



(RESEARCH ARTICLE)



Income inequality and the role of inheritance taxation in wealth redistribution in Bangladesh

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Abstract

Wealth redistribution can help reduce existing inequalities in developing nations. This study examines whether economic inequality continues to exist in Bangladesh or not and suggests several strategies to address it. The paper explains how various development policies can contribute to narrowing income gaps. It also discusses the potential role of inheritance tax as a tool for redistributing wealth and increasing government revenue, which may ultimately help lessen inequality in the country.

Keywords: Inequality; Distribution of Wealth; Inheritance Tax; Economic Development

1. Introduction

Effective distribution of wealth can help lessen the income inequality in a country. This is primarily due to concerned international organization on economic growth leading to reduction of poverty in developing nations. According to a World Bank Development Report [1], equality is a strategy used to promote economic development and alleviate poverty; it emphasizes on how inequalities in socio economic spheres are correlated in accordance with the markets and institutions of that country.

In a similar 2010 report on the relationship between reducing inequality and improving health and education in developing countries, the United Nations Development Program (UNDP) emphasized the link between inequality reduction and development in these sectors (Reinhold [2]). One of UNDP's goals is to address inequalities. According to them, income inequality is on the increase which means the richest 10 percent of the population earn up to 40 percent of global income while on the other hand, the poorest 10 percent of the population earn up to 2 to 7 percent.

United Nations claims that population growth and inequality in developing countries have increased by 11%. Developing countries with large population like Bangladesh, have higher income inequality. In 2018, the 'population below poverty line' in Bangladesh for example was 21.8% which has been a considerable decline from 40.4% in 2005 (Bangladesh Economic Review [3]).

Another recent study conducted by a policy research institute examined the intricacies if Bangladesh's development indicating that even though the nation's GDP is on the rise, the inequalities in income and wealth is also increasing. In 2016 report, a study conducted by the Centre for Policy Dialogue exposed that 5% of the richest population earned 121 times more than the poorest 5% revealing a significant increase from 31.5 times in 2010. This showed that the richer population are more dominant when it comes to income sharing during that period (Centre for Policy Dialogue [4]).

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In the article by Khan [5], the increasing disparity in Bangladesh has been discussed citing the Household Income and Expenditure Survey (HIES). Titumir & Rahman [6] relied on the Gini coefficient which further indicated the increasing inequality of income in Bangladesh (see Table 1 in Appendix). The Gini coefficient is one of the most widely used measures of inequality. This means of measurement showed inequality of income in Bangladesh have increased rapidly since 2005. In 2018, the Gini index in Bangladesh was 39.5% (Knoema [7]) while the World Bank report stated 32.4% in 2016 (World Bank [8]). Thus, making it necessary and crucial to address the inequality in Bangladesh.

Wealth redistribution can be one possible solution to this growing problem of economic disparities. Inheritance tax is a means to redistribute wealth in many countries both developing and developed economies. Inheritance tax is amount imposed during lifetime transfers of property in the form of gifts and bequests, with a specific limit (for instance GBP 325,000 in the United Kingdom). This taxation is imposed before the assets are inherited (HM Revenue & Customs [9]). This is done before the transfer of ownership of assets.

Tables 2 and 3 (Appendix) indicate some countries that use an inheritance tax with various tax rates. The paper will be useful to policy analysts in Bangladesh, enabling them to improve government initiatives to achieve development and minimize inequality.

1.1. Objective of the Study

The objectives of this study are outlined as follows:

- To examine the concept of inequality and its socioeconomic implications.
- To assess the existence and extent of inequality in Bangladesh.
- To understand whether the introduction of an inheritance tax might help in making the distribution of wealth more equal.
- To examine how the introduction of inheritance taxation may affect the growth of different sectors in Bangladesh.

1.2. The Statement of the Problem

The problem statement would provide a general overview of the issue and the specifics of the problem.

| Statement of the problem | |
|---------------------------------|--|
| Broad Statement | The effects of implementing an inheritance tax in a developing country such as Bangladesh. |
| Specific components | I. To assess the extent of inequality in Bangladesh. II. To investigate possible tactics for lowering national inequality. III. To determine alternate sources of funding for the government to combat inequality. IV. To assess how inheritance taxes contribute to the reduction of inequality. V. To examine key challenges and considerations associated with the implementation of inheritance tax in Bangladesh. VI. To propose appropriate inheritance tax rates within the socioeconomic context of Bangladesh. |

2. Literature review

This chapter presents the definitions of wealth, wealth distribution, and inheritance tax. It then reviews the existing literature to examine how previous studies have discussed, analyzed, and evaluated inheritance tax as a mechanism for wealth redistribution.

The main objective of the study is to understand ways of wealth distribution in Bangladesh. Before proceeding, it is important first to define what wealth is. Gokhale & Villarreal [10] define wealth as the stock of assets owned by a household, including material possessions and financial assets (stocks and bonds), and income as the flow of money currently owned by the household (wages and other income streams). On the contrary, Duska [11] considers wealth as

a way of living well. He refers to Aristotle, who thought that wealth is not an end but a means to an end. To Aristotle, the true wealth is that which is consumed in the achievement of higher ends, i.e., the end of living a good life.

It is important how this wealth is distributed in an economy. According to Piggott [12], an unequal distribution of wealth is an indicator of social attitudes towards fairness. According to Nevile [13], existing wealth inequality has the potential to undermine an economy's social capital. Thus, it is crucial to introduce policies that could help reduce inequality and promote wealth redistribution. The redistribution of wealth should be more even, which may help to develop the economy. One such mechanism practiced in most countries to achieve a more balanced distribution of wealth is the introduction of an inheritance tax.

Speaking of which, the concept of inheritance tax requires some explanation. The HM Revenue and Customs of the UK declares that inheritance tax is an estate duty on an individual's death and is applied to an estate above the amount of GBP 325,000 (as of 2013-14). In the UK, Biggs & Donnelly [14] call the inheritance tax a death duty, which is imposed on the estate of the deceased. This taxation also applies to gifts and transfers of lifetime assets made within seven years of the individual's death. There are some exemptions from the gifts regime, including gifts up to GBP 3,000 that are tax-free.

According to David [15], the origin of this tax dates to Roman times, as the levy of inheritance is an ancient tax. Almost every industrialized country today collects some inheritance tax. In English-speaking nations, inheritance is usually taxed regardless of who receives it (estate tax). In contrast, in most European nations, an inheritance tax is levied on the inheritance received by the heirs, taking into account the relationship between the heir and the deceased when computing the tax.

2.1. Inheritance Tax: A Method of Distribution of Wealth

Because of a bequest from a parent, either through inheritance of an asset or through the gift of an asset, an individual might end up owning an asset even though he/she has not struggled to acquire it. Research conducted by Rowling and McKay [16] discovered that in Britain, the majority of individuals are influenced by the inheritance of assets. Nearly half of the respondents have received some asset, either as an inheritance, and more than half plan to receive something as an inheritance. That research also revealed that individuals who are already well off financially largely anticipate inheriting and bequeathing large sums of money. On the other hand, the insolvent people stand a very slim chance of inheriting. In this way, these impoverished individuals are left even further behind in such a society.

