components of black money of the economy of any country. According to Global Financial Integrity report, Illicit financial flow from developing countries was USD 6.60 trillion from 2003 to 2012. China had the highest annual average illicit financial outflows by USD. Which is 1, 25,242 million and Russian Federation was second highest annual average of illicit financial outflows which is USD. 97,386 during this period. Bangladesh was in 51th position with annual average illicit financial outflows of USD. 1,316 (GFI report) million during the same period. Top ten countries in the world involved with annual average illicit financial outflows are presented on the following graph:



(All figure in USD (Million))

Total illicit financial outflow of Bangladesh was USD. 2, 34,000.00 Million from 2009 to 2023 according to White Paper on State of the Bangladesh Economy-2024 and total value of GDP was USD 40, 88,099 million in this period. Total illicit financial outflow from Bangladesh was 5.72% of aggregate GDP from 2009 to 2013.

6.1 Area of Black Money

Black money does not refer solely to income derived from illegal activities. Undeclared and untaxed income from legitimate sources also qualifies as black money. Conversely, income derived from illegal sources that is properly declared in tax returns is not considered black money by the income tax authorities. Black money from legitimate sources is not limited to direct taxes; it also arises in areas of indirect taxation, such as Value Added Tax (VAT), Tax Deducted at Source (TDS), customs duties, excise duties, and others. Accurately determining the proportion of black money originating from direct versus indirect sources in Bangladesh is challenging due to insufficient data and limited research.

Natural persons and business entities can conceal income through direct tax mechanisms, but only business entities typically obscure income through both direct and indirect tax channels, as they are responsible for reporting indirect taxes to the National Board of Revenue (NBR) on a monthly basis. Business owners often hide income through these mechanisms to maximize profits, which are subsequently distributed among themselves or diverted into inappropriate business assets through various schemes.

In many cases, TDS and other indirect taxes are not properly collected or remitted by authorized entities, often due to insufficient knowledge of VAT and TDS regulations among employees. Some entities collect VAT from customers and TDS from suppliers but fail to deposit the collected amounts into government accounts or misreport the actual liabilities in monthly returns. Importers and exporters may manipulate unit prices of goods to evade customs duties. Additionally, corrupt officials sometimes collude with unscrupulous

businesspersons, accepting bribes to facilitate the concealment of both direct and indirect taxes.

6.2 Opportunity for Whitening of Black Money

Since the liberation of Bangladesh in 1971, all elected governments have provided opportunities for whitening black money. Historically, the government has not taken strong or consistent measures to control black money in the country. Instead, successive administrations have often facilitated black money holders through various policies, many of whom are influential leaders and supporters of the ruling parties. The previous governments have repeatedly followed similar approaches, legalizing illicit funds to increase tax revenue, expand the tax base, and incentivize non-compliant taxpayers.

This practice has also served as a political strategy to create a positive perception among the general public or to legitimize the illegal income of politically affiliated individuals. Since independence, the government has offered opportunities to whiten black money 22 times, up to 2022. The repeated provision of such opportunities has contributed to the gradual increase of black money in the Bangladeshi economy.

6.3 Determination of Black Money in Bangladesh at Present Perspective

It is not possible to determine absolute figure of black money due to scarcity of proper information and black money of any economy is unrecorded. It is measured by some estimated methods of black money valuation. Barakat (2022) has constructed a black money estimation model which is warmly accepted by economists and many researchers of Bangladesh. He has built a model for calculation of black money that stated 33.33% of GDP is black money in the Bangladesh economy. Black money has been calculated based on his renowned model which is described as follows:

