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Unlocking the Revenue Potential of Land Development Tax in Bangladesh: Governance Challenges and Reform Pathways

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Bangladesh's transition toward upper-middle-income status, LDC graduation, and post-COVID recovery requires a significant expansion of domestic revenue mobilization. However, the country's tax system remains narrow and regressive, with land-based wealth expanding rapidly alongside rising income and wealth inequality. Despite being constitutionally mandated and economically efficient, Land Development Tax (LDT) contributes less than 0.5 per cent of total tax revenue, reflecting a substantial unrealized fiscal potential.

This policy brief analyses the constraints and opportunities of LDT through an institutional and political economy lens. It shows how outdated Mouza-based valuation, excessive street-level discretion, weak audit capacity, and entrenched local power structures undermine effective tax administration. Situating LDT within broader debates on wealth taxation and urbanisation, the brief highlights its relevance for addressing inequality and reducing reliance on regressive indirect taxes.

The study argues that technological reforms alone are insufficient and proposes a sequenced reform agenda centered on market-aligned valuation, administrative accountability, gender-sensitive governance, and inter-agency data interoperability. Strengthening LDT is essential for expanding fiscal space, enhancing equity, and supporting Bangladesh's inclusive and sustainable development trajectory.

Introduction

Bangladesh's ambition to achieve inclusive growth, finance Sustainable Development Goals (SDGs), and manage the fiscal pressures associated with Least Developed Country (LDC) graduation critically depends on strengthening domestic resource mobilization. Despite steady economic growth, Bangladesh's tax-to-GDP ratio has remained persistently low; hovering around 8 per cent over the last decade, emerging as a structural constraint to development financing. Within this context, land development tax (LDT) represents one of the most stable, progressive, and underutilized sources of public revenue.

Globally, land and property taxes are widely regarded as efficient and equitable instruments for wealth taxation, particularly in economies undergoing rapid urbanisation and sustained increases in land values (Bahl & Martinez-Vazquez, 2008; OECD, 2021; Norregaard, 2013). In Bangladesh, however,

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land development tax contributes less than 0.5 per cent of total tax revenue on average, despite substantial growth in land-based wealth (Ministry of Finance [MoF], 2022; IMF, 2022). Between 1995 and 2021, wealth per adult increased by 3.66 times, while income increased by only 1.41 times, indicating that wealth accumulation has far outpaced income growth (World Inequality Database [WID], 2021; Piketty, 2014). Concurrently, wealth inequality has intensified markedly: in 2021, the top 10 per cent of the population owned 58.45 per cent of total wealth, whereas the bottom 50 per cent owned only 4.8 per cent, underscoring the limited redistributive capacity of the current tax system (WID, 2021; World Bank, 2023).

This policy brief argues that the underperformance of land development tax in Bangladesh is not merely a technical or administrative failure. Rather, it is the outcome of deeper structural and institutional weaknesses embedded in land governance, valuation practices, incentive structures, and street-level implementation. The brief draws on classical and modern economic theory, comparative international experience, and Bangladesh-specific institutional realities to examine both the untapped potential and persistent challenges of LDT.

Key constraints include outdated and distorted land valuation (notably the persistent gap between Mouza rates and actual market prices), excessive discretionary power at the street level, weak audit and oversight mechanisms, politically mediated exemptions, gender-insensitive administrative practices, and misaligned revenue target-setting systems. Digitization initiatives, while necessary, have largely shifted discretion rather than eliminated it. As a result, informal negotiations, selective enforcement, and collusive practices continue to undermine fiscal equity and revenue mobilization.

The brief concludes that unlocking the potential of land development tax requires a comprehensive reform agenda that goes beyond technological fixes. Priority reforms include market-aligned valuation, incentive-compatible administrative systems, strengthened audit capacity, gender-sensitive operational protocols, and integration of LDT reform within a broader wealth and property tax strategy. Without addressing these structural constraints, Bangladesh will continue to forgo a critical opportunity to mobilize domestic revenue, reduce inequality, and finance inclusive development.