This transfer of an asset from one generation to another, however, does not decrease inequality in that economy; instead, it decreases equality. According to Isaac [17], inheritance was cited as a crucial factor in individual wealth, particularly among extremely well-off families. Isaac [17] also demonstrated that empirical studies by Menchik [18], Wolff [19], and others indicate that this intuitively plausible observation holds. According to Gale & Scholz [20], more than 50 percent of net wealth accumulation is attributable to inheritances and inter vivos transfers.

This is where the issue of inheritance taxation comes in. Taxing inheritance is one aspect of the economy, as David [15] explains. He tells us that the unequal distribution of income has moral facets. The neo-liberal explanation of income inequality is that it is economically rational. The same logic was applied by David [15] to the taxation of inheritance. Should it be more economically effective, we ought to be ready to tax inheritance, though it has already been taxed previously. Taxation on inheritance would place a more taxing approach on unspent income (because of the taxation twice). But it is not a novelty that different types of income are not taxed at the same rate.

A past study by Adams [21] quoted saying that the rich and the poor contribute significantly different amounts to the inheritance tax, and that it clearly exists to even out wealth in the former case. Making good savings and giving them to children may not necessarily benefit society.

Since the end of the nineteenth century, proponents of the estate tax have sought to provide a moral and ethical justification for the inheritance tax. Individuals were supposed to create their own fortunes instead of leaving it to the inheritance of their parents' fortunes. Bequests were believed to turn the youth into lazy, wanton people. And the rich were supposed to donate their wealth to worthy causes instead of stashing it away to provide for their own children. Society was perceived to have a claim to inherited wealth since it had offered the markets, the rules of law, and security and enforcement to facilitate the growth of wealth. Naturally, some opposition to the tax existed at all times, and in the mid-1920s, a campaign to repeal it ensued, yet John Dewey and others appealed to moral reasons to retain it. Such a top tax economist as Thomas Adams declared that, to levy tax, it was better to tax the one who receives than to tax the one who earns. Economists believed in cutting other forms of taxation with the revenue from the estate tax. Hence, the

inheritance tax was considered in the context of the entire tax system rather than as a solitary target of the repealers. Rowlingson [22].

Without inheritance tax, a child of a dead person gets the property of his/her parent without paying anyone. The owner is being transformed without much effort on the part of the new owner, who is not paying a single penny to purchase the asset. In addition, an individual who is not engaged in acquiring wealth can request their wealth from a wealthy person. Assume that there is no inheritance tax in the UK. For example, in 1970, a house was built for GBP 100,000 by a single individual. He left his daughter with the asset after he died in 1980. In the year 2005, his daughter bequeathed the asset to her son. In this way, the house valued at GBP 200,000 in 2005 was transferred to her son, who did not even do anything to acquire it. That has introduced a wealth disparity in that society. However, research by Shorrocks [23] and Choi [24] shows that wealth mobility diminishes inequality in a given society. Therefore, to enable the mobility of wealth, there must be a mechanism that allows other parties in society to access the asset's benefits.

Inheritance tax is viewed as a means of destroying capitalism (Marx [25]). Capitalism decreases when an inheritance tax attempts to redistribute the wealth of an economy. Where McGee [26] stated that, in case the aim is to diminish disparity of good or to annihilate capital, inheritance tax, gift tax, or Estate tax can be used to set that objective.

Piketty [27] used French data to investigate the effect of the inheritance tax policy. His studies found that during the 19th century, French inheritance tax rates were mostly proportional, with a constant rate of 1 percent. In 1901, a progressive inheritance tax was established, but the rates were kept low until World War I. Even the top tax rates were not more than 5% on the eve of the war. Just like the progressive income tax, the inheritance tax also raised its rates tremendously after World War I. Throughout the interwar years, the effective tax rate on the top 1 percent of estates would be between 20 and 25 percent (or even between 30 and 35 percent in the early 1920s), between 30 and 35 percent in the 1950s, between 15 and 20 percent in the 1960s and 1970s, and between 30 and 35 percent in the 1980s and 1990s. The results prove that inheritance tax may become an effective tool for governments to collect funds when needed.

These debates reveal an important point regarding the introduction of the inheritance tax in Bangladesh. By introducing the inheritance tax, the government would not only help reduce inequality but also raise funds for social development projects. This implies that, if inheritance taxes are applied, they may serve as an effective means of reducing economic disparity. The sections below discuss the advantages of such taxation.

According to Nightingale [28], the goals of taxation can be summarized in three areas: 1. Revenue Generation: Taxes were imposed in the past to finance the monarchy and defense during periods of conflict. Financing public-sector expenditures is the main objective of modern tax systems. Through taxation, governments can get sufficient funding for development and defense activities. 2. Income and Wealth Redistribution: The tax system is contributing to the redistribution of wealth and income to enhance social welfare. 3. Economic Regulation: Tax assists in promoting the economic well-being and providing a stable business infrastructure.

There is, however, a concern that high inheritance tax rates would deter people from saving and accumulating wealth for future generations.

McGee [26] has been highly critical of the inheritance tax, arguing that it has major disadvantages. Countries that have such taxes are likely to lose wealth. When individuals have been accumulating wealth, they may not be keen to have it taken, or they may not save at all, as they are aware that once they transfer the wealth, it will be taxed. This will deter savings, investments, and the accumulation of wealth, which, in the long run, hinders economic growth. The impact of this resource drain is more severe on emerging economies, and they might want to implement tax haven policies to safeguard the wealth accumulated. As an example, Florida in the USA has become a destination for retirees' wealth, as the state does not levy an inheritance tax, which has seen a boom in the wealth management sector. Emerging economies can follow such policies.

Inheritance, estate, and gift taxes were also noted by McGee [26] as a form of double taxation. The income from wealth accumulation was already taxed. A second tax is levied on the wealth once more when it is transferred to the owner at the time of death or gift.

In this paper, the focus is on Bangladesh, where the Anti-Money Laundering Law is strong. Bangladesh also introduced the Money Laundering Prevention Act (MLPA) in 2012 (as a replacement for the 2009 version) and the Anti-Terrorism Act (ATA) in 2009 (reformed in 2012) to align with global standards. No legal avenue exists to move assets out of

Bangladesh, and the only limit on the amount of money that can be moved out of the country is USD 5,000 per year, which must be duly declared (Bangladesh Bank [29]).

Taxation may not be very popular, but it helps share wealth and supports economic development. Moreover, the beneficiary of an asset should earn or possess it in any manner, as opposed to just being an heir or a gift. Hence, the government can use inheritance, estate, and gift taxes as an efficient means of raising revenue among the rich and use it to develop the country, thereby minimizing inequality (Nightingale [28]; David [15]).

3. Research methodology

The methodology of the proposed research is organized into several sections, and they are as discussed below.

3.1. Research Design

This study adopts a qualitative research approach using small samples to gain in-depth insights into the research context. It primarily draws on existing literature to analyze prior scholarly work and draw logical conclusions regarding the research questions.

3.2. Information Needed

Key information was required to evaluate the impact of implementing an inheritance tax in a developing economy such as Bangladesh.

3.3. Information Collection

Previously published studies were examined to derive well-reasoned conclusions relevant to the Bangladeshi context.