Year	GDP at Current Price (In USD and Million)	Exchange Rate (Taka/US\$)	GDP at Current Price (In BDT and Million)	Black Money Determinant	Black Money (In BDT and Million)
1972-73	8,130.00	7.88	64,064.40	33.33%	21,352.66
1973-74	12,260.00	7.97	97,712.20	33.33%	32,567.48
1974-75	17,090.00	8.88	1,51,759.20	33.33%	50,581.34
1975-76	9,580.00	15.05	1,44,179.00	33.33%	48,054.86
1976-77	10,190.00	15.43	1,57,231.70	33.33%	52,405.33
1977-78	12,990.00	15.12	1,96,408.80	33.33%	65,463.05
1978-79	15,880.00	15.22	2,41,693.60	33.33%	80,556.48
1979-80	17,650.00	15.49	2,73,398.50	33.33%	91,123.72
1980-81	19,820.00	16.26	3,22,273.20	33.33%	1,07,413.66
1981-82	18,090.00	20.07	3,63,066.30	33.33%	1,21,010.00
1982-83	17,430.00	23.8	4,14,834.00	33.33%	1,38,264.17
1983-84	20,100.00	24.94	5,01,294.00	33.33%	1,67,081.29
1984-85	22,350.00	25.96	5,80,206.00	33.33%	1,93,382.66
1985-86	22,220.00	29.89	6,64,155.80	33.33%	2,21,363.13
1986-87	25,150.00	30.63	7,70,344.50	33.33%	2,56,755.82
1987-88	27,360.00	31.24	8,54,726.40	33.33%	2,84,880.31
1988-89	29,670.00	32.14	9,53,593.80	33.33%	3,17,832.81
1989-90	32,850.00	32.92	10,81,422.00	33.33%	3,60,437.95
1990-91	33,540.00	35.72	11,98,048.80	33.33%	3,99,309.67
1991-92	34,310.00	38.15	13,08,926.50	33.33%	4,36,265.20
1992-93	35,520.00	39.15	13,90,608.00	33.33%	4,63,489.65
1993-94	37,970.00	40	15,18,800.00	33.33%	5,06,216.04
1994-95	42,870.00	40.2	17,23,374.00	33.33%	5,74,400.55
1995-96	46,430.00	40.84	18,96,201.20	33.33%	6,32,003.86
1996-97	48,710.00	42.7	20,79,917.00	33.33%	6,93,236.34
1997-98	50,930.00	45.46	23,15,277.80	33.33%	7,71,682.09
1998-99	52,890.00	48.06	25,41,893.40	33.33%	8,47,213.07
1999-2k	55,580.00	50.31	27,96,229.80	33.33%	9,31,983.39
2000-01	56,830.00	53.96	30,66,546.80	33.33%	10,22,080.05
2001-02	58,230.00	57.43	33,44,148.90	33.33%	11,14,604.83
2002-03	64,580.00	57.9	37,39,182.00	33.33%	12,46,269.36

2003-04	70,650.00	58.94	41,64,111.00	33.33%	13,87,898.20
2004-05	76,460.00	61.39	46,93,879.40	33.33%	15,64,470.00
2005-06	79,960.00	67.08	53,63,716.80	33.33%	17,87,726.81
2006-07	88,470.00	69.03	61,07,084.10	33.33%	20,35,491.13
2007-08	1,02,180.00	68.6	70,09,548.00	33.33%	23,36,282.35
2008-09	1,14,620.00	68.8	78,85,856.00	33.33%	26,28,355.80
2009-10	1,30,410.00	69.18	90,21,763.80	33.33%	30,06,953.87
2010-11	1,46,870.00	71.17	1,04,52,737.90	33.33%	34,83,897.54
2011-12	1,53,520.00	79.1	1,21,43,432.00	33.33%	40,47,405.89
2012-13	1,74,480.00	79.93	1,39,46,186.40	33.33%	46,48,263.93
2013-14	2,01,990.00	77.72	1,56,98,662.80	33.33%	52,32,364.31
2014-15	2,32,950.00	77.67	1,80,93,226.50	33.33%	60,30,472.39
2015-16	2,65,230.00	78.27	2,07,59,552.10	33.33%	69,19,158.71
2016-17	2,93,770.00	79.12	2,32,43,082.40	33.33%	77,46,919.36
2017-18	3,21,460.00	82.1	2,63,91,866.00	33.33%	87,96,408.94
2018-19	3,51,250.00	84.03	2,95,15,537.50	33.33%	98,37,528.65
2019-20	3,73,960.00	84.78	3,17,04,328.80	33.33%	1,05,67,052.79
2020-21	4,16,260.00	84.81	3,53,03,010.60	33.33%	1,17,66,493.43
2021-22	4,64,980.00	85.52	3,97,65,089.60	33.33%	1,32,53,704.36
2022-23	4,46,349.00	99.46	4,43,92,733.00	33.33%	1,47,96,097.91
2023-24	4,55,162.00	110.00	5,00,67,820.00	33.33%	1,66,87,604.41
2024-25	4,91,815.00	115.00	5,65,58,774.00	33.33%	1,88,51,039.37
Total	64,09,996.00		50,90,33,516.30		16,96,60,870.98