Land Development Tax and Bangladesh's Fiscal Challenge

Bangladesh's development trajectory over the past two decades has been characterized by sustained economic growth, significant poverty reduction, and notable improvements in human development outcomes (World Bank, 2020; UNDP, 2022). However, this progress has not been matched by a commensurate expansion in domestic revenue mobilization. Bangladesh's tax-to-GDP ratio remains among the lowest in South Asia and is substantially below that of comparable lower-middle-income countries, reflecting long-standing structural weaknesses in the tax system (IMF, 2022; OECD & ADB, 2021). This persistent revenue constraint limits fiscal space, curtails public investment, and increases reliance on external financing and development assistance, thereby constraining the state's capacity to finance inclusive and sustainable development (IMF, 2023; World Bank, 2021).

As Bangladesh prepares for graduation from Least Developed Country (LDC) status and confronts post-COVID-19 recovery challenges, the demand for increased public spending has intensified. Financing the Sustainable Development Goals (SDGs), investing in urban infrastructure, strengthening social protection systems, and enhancing competitiveness in global markets all require a more robust, diversified, and equitable domestic revenue base (IMF, 2023; UN DESA, 2021; World Bank, 2022). Within this context, land and property taxation emerges as a critical yet persistently underutilized pillar of fiscal reform in Bangladesh (OECD, 2021; Norregaard, 2013).

Land Development Tax (LDT), constitutionally mandated and legally grounded, is theoretically well aligned with Bangladesh's economic structure. Land is immobile, its supply is fixed, and increases in land value are largely driven by public investment, urbanisation, and regulatory decisions rather than individual productive effort (Henry George, 1879; Bahl & Martinez-Vazquez, 2008). These characteristics render land taxation efficient, difficult to evade, and inherently progressive (Norregaard, 2013; IMF, 2022). Despite these advantages, LDT remains severely underutilized in practice, raising fundamental questions regarding institutional design, political economy constraints, and governance failures within the property tax system (Bird & Slack, 2004; World Bank, 2021).

Literature Review: Theoretical Foundations of Land and Property Taxation

Classical Perspectives: Adam Smith and Henry George

The intellectual case for land taxation can be traced to classical political economy. Adam Smith (1776) argued that taxes on land rents were among the least distortive forms of taxation, as they did not discourage productive activity. Since landowners benefit from societal progress and public investment without directly contributing to land value appreciation, taxing land rents was seen as both fair and efficient.

Henry George (1879) further advanced this argument by proposing land value taxation as a remedy for inequality and speculative landholding. According to George, land productivity and value tend to increase over time irrespective of individual investment, making land rents an appropriate source of public revenue. Unlike taxes on labour or capital, land taxes do not reduce incentives to work or invest, thereby preserving economic efficiency.

Political Economy and Inequality: Marx and Piketty

From a political economic perspective, Marx (1848; 1867) identified land ownership as a key source of wealth concentration and social inequality. He argued that disparities between returns to land and returns to labour were central to capitalist accumulation and social conflict. Although Marx's framework differs from modern fiscal policy analysis, his insights remain relevant in understanding the distributional implications of land ownership.

More recently, Piketty (2014) demonstrated empirically that returns to capital including land and property tend to exceed overall economic growth, leading to rising wealth inequality unless countered by progressive taxation. In contexts where wealth accumulation outpaces income growth, reliance on income taxation alone becomes insufficient to address inequality or generate adequate revenue. Property and land taxes thus play a critical role in redistributive fiscal policy.

Modern Public Finance and Property Taxation

Contemporary public finance literature consistently highlights property taxation as a stable and growth-friendly revenue source. The OECD and IMF emphasise that property taxes are less harmful to economic growth than taxes on labour or consumption and are particularly suitable for financing local public goods. In OECD countries, property taxes account for an average of 5.6 per cent of total tax revenue, with countries such as Australia, Canada, the United Kingdom, and the United States exceeding 10 per cent.

These theoretical and empirical insights provide a strong justification for strengthening land development tax in Bangladesh, particularly in light of rising wealth concentration and urban land values.