3.4. Sources of Data

The research data used in this study are secondary and were obtained from past research conducted on Bangladesh and other European nations, such as the United Kingdom. The research question was answered using an eclectic approach. Part of the data was found on the World Bank site under Development Indicators, and the rest was obtained from the Unnayan Onneshan site, a large center devoted to development action in Bangladesh. The publications through which other sources of secondary data can be collected include the Bangladesh Bureau of Statistics (BBS), the Bangladesh Economic Review [3], the Household Income and Expenditure Survey (HIES), the World Ultra Wealth Report, publicity of Wealth-X reports, the World Bank Data Bank, the reports of the United Nations Development Program (UNDP), and the Financing Division of the web site of the Ministry of Finance, Government of the people Republic of Bangladesh.

3.5. Statistical tool

Along with them, past studies by other scholars and the statistical measure of income inequality, the Gini coefficient, have been utilized. The secondary data sources have included the Gini coefficient and the Household Income and Expenditure Survey (HIES) of the Bangladesh Bureau of Statistics (BBS).

4. Findings and analysis

4.1. Conceptual Framework

A graphical analytical model has guided the research design. This appears to be the graph below:

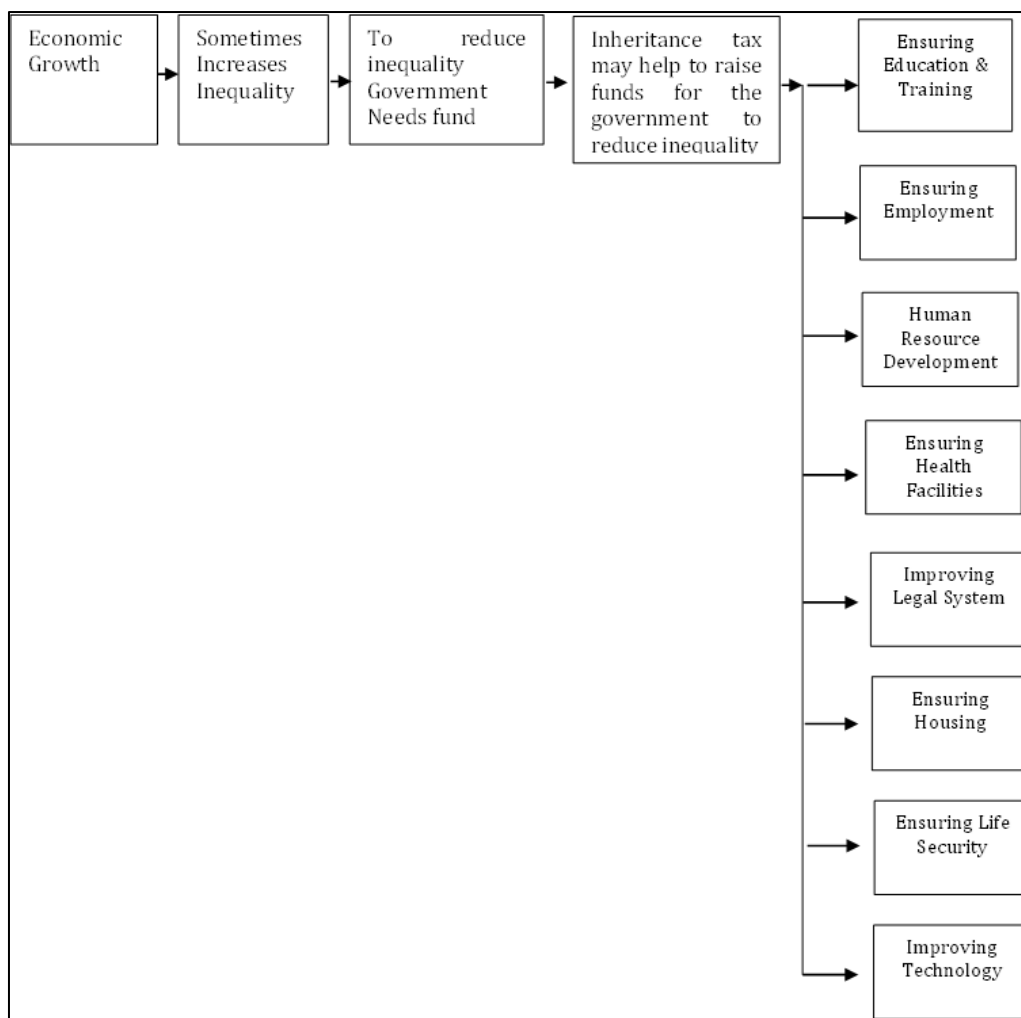
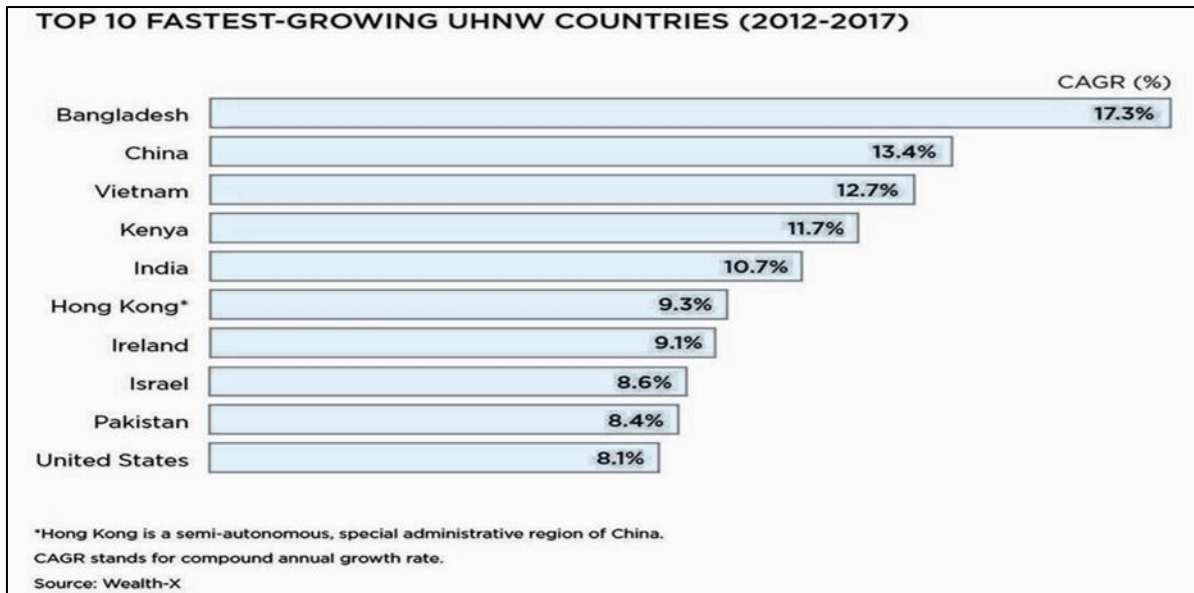


Figure 1 Graphical Analytical Model of the Research Design

4.2. Income Inequality in Bangladesh

In Bangladesh, poverty remains a significant socioeconomic issue that hurts the welfare of a sizable section of the populace. Despite a decline in the country's poverty rate from 40.4% in 2005 to 21.8% in 2018 (Bangladesh Economic Review [3]), significant wealth and income disparities persist, perpetuating poverty. It is noteworthy that, according to Wealth-X [30], Bangladesh experienced the fastest rate of global growth among ultra-high-net-worth individuals between 2012 and 2017, highlighting the widening divide between affluent and disadvantaged populations.