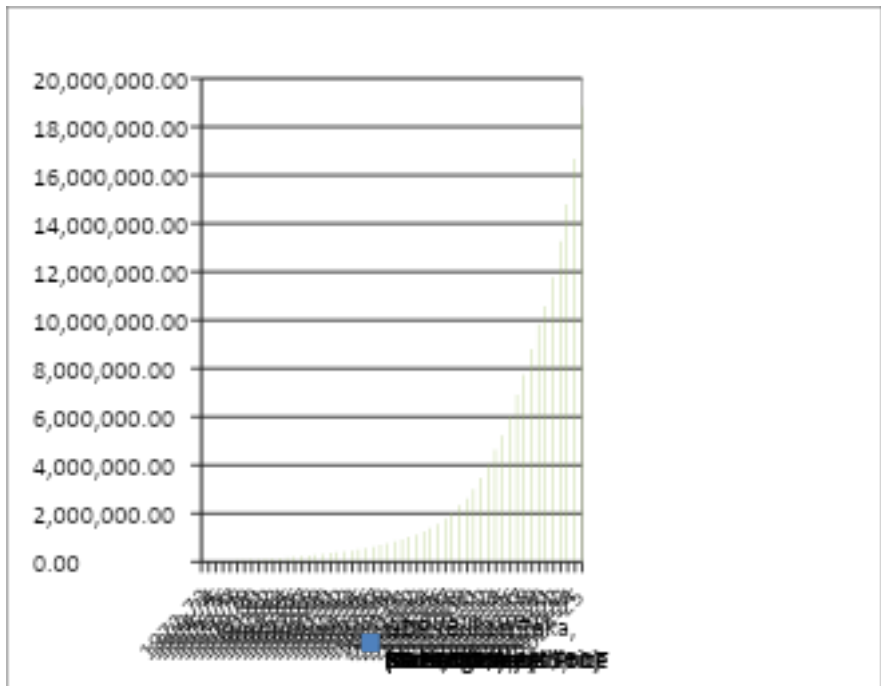
Calculation of Black Money: Information has been derived from (1) Fifty Years of National Accounts Statistics of Bangladesh (2) World Economic and Financial Surveys: World Economic Outlook Database Published by International Monetary Fund in 2024.

Total black money in Bangladesh from 1972-1973 to 2024-2025 is tk.16,96,60,870.98 million based on this estimation and aggregate amount of GDP was tk. 50,90,33,516.30 in the same tenor. Probable black money for the financial year 2024-25 is tk.1, 88, 51,039.37 million; total GDP at market price tk. 5, 65, 58,774.00 million on year 2024-2025. national budget for this period

was taka 79, 70,000.00 million. So black money is 236.52% of the national budget of Bangladesh for year 2024-2025.

Bangladesh Orthoniti Somiti opined that the total amount of probable black money estimated at taka 84,14,190 million in the financial year 2018 -2019.It was 33.33% of GDP of that time, total black money from financial year 1972-1973 to 2018-19 is roughly estimated at taka 8,86,14,370 million according to them.

Black money in the year 2018-2019 was 9.49% of total black money from the year 1972-1973 to 2018-2019. But the above mentioned table shows black in 2024-2025 is 12.50% of aggregate amount of black money from 1972-73 to 2023-24. The above graphical presentation has depicted a clear picture of how black money has been increasing gradually.