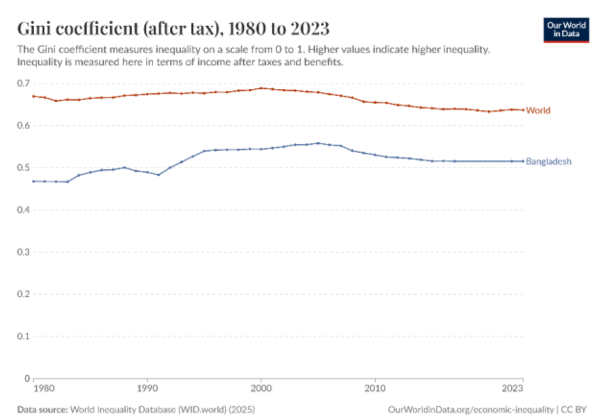
Wealth Accumulation, Inequality, and the Case for Land Development Tax

Bangladesh's recent economic transformation has been accompanied by rapid wealth accumulation, particularly in land and real estate. Between 1995 and 2021, average wealth per adult increased by 3.66 times, whereas average income increased by only 1.41 times, indicating that wealth accumulation has outpaced income growth by more than twofold (World Inequality Database [WID], 2021; Piketty, 2014). This divergence highlights that wealth, rather than income, has become the dominant driver of economic inequality.

Evidence of rising inequality is further illustrated by the Gini coefficient for after-tax income, which shows a persistent upward trend in Bangladesh since 1980 (Figure 1). While global averages exhibit gradual declines due to redistributive policies, Bangladesh's Gini coefficient remains elevated, reflecting limited progress in income redistribution and high concentration of wealth (World Bank, 2023).

Wealth inequality in Bangladesh is even worse. According to WID (2021), the bottom 50 per cent of the population owned just 4.8 per cent of total wealth in 2021, compared to 58.45 per cent held by the top 10 per cent. Such concentration underscores the limited redistributive impact of the existing tax system, which continues to rely heavily on indirect taxes such as VAT, disproportionately affecting lower-income households (IMF, 2022; MoF, 2022).

Land and property constitute a significant share of non-financial wealth in Bangladesh. In this context, the Land Development Tax (LDT) represents a pragmatic entry point for wealth-based taxation, given the administrative challenges of implementing comprehensive net wealth taxes (Bahl & Martinez-Vazquez, 2008). Strengthening LDT can address structural inequalities by redistributing resources through enhanced public service delivery, while also reducing the economy's reliance on regressive



consumption taxes (OECD, 2021; Piketty, 2014).

Integrating LDT reforms with wealth-based taxation strategies offers a dual benefit: improving fiscal capacity and mitigating socioeconomic disparities. The combination of rapidly increasing land values, concentrated ownership, and limited progressive taxation provides a compelling policy rationale for urgent reform of property taxation in Bangladesh.

Land Development Tax in Bangladesh: Structure and Performance

Land development tax is levied on land used for residential, commercial, and certain other non-agricultural purposes. In principle, it is a recurrent tax based on land value, assessed using government-determined Mouza rates. Despite its broad base and low evasion potential, LDT contributes a negligible share of total tax revenue, less than 0.5 per cent on average over recent years.

Within the broader property tax ecosystem, land development tax is complemented by stamp duty, capital gains tax, wealth surcharge, and holding tax. However, property taxes as a whole account for only about 5 per cent of direct tax revenue in Bangladesh, compared to over 90 per cent derived from income tax. This imbalance highlights the underdevelopment of property taxation as a revenue instrument.

Valuation Distortions and the Compression of the Tax Base

One of the most critical challenges facing land development tax in Bangladesh is systematic undervaluation. The Mouza rates the official benchmark for land valuation often bears little resemblance to actual market prices, particularly in urban areas. Empirical evidence from selected areas of Dhaka city indicates that Mouza rates represent, on average, only 29 per cent of prevailing market values per katha.

This valuation gap artificially compresses the tax base, resulting in substantial revenue loss even under full compliance. Moreover, it introduces horizontal inequity: owners of land acquired decades ago benefit from outdated valuations, while newer developments are taxed more heavily relative to value. In some peripheral or rural areas, Mouza rates may even exceed market prices, further distorting tax burdens.

Undervaluation also normalizes informal negotiation between taxpayers and officials. When official rates are widely perceived as unrealistic, discretionary adjustments become socially accepted, reinforcing rent-seeking and undermining tax morale.