According to the World Ultra Wealth Report (Wealth-X [30]), the number of ultra-high-net-worth (UHNW) people in Bangladesh grew by an average of 17.3% annually between 2012 and 2017, the highest growth rate among the ultra-wealthy in any nation during that period.

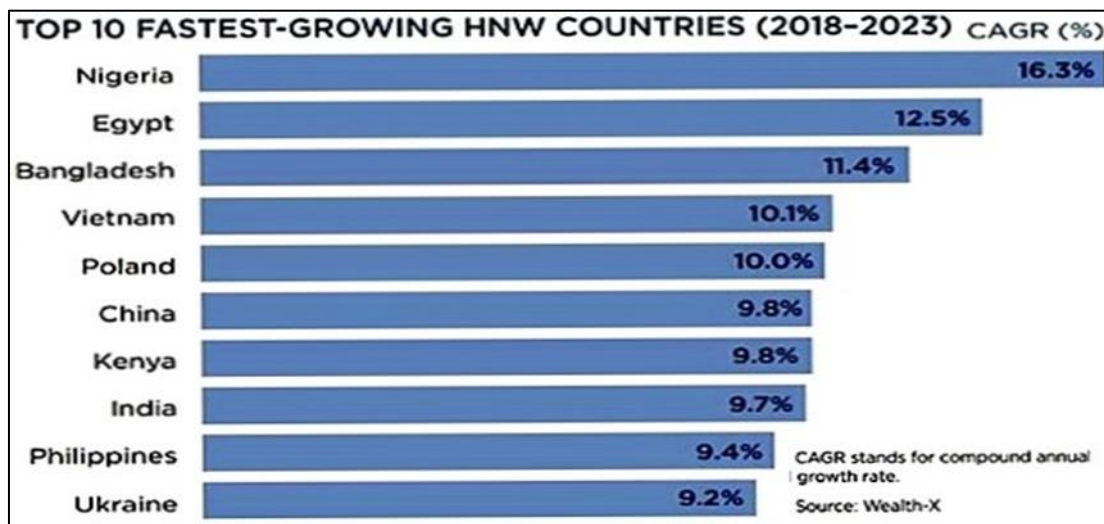


Source: (Wealth-X [30]).

Figure 2 Top 10 Fastest-Growing UHNW Countries (2012-2017)

The World Ultra Wealth Report 2019 Wealth-X [30] predicts that during the next five years, Bangladesh's High Net Worth (HNW) population will rise by 11.4%, placing it third in the world. This comes after the company's 2018 study, which found Bangladesh at the top of the list for Ultra-High Net Worth (UHNW) growth, with a 17.3% growth rate from 2012 to 2017 (Wealth-X [30]).

Bangladesh's high-net-worth (HNW) population is expected to expand by 11.4% over the next five years, according to the World Ultra Wealth Report 2019, placing the nation third globally for growth (Wealth-X [30]). This prediction is in line with previous data showing that, between 2012 and 2017, Bangladesh led the globe in the increase of ultra-high-net-worth (UHNW) individuals, with an annual growth rate of 17.3% (Wealth-X [30]).



Source: (The Financial Express [31]).

Figure 3 Top 10 Fastest-Growing UHNW Countries (2018-2023)

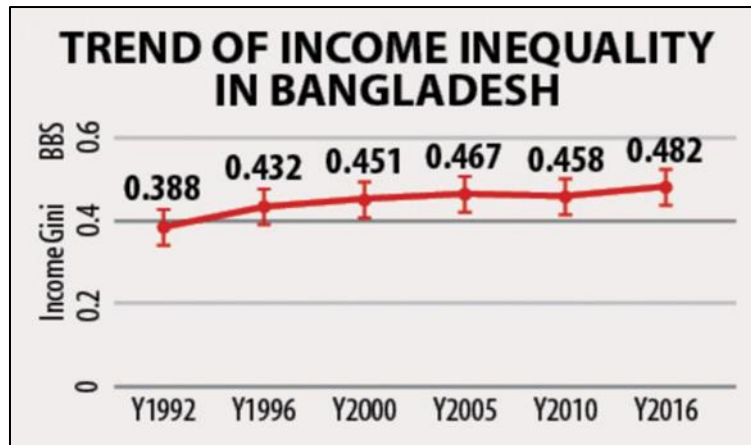


Figure 4 Trend of Income Inequality in Bangladesh

According to the Bangladesh Bureau of Statistics' (BBS) Bangladesh Household Income and Expenditure Survey (HIES), the country's Gini coefficient of income inequality increased from 0.458 in 2010 to 0.482 in 2016. This is a worrying trend. From 2005 to 2010, the Gini coefficient dropped from 33.22 to 33.12. According to Byron & Parvez [32], the Gini coefficient rose from an estimated 25.88 in 1984 to 33.46 in 1996.

The national Gini coefficient, a recognized indicator of income inequality, rose from 0.458 in 2010 to 0.482 in 2016, according to the most recent Household Income and Expenditure Survey (HIES) by the Bangladesh Bureau of Statistics (BBS), suggesting a significant increase in disparity. With the Gini coefficient recorded at 33.22 in 2005 and 33.12 in 2010, compared to 25.88 in 1984 and 33.46 in 1996, historical trends also show a slow increase in income disparities (Byron & Parvez [32]).

With the Gini coefficient increasing by 0.94 from 39.3 in 2000 to 43.0 in 2010, the statistics showed a considerable increase in income disparity in rural areas. Urban areas, on the other hand, saw the Gini coefficient decline by 0.91; however, their growth rate was -0.91 between 2000 and 2010 (49.7 to 45.2). On the national level, the Gini coefficient increased by 0.16, from 45.1 to 45.8. During 2005-2010, the Gini coefficient decreased at both the national and urban levels, but slightly increased in rural areas (Table 1).

The income Gini coefficient in rural areas increased from 39.3 in 2000 to 43.0 in 2010, reflecting a growth rate of 0.94 percent. In contrast, urban inequality declined over the same period, with the Gini coefficient decreasing from 49.7 to 45.2, corresponding to a negative growth rate of 0.91%. At the national level, income inequality rose marginally from 45.1 to 45.8, representing a growth rate of 0.16%. Furthermore, between 2005 and 2010, the Gini coefficient declined at both the national and urban levels, while it increased slightly in rural areas (Table 1).

Table 1 Income Inequality in Bangladesh (Titumir and Rahman's calculation based on the HIES 2005 and 2010 Data)

| Year | Rural | Urban | National |
|-----------------|-------|-------|----------|
| 2000 | 39.30 | 49.70 | 45.10 |
| 2005 | 42.80 | 49.70 | 46.70 |
| 2010 | 43.00 | 45.20 | 45.80 |
| Growth Rate (%) | 0.94 | -0.91 | 0.16 |

From the above discussion, it is clear that high income inequality is prevailing in Bangladesh, and to reduce inequality, inheritance tax taken from High Net Worth Individual (HNWI), A Very High Net Worth Individual (VHNWI), and Ultra-High Net Worth Individuals can be used to develop the middle and lower classes in Bangladesh and, consequently, reduce inequality in Bangladesh.

The preceding analysis indicates that income inequality remains pronounced in Bangladesh. In this regard, inheritance taxes targeting high-, very-, and ultra-net-worth individuals (HNWIs), VHNWIs, and UHNWIs may be a useful tool for

raising funds to support the socioeconomic advancement of middle- and lower-class populations. These redistributive measures have the potential to reduce inequality in Bangladesh by promoting a more equitable allocation of income.