6.4 Process of Whitening Black Money

Sources of black money are basically of two types: (a) Income from valid sources but not mentioned fully or partial presentation in tax return (b) Income from illegal sources which are not mentioned in the tax return. Black money

from valid sources creates many scopes for **them** to earn huge earnings from investments in illegal sources, because black money from first sources is being invested in illegal business later. Thus Black money from valid sources may become the capital of an entity in the dark business. In fact, a taxpayer can conceal his/her tax liability in many ways such as hiding the amount of income or partial presentation of income, presentation of excess expenses, one's actual misstatements of assets and liabilities and some other means giving rise to misrepresentation of income. Furthermore, some black money holders can whiten black money by investing it in many approved sectors such as construction of building, apartment or purchasing of such asset, payment of a certain amount of tax on cash and quasi cash on hand or deposited on bank account etc. The detail processes of whitening black money according to approval of income tax act 2023 and other regulations of NBR are as follows:

- (i) If any person invests his or her black money for constructing or purchasing building, apartment in Bangladesh by paying a certain amount of tax as mentioned in the part 01 of 1st schedule of income tax act 2023, tax is chargeable based on per square meter, quality of construction and location. If any black money holder already has a building or apartment in any city corporation area of Bangladesh, he or she wants to build or buy more than one building or apartment then he or she will pay 20% more tax and 150% excess tax needs to be paid if any notice is served to any black money holder by NBR authority. In case of commercial spaces tax rate will be 100% excess of normal specified tax rate in this regard.
- (ii) Investment within 1st July 2019 to 30th June 2024 in the economic zones as mentioned in section 5 of The Bangladesh Economic Zone Act 2010 and in the Hi Tech park of Bangladesh as mentioned in section 12 of The Hi Tech Park Authority Act 2010, by depositing 10% tax on total amount of investment. The Prime condition is that the investment must be in the industrial sector for production of goods or services; investment in the trading sector is not acceptable by the authority.
- (iii) In case of any building or apartment which has already been bought

from black money requires submitting income tax return for the tax year 2024-2025 within 1st July 2024 to 30th June 2025 (Both date inclusive) by paying tax on building and land separately as per specific amount per square meter which vary as per location of the building or premises.

- (iv) If any taxpayer does not submit a return related to the previous years or partial income has been presented in previous tax return, s/he can legalize the whole income by submitting self-motivated return and paying income tax at the applicable rate in this period and 10% penalty on acquired tax of concealing income related to previous income years only. In this case it is mandatory to deposit tax along with penalty before the date of return submission according to applicable rules. He/ she or the entity also needs to submit a declaration that mentioning previous year's income (Hidden or untaxed income of previous year only) separately sector wise, including tax payer name, amount and sources of income, deposited amount of tax and penalty on untaxed money related to previous year.
- (v) National Board of Revenue provides various new facilities or limits existing facilities to whiten black money by publishing circulars from time to time according to its jurisdiction. NBR has recently limited the scope of whitening black money by issuing SRO on September 02, 2024. It is to be noted that no other punitive action will be taken if any black money holder pays tax according to above mentioned criteria on or before submission of normal tax return and they will not be subject to any from all allegations after making such payment in due time. Any authority such as Durniti Dommon Commission, BFIU, any unit of NBR, Law Enforcement authority and will not raise any question about the origin of black money after whitening it.

6.5 Reasons Giving Rise to Black Money

Naturally, individuals seek to maximize their own interests and are generally reluctant to make sacrifices. Many attempt to do so by exploiting available resources. Such self-interest often manifests as a refusal to accept the principle of taxation, which mandates that a portion of one's income belongs to the

government, as stipulated in the Income Tax Act 2023. This attitude results in widespread noncompliance, with individuals seeking to evade their tax obligations. Political parties in power frequently facilitate their supporters in concealing income, both directly and indirectly, thereby increasing the volume of black money in the Bangladeshi economy. Many politically affiliated individuals are overconfident that they will face no consequences for hiding income and consequently underreport their earnings in tax returns.