Street-Level Bureaucracy, Discretion, and Governance Failures

The administration of Land Development Tax (LDT) in Bangladesh exhibits substantial street-level discretion, a phenomenon extensively analyzed in Lipsky's (1980) theory of street-level bureaucracy. Frontline officials including Assistant Commissioners (Land), tahsildars, and local land staff operate in an environment where formal rules intersect with informal norms, local power dynamics, and adaptive survival strategies (Lipsky, 1980; Hupe & Hill, 2007). This discretion is particularly salient in contexts of high social embeddedness, where officials are posted in or near their home districts, creating dense networks of kinship, political affiliation, and local obligation (Fjeldstad & Heggstad, 2012). Such embeddedness often conditions enforcement behavior, producing selective application of tax rules and toleration of non-compliance.

Digitization initiatives, introduced to increase transparency and reduce discretionary manipulation, have not fully neutralized these dynamics. Rather, digital platforms have shifted the locus of discretion from manual processes to electronic interfaces. Officials continue to exercise control over critical functions such as arrears validation, exemptions approval, and data entry, creating persistent opportunities for collusion with taxpayers (Bird & Slack, 2004; Gelb & Diofasi Metz, 2018). Weak audit mechanisms, predictable inspection schedules, and limited monitoring capacity further exacerbate these governance failures by lowering the perceived risk of sanction (Norregaard, 2013).

The fiscal consequences of this discretionary environment are compounded by broader structural inequities. Under-assessment of property values particularly in rapidly appreciating urban areas reinforces wealth concentration and contributes to rising economic inequality, a phenomenon highlighted by Piketty (2014), who notes that returns on capital, including land, frequently outpaces overall income growth. In Bangladesh, the combination of discretionary street-level administration, outdated valuation methods, and limited enforcement capacity has resulted in chronic under-collection of LDT, representing a missed opportunity for both revenue mobilization and the reduction of wealth inequality (Bahl & Martínez-Vázquez, 2008; Fjeldstad & Heggstad, 2012; World Bank, 2017).

Addressing these challenges requires a multi-pronged reform strategy, including professional training to reduce discretionary misuse, rotation and accountability measures to mitigate local capture, enhanced auditing and performance evaluation mechanisms, and the adoption of market-informed property valuation systems to limit informal negotiation spaces (Lipsky, 1980; Hupe & Hill, 2007; Kelly, 2013; Piketty, 2014).

Gender, Integrity, and Institutional Culture

Gender intersects with governance constraints in important ways. Female Assistant Commissioners (Land), particularly when posted to unfamiliar districts, often face mobility and safety challenges that limit their ability to conduct field inspections. Disputed cases requiring physical verification are frequently resolved administratively rather than through site visits, increasing the risk of inaccurate assessments.

Evidence also suggests that officers attempting to enforce tax rules diligently may face resistance from locally embedded colleagues and subordinate staff. Informal office cultures, sustained by brokers and political intermediaries, often marginalize reform-minded officials. These dynamics contribute to an institutional environment where integrity is penalized rather than rewarded.

Political Economy of Land Development Tax

Land taxation is inherently political. In Bangladesh, land development tax is frequently politicized, with exemptions, reductions, or enforcement forbearance granted based on political considerations rather than objective criteria. Such interventions undermine horizontal equity, erode public trust, and weaken the legitimacy of the tax system.

High registration costs and multiple overlapping taxes further discourage formal transactions and tax compliance. The coexistence of land development tax, holding tax, wealth surcharge, and income tax can create perceptions of double or triple taxation, fuelling resistance and evasion.

Policy Implications and Reform Priorities

A. Short-Term Reform Agenda

1. Updating Land Records and Valuation at the Local Level

In the short term, reform of the Land Development Tax must prioritize updating land records and correcting outdated valuation practices. Empirical literature on property and land taxation consistently identifies inaccurate cadastral records and undervaluation as the primary constraints to effective revenue mobilization in developing countries (Bird & Slack, 2004; Bahl & Martínez-Vázquez, 2008). In Bangladesh, reliance on manual records and historically fixed land values significantly erodes the tax base. Digitizing land records and introducing simplified, area-based valuation benchmarks at the upazila and union levels can immediately improve compliance while keeping administrative costs manageable.