4.3. Possible Ways to Reduce Inequality in Bangladesh

A country must reduce inequality and poverty and enhance equity. The growing income gap between the rich and the poor has underscored the need to understand the drivers of relative inequality and poverty, and to develop appropriate policies to alleviate poverty and close the income gap.

Reducing inequality and poverty and promoting equity are among the main policy goals of every economy. The increasing income inequality between the poor and the rich has heightened interest in studying the determinants of relative inequality and poverty, and in developing effective policies to reduce poverty and close income gaps.

In the Asian economy, Bangladesh still experiences high income and wealth disparities. Middle-income status is a major national development goal; thus, there should be long-term strategies to minimize inequality. Various policy interventions can be used towards this objective; they include, but are not limited to, the following:

- Providing education and training to people experiencing poverty.
- Providing the poor people with employment.
- Investing sufficient funds in the country's human resource development.
- Enhancement of the country's technological environment.
- Providing healthcare to people in poverty.
- Enhance the country's legal system.
- Provision of housing facilities for people experiencing poverty.
- Ensuring life security
- Giving them adequate capital to have their own business.
- Making sure the rich pay enough tax to fund the development of the poor, particularly through inheritance tax.
- A special program is offered to people with low incomes.
- Ensuring a monetary and fiscal policy for the betterment of people with low incomes.

4.4. Role of inheritance tax in the reduction of Inequality

One potentially important policy tool that has yet to be applied in Bangladesh is inheritance taxation, which can help reduce income and wealth inequality. To provide fundamental social amenities such as social assistance, housing, health care, and education, governments require significant financial resources. A practical way to raise money would be to implement an inheritance tax targeting wealthy households and divert funds to low-income development initiatives. In this redistributive process, inheritance taxation can help close some of the socioeconomic divide between rich and poor populations. Furthermore, by reducing intergenerational wealth inequality, such a policy can increase economic mobility, boost participation in positive economic activities, and produce a more equitable distribution of opportunities and outcomes.

By implementing progressive taxation and social transfer schemes, governments can contribute to equity and reduce inequality. A possible option for reallocating resources to low-income households entails imposing an inheritance tax and specific welfare mechanisms that will place a heavier tax burden on the upper-income and wealthier segments of the population. These policies may increase the redistributive power of the public finance system and help to make the distribution of income and wealth more even.

4.4.1. Expanding Access to Education and Skills Training for Disadvantaged Populations

Bangladesh still has a large percentage of the population living in poverty. The percentage of people living below the poverty line decreased from 40.4% in 2005 to 21.8% in 2018 (Bangladesh Economic Review [3]). The alleviation of poverty is also a major focus of the inequality issue because, over time, it will require widening access to education among disadvantaged groups to improve human capital and economic prospects in the long run. In this connection, Gregorio & Lee [33] underscore the value of providing educational opportunities in an equal manner as one tool for securing a more equal income distribution within an economy.

Education in Bangladesh is a highly subsidized, multi-tiered system that includes primary, secondary, and higher secondary education in the public sector. Additionally, through various subsidies, the state provides financial support to the private education industry. At the tertiary level, there are over 15 public universities funded by the government

and managed by the University Grants Commission (UGC), indicating a considerable government investment in higher education.

Bangladesh has signed on to significant international education programs, such as the Education for All (EFA) and the Millennium Development Goals (MDGs), and has declared its intention to implement them. In line with these promises, Article 17 of the Constitution of Bangladesh declares that all children aged between six and eighteen years are entitled to free education, which demonstrates the state's obligation to provide all children with access to basic education.

In fact, access to education is never equal, with a substantial number of students from low-income families unable to enjoy the education system. The unequal opportunities in education are an essential element in the continuation of inequality among people. Although education is typically linked to higher incomes in labor markets with high demand for skilled labor, inequality in educational achievement can also be a cause of slower growth over the long run, as well as of long-term income inequality. As a result, those who are unable to pay for it or who must drop out of school early are more likely to earn less overall. This dynamic has wider macroeconomic ramifications because lower levels of education are associated with lower levels of total investment and savings.

4.4.2. Improving Access to Healthcare Services for Economically Vulnerable Groups

A population's economic burden can result from poor health, which is a basic human requirement. People with low incomes are disproportionately affected by wealth disparity, which further erodes the health system. For this reason, the government needs to improve sanitation and health services for underprivileged groups. Inheritance taxes might be used to fund these programs, thereby increasing low-income people's access to healthcare and reducing inequality in Bangladesh.

4.4.3. Promoting Employment Opportunities for Low-Income Groups

One of the most important ways to lessen social inequality in any nation is to encourage work and reduce unemployment. This perspective examines the current state of employment across Bangladesh's different industries.

Table 3 shows the sectoral distribution of the employed labor force aged 15 and above, based on data from the Labor Force Surveys carried out in 1999–2000, 2002–2003, 2005–2006, 2010, 2013, 2015–2016, and 2016–2017, according to the Bangladesh Economic Review [3].

Table 2 Bangladesh Economic Review (2019)

| | | LFS 1999-00 | LFS 2002-03 | LFS 2005-06 | LFS 2010 | LFS 2013 | LFS 2015-16 | LFS 2016-17 |
|------------|--|------------------------|------------------------|------------------------|---------------------|---------------------|------------------------|------------------------|
| 1. | Agriculture, forestry and fishery | 50.77 | 51.69 | 48.10 | 47.33 | 45.10 | 40.70 | 40.62 |
| 2. | Mining & quarrying | 0.51 | 0.23 | 0.21 | 0.18 | 0.40 | 0.20 | 0.20 |
| 3. | Manufacturing | 9.49 | 9.71 | 10.97 | 12.34 | 16.40 | 14.40 | 14.43 |
| 4. | Power, gas & water | 0.26 | 0.23 | 0.21 | 0.18 | 0.20 | .30 | .20 |
| 5. | Construction | 2.82 | 3.39 | 3.16 | 4.79 | 3.70 | 5.60 | 5.58 |
| 6. | Trade, hotel & restaurant | 15.64 | 15.34 | 16.45 | 15.47 | 14.50 | 13.40 | 14.34 |
| 7. | Transport, maintenance & communication | 6.41 | 6.77 | 8.44 | 7.37 | 6.40 | 9.40 | 10.50 |
| 8. | Finance, business & services | 1.03 | 0.68 | 1.48 | 1.84 | 1.30 | 1.60 | 1.97 |
| 9. | Commodities & personal services | 13.08 | 5.64 | 5.49 | 6.26 | 6.20 | 6.20 | 6.08 |
| 10. | Public administration and defense | - | 6.32 | 5.49 | 4.24 | 5.80 | 6.20 | 6.08 |
| | Total | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

Source: BBS, Labor Force Survey, 1999-00, 2002-03, 2005-06, 2010, 2013, 2015-16 & 2016-17)

The Bangladeshi government can take the following actions to lower unemployment in all industries.

4.4.4. Development of the Agricultural Facilities

In the 2016–17 fiscal year, there were 6.35 crore economically active people (those aged 15 and above), with 2.00 crore women and 4.35 crore men, according to the Bangladesh Bureau of Statistics (BBS [34]). 40.6% of all workers were employed in the agricultural industry, which remained the leading employer.