Additionally, terrorists and powerful political figures accumulate assets through illegal means, including commissions from tenders, bribery for employment, extortion of businesses and individuals, kidnapping, and even acts of violence. Key drivers of black money in Bangladesh include weak law enforcement, lack of good governance among tax authorities, and inefficiencies within tax collection agencies. Some government officials resist reforms due to fear of modernization and technological advancement, perpetuating a largely manual tax system and fostering distrust among taxpayers.

Ill-intentioned individuals often believe that tax authorities can be influenced through bribes or nominal gifts. Ethical and responsible officers are sometimes threatened or even dismissed by powerful political actors. In addition, tax audits are frequently ineffective, and some auditors exhibit bias, favoring certain taxpayers to advance personal interests rather than uphold neutrality and the law.

6.6 Shadow Economy and Effect of Black Money

There is a strong correlation between black money and shadow economy, Size of Shadow economy has been increased with the increasing of black money. Sources of funds of the shadow economy come from black money. Shadow economy reduces the government's revenue and increases inequality among the people of any county. It also reduces the quality of public goods and services. Any businessmen under the umbrella of an underground /shadow economy can distort the economic prosperity, morality and social peace and so on. The area of the shadow economy has been increasing day by day in Bangladesh. Market players of the shadow economy use their black money in ill ways for

influencing people to become more powerful, more prestigious in the community and stabilize their unbeaten permanent position. It is near impossible to diminish the shadow financial activities from any economy, but controlling the shadow economy is needed to increase the living standard and peace of all the people of Bangladesh.

6.7 Punishment for Black Money and Hiding Income in Bangladesh

There are two types of punishment enacted in Income Tax Act 2023 in Bangladesh for hiding income and any evidence related to it: one is financial penalty and another is condemnation and other penalties:

- (a) If any taxpayer fails to submit return during the specific time period and it is discovered by any competent authority of tax during operating any activities according to income tax act 2023, he or she will be subjected to financial penalty at the rate of 10% on net tax calculating on hidden income multiply by unpaid years. Formula for total accrued financial obligation for tax will be $A = X * P * N$, here $X = (\text{Tax on untaxed income or black money} - \text{Advance tax and TDS})$, $P = 10\%$, $N = \text{Number of years (Sum of years from the hidden income year to due tax paid income year)}$, these types of income needs to be presented separately from current year income on return.
- (b) If any taxpayer tries to evade tax liability or decrease taxable income intentionally or by means of any tactics, or he or she gives any false statement and evidence including misinformation on tax return he/she will be penalized originally with a minimum 6 months to maximum 5 years jail (Under Section 312 and 313). It is generally assumed that such punishment and penalty on whitening of black money is not sufficient which is the most crucial reason to facilitate the black money in Bangladesh. As per the existing Income Tax Act in Bangladesh any person motivating, encouraging and advising any black money holder for hiding income on tax return will be guilty and his punishment will be maximum two years in jail and it may be two more years extended or financial penalty or may apply both (Under

Section 321). Any unfair activities according to the income tax act 2023 including income concealing on tax return by any artificial entity is subject to financial penalty, but influential and controlling people will be penalized six months to six years in jail (Under Section 323). For instance, the Chartered Accountants will be only financially penalized by fifty thousand to two lac BDT and wrong information in financial statement and noncompliance of IAS and IFRS (Under Section 273).

6.8 Impact of Black money

In most cases, black money is invested in nonproductive or informal businesses. Many holders prefer ventures such as smuggling, narcotics and drug trafficking, kidnapping, illegal arms trade, and other illicit activities, as these enterprises offer high-profit margins and can be easily established and liquidated, allowing for quick recovery of capital along with substantial gains. Additionally, black money is often used for transferring wealth abroad, purchasing land, buildings, apartments, luxurious goods, gold, and other precious assets.