2. Enhancing Street-Level Tax Administration Capacity

Short-term gains depend heavily on the behavior and discretion of street-level bureaucrats such as land office staff, tahsildars, union land assistants, and assistant commissioners (land). According to street-level bureaucracy theory, frontline officials exercise de facto policymaking power through daily decisions on assessment, collection, and enforcement (Lipsky, 1980). Capacity-building initiatives covering basic tax law, ethical standards, citizen interaction, and grievance handling can reduce rent-seeking behavior and arbitrary enforcement. Clear operational guidelines and simplified assessment rules are critical to limiting discretionary abuse while preserving necessary flexibility (Hupe & Hill, 2007).

3. Improving Compliance through Simplification and Trust-Building

Short-term reforms should also focus on simplifying payment procedures to improve voluntary compliance. Research shows that taxpayers are more likely to comply when tax systems are perceived as simple, predictable, and fair (Fjeldstad & Heggstad, 2012). Enabling mobile and digital payment options at the union level, supported by assisted service desks, can reduce transaction costs for taxpayers while maintaining human oversight. Transparency initiatives such as publicly displayed tax rates and receipts can further enhance trust between citizens and local tax officials.

B. Long-Term Reform Agenda

4. Institutionalizing Market-Responsive Land Valuation Systems

In the long term, LDT reform must move toward market-responsive and periodically updated land valuation systems. International experience demonstrates that ad hoc or politically frozen land values undermine both revenue potential and horizontal equity (Norregaard, 2013; Kelly, 2013). Establishing an independent valuation authority or automated mass appraisal system adjusted for local land-use patterns can ensure that LDT reflects real economic value while remaining administratively feasible.

5. Strengthening Accountability Frameworks for Street-Level Bureaucracy

Long-term success requires addressing structural incentives shaping street-level bureaucratic behavior. Studies consistently show that weak monitoring, low pay, and excessive workloads encourage informal practices and selective enforcement in tax administration (Lipsky, 1980; Tummers et al., 2015). Performance-linked incentives, rotation policies, social audits, and citizen feedback mechanisms can align frontline behavior with reform objectives. Embedding accountability mechanisms within local government institutions is particularly critical for sustaining compliance and reducing corruption risks.

6. Integrating LDT into Broader Local Government Finance Reform

Over the long run, LDT should be embedded within a broader framework of fiscal decentralization and local government finance reform. The literature emphasizes that land and property taxes are most effective when local governments retain a meaningful share of revenues and possess clear expenditure responsibilities (Bird & Vaillancourt, 2008; World Bank, 2017). Strengthening fiscal autonomy can enhance political accountability, as taxpayers are more willing to pay when they observe visible improvements in local services financed by their taxes.

7. Leveraging Digital Governance with Inclusive Safeguards

Digital transformation should be pursued cautiously and inclusively. While digital land administration systems can reduce discretion and leakage, evidence warns that excessive reliance on technology can exclude smallholders and marginalized groups without adequate support (Gelb & Diofasi Metz, 2018). A hybrid governance model combining digital systems with facilitated access through local offices can preserve inclusivity while improving efficiency and transparency in LDT administration.

Land Development Tax represents one of Bangladesh's most underutilised yet structurally sound instruments for strengthening domestic revenue mobilisation. In an economy marked by rapid urbanisation, accelerating land-based wealth accumulation, and widening inequality, the continued marginalisation of LDT reflects not a lack of legal mandate or economic rationale, but deep-seated institutional and governance failures. Outdated valuation practices, excessive street-level discretion, weak accountability mechanisms, and politically mediated enforcement have collectively constrained the tax's revenue and redistributive potential.

Conclusion

This brief demonstrates that technological modernisation alone cannot address these challenges. Digitisation without institutional reform has merely relocated discretion rather than eliminated it. Meaningful progress requires a comprehensive and sequenced reform agenda that aligns land valuation with market realities, strengthens audit and oversight capacity, rationalises administrative incentives, and reduces the scope for local capture. Addressing gender-specific operational constraints and improving inter-agency data interoperability are equally critical to ensuring both efficiency and equity in tax administration.

As Bangladesh approaches LDC graduation and faces increasing fiscal demands to finance the SDGs, urban infrastructure, and social protection, the opportunity cost of inaction is rising. Repositioning Land Development Tax as a central pillar of progressive fiscal reform can expand fiscal space, enhance tax justice, and support inclusive and sustainable development. Without confronting the institutional and political economy constraints that undermine LDT, Bangladesh risks forgoing a stable and equitable source of public revenue at a moment when it is most urgently needed.

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