The majority of Bangladesh's workforce is employed in forestry, fishery, and agriculture, which together make up the country's economy. The majority of this industry's employees are rural, impoverished, and less educated. Their production is hampered by issues such as inadequate funding, poor transportation, high interest rates, a lack of understanding of contemporary farming, outdated equipment, expensive fertilizers, and shoddy land reservation schemes. The government has established training facilities and fertilizer distribution stations, but this is insufficient. This workforce has to be properly funded and developed.

In Bangladesh, food security and inequality are intimately related to agricultural development. Additionally, agriculture directly raises living standards, creates jobs, and reduces poverty. A profitable, sustainable, and ecologically friendly agricultural system is crucial for long-term food security and for lowering inequality in the nation, according to the Bangladesh Economic Review [35].

4.5. Development of the Industrial Sector of the Country

To increase employment opportunities and maybe reduce inequality, the government might encourage industrial development. Furthermore, the tertiary sector has been contributing more and more to Bangladesh's economy.

The BBS predicts that the broad industrial sector's GDP contribution increased from 33.66% in FY 2017–2018 to 35.14% in FY 2018–19. The primary sub-sectors are mining and quarrying, manufacturing, construction, and the supply of gas, electricity, and water, with manufacturing accounting for the greatest share, according to the Bangladesh Economic Review [3]. Manufacturing made up 24.21% of GDP in FY 2018–19, up from 22.85% in FY 2017–18. To improve social conditions in developing nations and achieve rapid, sustainable economic development, industrialization is considered crucial.

According to the Ministry of Industries [36], the National Industrial Policy 2016 seeks to mobilize labor and capital to expedite industrialization. Its primary goals are to reduce poverty more broadly, provide productive jobs, and integrate women into the industrial economy.

It has been discovered that this policy works better for labor-intensive industries than for capital-intensive ones. The beneficiaries of these initiatives are expected to be small, medium, and cottage industries. According to the Bangladesh Economic Review [35], the SME policy has added additional steps to promote entrepreneurship among women, ensuring equal access to land, business resources, and financial services. However, further development requires funding, which could be supported through inheritance tax.

The contribution of the manufacturing sector is shown in the table below.

Table 3 Volume and Growth Rate of Manufacturing Sector (At constant prices of 2005-06)

| Type of Industry | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|------------------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|
| Small & Cottage | 21176.0 | 22569.1 | 24557.9 | 26113.1 | 28342.6 | 30909.4 | 33945.8 | 37086.4 | 40891.9 |
| | (5.67) | (6.58) | (8.81) | (6.33) | (8.54) | (9.06) | (11.20) | (9.25) | (10.26) |
| Medium-Large | 88475.3 | 97998.3 | 108436.2 | 118540.3 | 131225.4 | 147313.5 | 163819.5 | 187183.7 | 216411.2 |
| | (11.11) | (10.76) | (10.65) | (9.32) | (10.70) | (12.26) | (9.82) | (14.26) | (15.61) |
| Total | 109651.4 | 120567.4 | 132994.1 | 144653.4 | 159568.0 | 178222.8 | 197765.3 | 224270.1 | 2557303.0 |
| | (10.01) | (9.96) | (10.31) | (8.77) | (10.31) | (11.69) | (10.97) | (13.40) | (14.73) |

Source: (BBS 2018). Note: Figures in parentheses indicate the rate of growth.

4.5.1. Ensuring Training to Help Reduce Structural Unemployment

Training is important for improving workers' productivity, even among those with low educational levels. There is a way to reduce poverty by providing training to the disadvantaged, thereby reducing inequality.

The development of a country requires a well-trained and skilled workforce and an educated population. To ensure sustainable and consistent human resource development, a skilled workforce is required; without it, national progress would be impossible. According to the United Nations, through the Millennium Development Goals (MDGs), poverty reduction and human welfare are among the objectives of the United Nations (Bangladesh Economic Review [35]). Improving the human welfare sector, which is vital to the development of human resources, is also part of the current government's development plan.

For workers, even those with little formal education, training is essential to increasing labor productivity and efficiency. Providing underprivileged populations with opportunities for skill development can improve their employability, raising their incomes and, in turn, helping reduce poverty and socioeconomic disparities. Education and vocational training are important investments in labor capacity, according to the human capital development hypothesis, which is necessary to guarantee sustainable economic growth.

An economy must generate a skilled, well-trained labor force supported by sufficient educational attainment to grow over the long run. It is more difficult to achieve national development goals without investing in workforce development through systematic skill formation. This insight led to the United Nations Millennium Development Goals (MDGs) focusing on human well-being and poverty reduction (Bangladesh Economic Review [35]). On the other hand, human resource development has been a key component of Bangladesh's government's national development policies. This is accomplished by improving the welfare, education, and training sectors. These areas will be reinforced to create a task force that can usher in an inclusive and sustainable economic development.

By giving those living in poverty access to education and training, the government can reduce inequality and help them become more productive workers. A training and development program is significant for a nation's economic development because the country largely relies on the development of skilled human resources.

By improving education and vocational training for underprivileged groups, the government can lessen socioeconomic disparity and increase their employability and productivity. The development of skilled human capital, achieved through organized training and capacity-building initiatives, is a major factor in a nation's economic progress. Investment in human resource development strengthens labor market outcomes and contributes to sustainable and inclusive economic growth.

4.5.2. Providing a Low-Interest Loan

The government can provide interest-free or low-interest loans to help people experiencing poverty start their own ventures. While various microfinance institutions in Bangladesh offer loans to the poor, high interest rates often result in unaffordable monthly installments, making repayment difficult and undermining their investments. By providing loans at reduced interest rates, people experiencing poverty would not have to rely on expensive financial institutions, and thus use the money more effectively.

4.5.3. Government-Sponsored Job Creation Schemes

The government is always striving to create new job opportunities, but these efforts have failed to provide adequate opportunities for people with low incomes. It can provide safe employment in areas with limited agricultural growth, such as the Rangpur district. These efforts should be properly financed, and one way to do so is to introduce an inheritance tax.

4.5.4. Ensuring Adequate and Affordable Shelter for the Poor

To alleviate inequality in Bangladesh, the government should provide adequate housing for low-income people. Given that about 31.5% of the population is below the poverty line, a large amount of financial resources will be needed to provide housing for people in need. The government can also raise more revenue through an inheritance tax imposed on the rich and use the money to finance housing development initiatives, thereby benefiting a substantial proportion of the population and leading to greater social equity.

4.5.5. Ensuring Food Security for Children from Disadvantaged Households

Some parts of Bangladesh are so impoverished that individuals, including children, starve. The World Bank Development Report [1] pointed to cases of children who have succumbed to death as a result of hunger. As it stands, government-run food banks do not offer emergency relief to people in need. The means of creating food banks or providing children with basic food would be very expensive. This would be a financial necessity that could be achieved by imposing taxes, especially an inheritance tax, which would not only raise a lot of revenue among the rich but also curb inequality in the economy.

4.5.6. Making the Country's Supply System More Efficient

Bangladesh Economic Review [3] (Labor Force Survey 2016-2017) states that 40.62% of the total labor force in Bangladesh works in agriculture, fisheries, and forestry. The majority of agricultural products are produced in rural regions, and transport infrastructure is what delivers them to urban markets. Most farmers in poverty are unable to deliver their goods effectively and to earn a profit because of the lack of highways. The intermediaries tend to buy at low prices and sell at higher prices, thereby promoting even greater inequality. Better supply chain management has the potential to enable these farmers to receive higher returns.