In reality, individuals possessing large amounts of black money rarely reside in rural areas; they primarily live in major cities, the capital, or abroad. Many have acquired second homes in foreign countries, and their dependents are citizens of those nations. Because black money remains unrecorded and untraceable, it cannot be included in GDP calculations. Consequently, the quality of public goods and services suffers relative to private offerings, increasing the government's dependency on large private enterprises owned by these wealthy entrepreneurs.

Black money holders typically consume high-quality goods and services from the private sector, while the majority of the population relies on public services—such as government hospitals, educational institutions, and public transportation—which are often insufficient and of lower quality. As a result, economic inequality in Bangladesh has been significantly exacerbated by the prevalence of black money in the economy.

6.9 Control Mechanism and Watchdog

NBR is mainly empowered and assigned to control and monitor the black money in Bangladesh Economy. Besides Income Tax Act and the authority, there are several bodies and acts to control illegal money handling such as The Anti-Terrorism Act 2009 and The Money Laundering Prevention Act 2012. In the concept of money laundering, the definition of “Money Laundering” under sub section Pha of Section no. 2 of The Money Laundering Prevention Act 2012 is that any black or untaxed money derived from valid sources (Income Free from Criminal activities) is not considered as an illegal activity but it will be serious offense according to the Income Tax Act 2023. Income originated from valid or invalid sources not mentioned in income tax return for that period or not excluded during calculating taxable income, will be considered as black money. But The Money Laundering Prevention Act 2012 emphasizes on income only entered from criminal activities, offence and illegal sources, smuggling etc. 28 predicate offences are mentioned in sub section Sha of section no. 2 in The Money Laundering Prevention Act 2012 and black money is not included in this Act. Terrorist activities are stated in section no. 06 of The Anti-Terrorism Act 2009, yet there is no mention of any untaxed money in this act and it just emphasizes on terrorist activities. Central Intelligence unit is a tax detective office under NBR which is responsible in finding out any tax evader in Bangladesh since the prime objective of the National Board of Revenue is to collect direct and indirect tax and other revenue for the government of the country. Bangladesh Financial Intelligence Unit (BFIU) is responsible for controlling money laundering and terrorist financing. Black money from legal or illegal sources are supervised by The Income Tax Act 2023, controlling body of it is National Board of Revenue. It is also evident that the Black money from illegal sources and utilization of income from valid sources for criminal activities are supervised by the The Money Laundering Prevention Act 2012, The Anti-Terrorism Act 2009. Additionally, other monitoring authorities are Bangladesh Financial Intelligence Unit and Anti-Corruption Commission of Bangladesh. Any regulatory watchdog can take help from any government, semi

government, autonomous, semi-autonomous, statutory body, public and private organization, expert person and any other individuals and organization of Bangladesh. These above-mentioned authorities and persons are required to help the income tax authority with due diligence and without any negligence (Under Section 329). It is the statutory duty of anybody to help when above-mentioned watchdogs demand any type of assistance regarding black money, crime and terrorist activities related issues.

6.10 Adequacy of TIN as on Aid to Control Black Money

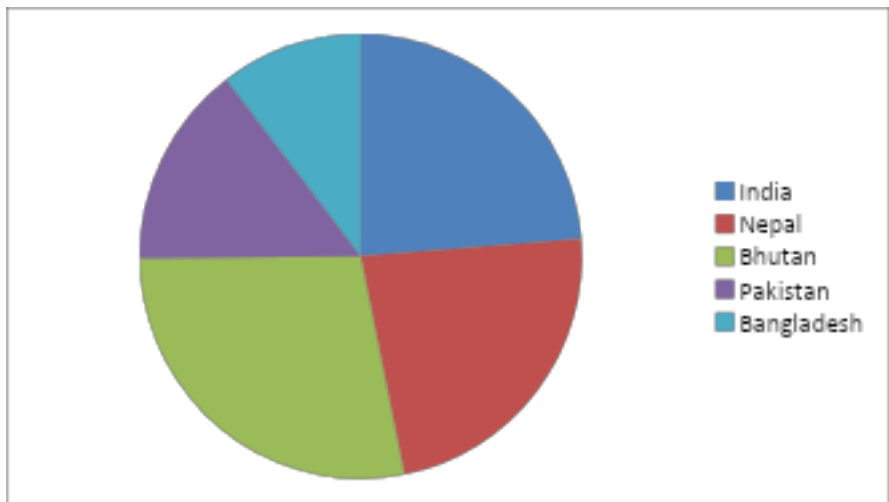
Tax Identification Numbers (TIN) in Bangladesh reached 11.30 million by the end of the financial year 2023–2024, up from approximately 9.00 million in 2022–2023. The number of registered taxpayers has been increasing in recent years, which is a positive sign for efforts to control black money. However, mere registration is insufficient to significantly reduce or eliminate black money from the economy. A key reason for the increase in registered taxpayers is the requirement to submit a tax return to access 39 government services under Section 264. These services include land transfers, migration abroad, trade permits in city corporation areas, and others.

While individuals register to obtain these services, many fail to submit tax returns or pay taxes regularly after obtaining the required services. Moreover, even when returns are submitted, they may underreport income partially or entirely, limiting the effectiveness of tax registration in curbing black money. Tax collection data indicate that more than 70.80 percent of TIN holders do not submit tax returns or pay taxes consistently. Therefore, tax authorities need to ensure not only the registration of taxpayers but also the timely and accurate submission of returns to strengthen efforts to control black money in the economy.

6.11 Poor Status of Tax GDP Ratio in Bangladesh

Efficient tax collection is measured based on the percentage of tax revenue collection on GDP. According to World Economic Outlook Database on April 2024 Tax to GDP ratio of Bangladesh is 8.80% which is one of the lowest tax to

GDP ratios of South Asian countries, Tax to GDP ratio of India, Nepal, Bhutan, Pakistan is 20.12%, 19.56%, 23.76%, 12.49% respectively and it is 35.94% in the countries of advance economy. As the hidden economy in Bangladesh is large due to black money, this need to be addressed to enhance Tax –GDP ratio along with enhancing tax collection and spread also tax net.



Tax GDP ratio of different countries in pie chart.

6.12 Government Steps for Recovering of Black Money

Empirical data regarding the collection of black money proves that any government of Bangladesh has not been extremely serious about the collection. Several techniques have been adapted by the governments of Bangladesh to collect black money but recovering history of black money in Bangladesh has not been satisfactory. From 1972 to 2022 Taka 4, 55,220 million BDT has been whitened and a total amount of 46,410 million BDT has been collected as tax revenue. Highest history of disclosing undisclosed income in the financial year 2020-2021 was tk. 2,06,000 million and tax revenue was collected for it tk. 20,640 million. Authorities were able to collect only 0.27% of the total black money of Bangladesh economy till the year 2025 which is very low and insignificant. The above information shows that the history of whitening black

money is insignificant due to the lack of taking appropriate steps to collect untaxed money. Government of Bangladesh needs to take long term visionary policy for recovering black money from its economy.

7. **Conclusion**

Black money undermines the socio-economic balance of any country. Effective control of black money depends on the implementation of appropriate policies, the political will of the ruling government, and public awareness. Reducing financial inequality in Bangladesh is difficult without addressing the prevalence of black money in the economy. Policies must be rigorously enforced, and adequate penalties should be imposed for concealing income, withholding evidence of income, or assisting black money holders. Both fines and imprisonment terms should be increased, as the current rates are insufficient and risk demotivating honest taxpayers.

Traditional tax collection mechanisms need to be modernized and automated, with a greater focus on maximizing revenue from direct tax sources and expanding the overall tax base. Efficient monitoring, strict enforcement, high penalties, severe punishment for black money holders, and dedicated research on the subject are essential to bring black money within manageable limits. The interim government of Bangladesh (2024–2025) has recently declared that no provision for whitening black money will be allowed in the future, and the 2025–2026 budget reflects the same stance. This represents a significant step forward and offers hope for curbing the growth of black money in Bangladesh.

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Declaration of Interests: *We, the authors of this research manuscript, declare that we have no financial interest. We have provided written consent to publish the paper in this journal.*