To enhance the supply chain, there is a need to develop infrastructure, especially the transport system. Bangladesh Economic Review [35] states that long-term socio-economic development in Bangladesh will require a well-structured, modernized transport and communication system. To integrate well into the global market economy, the country needs to maintain strong relations with regional and international communication and trade networks.

4.5.7. Advancement in Technology

Technology can be used to spur growth, generate jobs, and drive change across all sectors of the economy through government funding and subsidies. The farming industry and the manufacturing sector, especially, would gain in terms of increased output and improved quality, which would come to the rescue of areas embracing these developments to reduce poverty.

The government needs viable sources of revenue to fund such technological subsidies. A possible solution is to levy an inheritance tax on the more affluent sections of the economy, with the proceeds used to help the poor and enable inclusive growth.

4.5.8. Financial Support for Women Entrepreneurs

Women's entrepreneurship is an area that Bangladesh Bank has been working to develop by persuading all banks and non-bank financial institutions (NBFIs) to provide loans at an interest rate of 10 percent. To ease this, a Women Entrepreneurs Desk has been set up at the SME and SPD section of the Bangladesh Bank. Moreover, the central bank has instructed all banks and NBFIs to establish the desks in their respective institutions. One of the initiatives implemented to favor women entrepreneurs is the allocation of 15% of SME funds to women-led businesses. This is one of the activities included in the Bangladesh Bank's broader initiatives to curtail the gender gap in access to financial services.

Through the refinancing, 5,262 women-owned businesses were refinanced for Tk. 3.81 billion by the end of June 2012, indicating substantial progress in promoting women's involvement in the economy. These policies are part of a wider effort to increase the contribution of women in the business and to help in developing the economy (Bangladesh Economic Review [37]).

4.6. Key Considerations in Implementing Inheritance Taxation in Bangladesh

The potential benefits of inheritance tax need to be considered in the context of changing demographic patterns and family practices in Bangladesh. As most families now have fewer than three children, and some still have one, wealth is not usually shared among family members; it is passed on to one child.

The next demographic transformation is the increase in lifespan. The effects of longer lifespans and later childbearing by women are increasing the age of generations, leading to larger generation gaps and affecting the age at which assets are inherited. For example, in 1946, one was expected to inherit at age 56 (in 2002), whereas in 1891, one would have inherited at the average age of 37 (Anderson [38]).

The introduction of inheritance tax in Bangladesh is possible due to the country's persistent inequality and poverty. It would contribute to reducing inequality in two ways. First, the money collected as tax from the rich would be a tool to reduce disparities between the rich and the poor. Second, such taxation would raise a lot of money that Bangladesh, or any other developing nation, could use to fund infrastructure development to some extent without paying interest on international borrowings.

Several essential issues need to be brought to the fore in developing the inheritance tax mechanism in Bangladesh. These are outlined below.

4.6.1. Rate of Taxation

Depending on the government's financing requirements and economic status, the inheritance tax rate can be adjusted. As an illustration, the highest rate is 40 in the United Kingdom, and the lowest is 1 in India. The applicable rate is usually influenced by the state of the economy and the percentage of the population who are rich. In Bangladesh, it can be suggested that High-Net-Worth Individuals (HNWI), Very High Net Worth Individuals (VHNWI), and Ultra-High Net Worth Individuals should be subject to a 0.5 percent rate, as these are most likely to provide the largest contribution.

4.6.2. Minimum Threshold

A tax exemption limit can be set, and in that case, inheritance tax is charged once an individual's assets surpass that limit. As an example, the United Kingdom has a threshold of GBP 325,000. This threshold can be adjusted to meet fiscal requirements, with reductions when additional revenue is available and increases when funding is less urgent.

In Bangladesh, inheritance tax may be charged at a 0.5 percent rate to the High Net Worth Individual (HNWI), A Very High Net Worth Individual (VHNWI) and the Ultra-High Net Worth Individual.

High Net Worth Individual (HNWI), A Very High Net Worth Individual (VHNWI), and Ultra-High Net Worth Individual means are provided in the chart below:

Table 4 Meanings of Net Worth Individuals

| S.N | Category | Description |
|-----|--|--|
| 1. | High Net Worth Individual (HNWI) | A high-net-worth individual (HNWI) is a person with at least 1 million in liquid assets. |
| 2. | A Very High Net Worth Individual (VHNWI) | An extremely rich person is someone with a net worth of at least \$ 5 million. |
| 3. | Ultra-High Net Worth Individual | An ultra-high-net-worth person possesses investable assets totaling at least \$30 million, excluding personal possessions such as their homes, consumer goods, and collectibles. |

Source: (Corporate Finance Institute [39]).

4.6.3. Tax Exemptions and Reliefs

The government has to decide who is subject to inheritance tax and who is exempt. The categories to be considered include civil partners or spouses, small gifts, charitable donations, trusts, or wedding gifts. The government will also have to define which assets are exempt or relieved, such as businesses, woodlands, heritage property, or farmland. Appropriate rules are required to ensure that the tax system is both equitable and manageable, and they should be consistent with the overarching goal of reducing inequality.

4.6.4. Transfer year

The transfer year is the period between an individual's death and the actual transfer of assets or gifts. An example is an asset in the United Kingdom that is liable to inheritance tax if it is bequeathed or transferred within seven years of the donor's death. The same period must also be used when developing the framework of introducing inheritance tax in Bangladesh to make it clear and easily manageable.

4.6.5. Disabled child

Another factor that should be taken into consideration when formulating an inheritance tax policy is disability. The government is required to decide whether assets inherited by people with disabilities should be taxed or not. It is possible to set certain rules by which particular groups of disability can be exempted so that vulnerable groups of people are not unjustly taxed.

4.6.6. Deadline of payment

There should be a definite time period for paying the inheritance tax; failure to do so would result in interest or penalties being charged. An example is in the United Kingdom, where the deadline is set at six months from the month the deceased died. In Bangladesh, establishing such a schedule will guarantee timely compliance and efficient tax collection.

4.6.7. Cost of tax collection

Administrative costs are incurred in collecting inheritance tax, mainly involving valuing and verifying the inherited assets. The government should find a way to reduce these costs to save time and resources for asset assessment.

A good example can help conclude this discussion. Assume that the inheritance tax threshold will be BDT 80,000,000. Assuming that 1000 people die in a certain year (e.g., 20X020X1) and the assets of each person are equal to just BDT 8 crore, a hypothetical inheritance tax rate of 0.5 would produce:

$$= (80,000,000 \times 0.5\%) \times 1,000$$

$$= 400,000,000$$

5. Conclusion

Based on the discussion, one can conclude that inequality is one of the biggest development challenges. Poor employment systems, weak government intervention in production, poor government spending, poor regulations, unethical law enforcement, and a lack of structural development are some of the factors that perpetuate poverty. Poverty in an unequal economy is also long-term. Bangladesh, a developing nation since gaining independence in 1971, is striving to conquer poverty. The nation has set a target of achieving middle-income status by 2021 in accordance with the Millennium Development Goals. This paper investigated the present situation in Bangladesh in terms of inequality.

The research has found that in Bangladesh, there is a high degree of inequality, and this inequality is likely to grow as the economy expands. Consequently, the government should take steps to minimize inequality and ensure a more balanced allocation of wealth. Some of the possible interventions include education and training, job creation, human resource development, enhancing health services, enforcing legal systems, housing and social security, and technological development. This can be used to reduce the poverty divide between the rich and the poor and to create resources for the nation's further development.

The tax rate, exemption limit, relief, duration of transfer, and reduction in administrative costs should be taken into consideration when computing transactions for inheritance tax. Inheritance tax models from other countries can provide useful guidance in this process.

Compliance with ethical standards

Disclosure of conflict of interest

No conflict of interest to be disclosed.

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Appendices

Table 1 Income Inequality in Bangladesh

| Year | Rural | Urban | National |
|-------------|-------|-------|----------|
| 2000 | 0.393 | 0.497 | 0.451 |
| 2005 | 0.428 | 0.497 | 0.467 |
| 2010 | 0.430 | 0.452 | 0.458 |
| Growth Rate | 0.94 | -0.91 | 0.16 |

Table 2 Inheritance Tax implementation compared to other taxes (80 countries surveyed)

| | Number of Countries | Percent |
|--------------------------------|---------------------|---------|
| Countries with income tax | 80 | 100 |
| Developed | 23 | 100 |
| Developing | 57 | 100 |
| Countries with corporate tax | 80 | 100 |
| Developed | 23 | 100 |
| Developing | 57 | 100 |
| Countries with inheritance tax | 42 | 52.5 |
| Developed | 13 | 56.5 |
| Developing | 29 | 50.9 |

Source: Strawczynski (2011), Income and Inheritance Tax around the World

Table 3 The Characteristics of the Inheritance tax1

| Country | Inheritance /Estate Tax (percent) | Tax Threshold ² | Threshold as % of GDP per capita ³ | Comments |
|--------------------|-----------------------------------|----------------------------|---|--|
| Advanced Economies | | | | |
| Belgium | 3-7 | | | Varies depending on the region of residence. |
| Czech Republic | 0.5-2.5* | | | |
| Denmark | 15 | 47,000 | 78.4% | |
| Finland | 7-13* | 26,500 | 53.7% | |
| France | 5-45* | 10,500 | 23.8% | |
| Germany | 7-30* | 654,350 | 1,500% | Spouse or the transferor's common-law spouse. |
| Greece | 10 | 788,000 | 2,910% | |
| Iceland | 10 | 12,150 | 28% | |
| Ireland | 25 | 436,000 | 918% | Gift and inheritance taxes are included in the Capital Acquisitions Tax (CAT). |
| Italy | 4 | 1,327,000 | 3,659% | |
| Japan | 10-50* | 859,000 | 1,870% | A basic exemption of ¥50 million is deducted from taxable properties for a single heir, with an additional ¥10 million multiplied by the number of statutory heirs. |
| Luxembourg | 0-5 | 13,000 | 11.5% | |
| Netherlands | 10-20 | 157,500 | 313% | |
| Norway | 6-10* | 82,000 | 84% | |
| Portugal | 10 | | | With the exception of the spouse, ascendants, and descendants who are exempt. |
| Spain | 7.65-34* | | | The autonomous region determines the rates for estate and gift taxes. |
| Switzerland | 0-50 | | | At the federal level, there are no gift or inheritance taxes. Separate inheritance and gift taxes are levied in practically every canton. Depending on the canton in which the donor or deceased person resides, rates can differ significantly. |
| U.K. | 40 | 527,000 | 1,365% | |
| U.S. | 18-35* | 5 million | 10,333% | Alterations that began in 2013. Refer to the note below. |

| | | | | |
|-------------------------------|-------------|---------|--------|--|
| Developed Average (Marginal) | 16.2 (22) | 710,000 | 1,653% | |
| Developing Economies | | | | |
| Angola | 10-30 | | | |
| Aruba | 2-6 | | | |
| Botswana | 5-25* | 8,142 | 86% | Estate income tax. |
| Brazil | 4-8 | | | At any rate, up to 8%, states have the authority to impose estate and gift taxes on real estate transfers made by inheritance and donation. In Sao Paulo and Rio de Janeiro, the average rate is 4%. |
| Malawi | 5-11* | 180 | 51% | Estate duty |
| Philippines | 5-20* | 4,740 | 213% | |
| Poland | 3-20 | | | Under specific conditions, the closest relatives of the donor or the deceased are exempt. |
| Puerto Rico | 10 | 10,000 | 41% | |
| Senegal | 3-50* | 150 | 14% | |
| Serbia | 2-2.5 | | | Depending on the value of the tax base. |
| Singapore | 2-20* | 16,000 | 32.5% | Resumed in February 2011. |
| | | | | |
| Saint Maarten | 2-6 | | | |
| Slovenia | 5-30 | 6,600 | 27% | The tax does not apply to spouses, children and their spouses, or stepchildren. |
| South Africa | 10-40 | 453,000 | 5,616% | |
| Taiwan | 10 | 360,000 | 1,791% | |
| Turkey | 1-10* | 97,000 | 922% | |
| Venezuela | 1-25 | | | |
| Zimbabwe | 5 | 50000 | 3,537% | |
| Developing Average (Marginal) | 10.9 (16.4) | 189,980 | 1,595 | |
| Total Avg. | 12.8 | 386,744 | 1,617 | |

(Source: Ernst and Young) Source: Strawczynski (2011),

- For first-degree relatives inheritance.
- Valued in U.S. dollars.
- GDP per capita in 2011 from the IMF - World Economic Outlook.

*The highest tax level is represented by a greater tax, which is rated. Since 2013, the U.S. threshold and maximum rate have been set at one million and fifty-five percent, respectively.

Table 4 Revenue From Inheritance Tax in UK

The following table shows the inheritance tax income earned in the United Kingdom. This indicates that GBP 2,902.6 million was earned in 2011–2012.

Amounts: £ million

| | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 |
|---------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| Transfers on death | 2,876.0 | 3,196.3 | 3,495.5 | 3,765.7 | 2,769.4 | 2,320.2 | 2,631.3 | 2,828.3 |
| Transfers to discretionary trusts | 13.6 | 15.0 | 10.9 | 11.7 | 15.8 | 13.4 | 10.6 | 12.0 |
| Charges on discretionary trusts | 32.3 | 47.8 | 38.8 | 46.3 | 54.0 | 49.9 | 76.0 | 62.3 |
| Net cash receipts Additional non-cash | 2,921.9 | 3,259.1 | 3,545.2 | 3,823.7 | 2,839.2 | 2,383.6 | 2,717.9 | 2,902.6 |
| Additional non-cash | 6.7 | 18.1 | 13.3 | 9.7 | 8.5 | 12.1 | 6.0 | 14.5 |

Table 5 Budget Deficit of Bangladesh

| Fiscal Year | Amount (BDT Crore) |
|-------------|--------------------|
| 2009-10 | 33,542 |
| 2010-11 | 39,323 |
| 2011-12 | 45,204 |
| 2012-13 | 52,068 |
| 2013-14 | 55,032 |
| 2014-15 | 67,552 |
| 2015-16 | 97,000 |
| 2016-17 | 97,853 |
| 2017-18 | 1,12,275 |
| 2018-19 | 1,25,293 |
| 2019-20 | 1,45,380 |