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from Tata Group of India, Torrey Group of Japan, and from other different countries are being negotiated.

67. Programmes to establish Export Processing Zone (EPZ) at Chittagong and EPZ at Dhaka commenced in the year 1980 and 1991 respectively. Following that initiative, additional four EPZs were established. The present Government converted closed Chittagong Steel Mills into Karnaphuli EPZ and the closed Adamjee Jute Mills into Adamjee EPZ. 236 industrial units are in operation in these EPZs.

TAX AND DUTY MEASURES

Mr. Speaker,

68. So far I have placed the proposals for the allocation of resources in different sectors of the economy for FY 2006-07. These proposals aim at the overall socio-economic development of the country in the light of the policy and strategy being pursued by the Alliance Government. Now I would like to present the proposed measures for mobilization of resources in order to make this allocation efficient and judicious. Before that, I would like to throw some light on some of the important measures which we have undertaken over the past few years.

Mr. Speaker,

69. While presenting the budget for 1991-92 in this august house, I mentioned, "For the sake of the economy itself the mobilization of resources from the internal sources has to be strengthened". I distinctly remember that I also said, "It is not impossible to achieve, if there is political will, accompanied by adoption of right and proper strategy". I have assiduously pursued this policy in the formulation of all the 11 budgets and succeeded in increasing collection of revenue. This is well vindicated by the fact that while the amount of total tax revenue was a modest Tk. 1,723 crore in FY 1980-81, it has risen to Tk. 29,902 crore in FY 2004-05.

Mr. Speaker,

70. I have never intended to put heavy tax burden on the people in my efforts to augment the internal resources. Never have I hindered the growth and development of our Agriculture, Industry and Trade. I do not believe in the enhancement of tax incidence for increased resource mobilization. I have always laid great emphasis on the improvement of management, increasing efficiency and on the modernization of revenue administration. I have always put emphasis on the reforms of laws and procedures. While presenting the budget for FY 2005-06, I informed this House last year that with a view to reforming the revenue administration, we have formulated a Strategic Development Plan. Under this Plan, modernization of the National Board of Revenue has been taken up on a priority basis. The Board is being revamped and reconstituted, and responsibilities are being assigned to the Members of the Board along functional lines. International and local consultants will assist the members of the Board in this regard. An Audit cell has already been created in the Board and an International Audit Advisor appointed. A Change Management Advisor, one Human Resources Development Advisor and an ICT Advisor have also been engaged. The two large Taxpayers' units for Income Tax and VAT respectively, set up in the recent past, have started giving positive results. The Central Intelligence Cell (CIC) has unearthed many cases of tax evasion and achieved noteworthy success in realizing evaded taxes. We are going to set up branches of Large Tax-Payers' Units in Chittagong very soon. In order to make the export and import trade more dynamic and more efficient, the existing Customs House at Chittagong has been bifurcated and two Customs Houses will be set up one each for export and import. These offices will soon start functioning. Introduction of the improved version of Automated System of Customs Data, ASYCUDA ++ & Direct Traders Input (DTI) at Dhaka, Chittagong and Benapole Custom Houses has made appraisal and assessment functions simpler, reliable and dynamic. All these measures are expected to bring about qualitative change in the whole gamut of NBR function.

Mr. Speaker,

71. Although tax revenue is the mainstay of our internal resources, our Tax-GDP ratio is very low. I have been very conscious of this reality and that is why I have been trying very hard to improve the situation since FY 1980-81. In pursuance of this policy, I introduced the Value Added Tax in 1991, the most modern method of taxation. Although I was derided and criticized at that time, the subsequent events proved beyond all shades of doubt, that this was a far-sighted, appropriate and epoch-making decision. Introduction of the VAT is not the only step taken, in addition I also introduced a lot of reformative measures during my tenure in office in 1991-95 and 2002-06 in matters of direct tax. Filing of Income tax return on the basis of self-assessment, introduction of four tier rate of tax, reduction in the highest slab of income tax rate, compulsory submission of Income tax return by the government officials, submission of information pertaining to life style by individual tax payers with the income tax return and expansion of the coverage of deduction at source are but a few of those reform measures. Adoption of all these measures has expanded the domain of income tax resulting in enhanced collection of revenue. Consequently, our age old dependence on duties and taxes at the importation level is being slowly but consistently shifted on to direct taxes, which is a welcome sign.

Mr. Speaker,

72. When BNP took over the reins of governance in 1991, numerous and high rates of duty existed at the importation stage. Also there were a host of charges, levies and fees. This was responsible for an unhealthy situation of rent-seeking, aversion to export, smuggling, evasion of duty, and harassment of the genuine businessmen. I took initiatives during the period between 1991 and 1996 and made sincere endeavors to rationalize and reform this complex and flawed tariff structure and brought down the highest rate of duty to a reasonable level and also reduced the number of rates existing at that time. But regrettably, these initiatives saw a downturn in the period between 1996 and 2001 and as many as 31 rates of supplementary duty were imposed on daily essentials. This created an environment where foreign investment slowed down, local industries suffered and smuggling and money laundering thrived.

73. As soon as I had taken over as Finance Minister in 2001 again, I started where I left, and made sincere efforts to reform and rationalize the tariff structure. As a result, a transparent, well-defined four tier duty structure for raw materials and capital machinery, intermediate goods and finished goods was put in place. Likewise, we also introduced a rational three tier structure of supplementary duty for common luxury items. These provided fresh impetus to the industries; importation of raw materials and capital machineries for industries increased manifold and rapid growth in the industrial sector took place. This pragmatic policy has left its indelible stamp on Value Added Tax and Income Tax yielding increased revenue from these two vital sources of revenue.

74. We can dare say that the spectacular 6.7% growth of our GDP this year is the direct result of the appropriate and pragmatic policy decisions that we took and implemented in the past few years. So, imbued with the lofty ideals that we cherish and the pragmatic approaches that we espouse, we have taken bold and welfare-oriented measures in matters of Import duty, Value Added Tax and Income-Tax this time around. I firmly believe, all these measures will accelerate the economic growth, and play an effective role in enhancing the standard of living of the common masses. With this abiding belief, now I would like to place the Tax proposals and revenue measures before this august House.

DIRECT TAX

Mr. Speaker,

75. In the backdrop of free market economy, dependence on import duty is dwindling slowly and steadily. That is why, more emphasis is given on Income tax and Value Added Tax for increased revenue collection. You may recall that the Alliance Government, from the day it was sworn in, has made unflinching efforts to instill dynamism in the tax administration to ensure transparency and accountability. We have introduced multidimensional reforms for expansion of the existing tax base and for speedy disposal of pending appeal cases. We have undertaken a host of measures to create conditions conducive to investment, growth of agro processing and export oriented industries. All these measures have yielded positive results. While in FY 2001-02, revenue collection from Income tax was Tk. 3,789 crores, this year it is expected to reach Tk. 6,960 crores. It is, therefore, evident that collection from Income tax has almost doubled over the past five years. In continuation of the reform agenda that we have already initiated and implemented in the past four years, I would like to place before this house some of the important proposals regarding Income Tax.

Mr. Speaker,

76. I propose to keep the ceiling of tax-exempt income, income slabs and the tax rates at the same level for the income year 2007-08 as is the case for the assessment year 2006-07 for the individual assesses. But I propose 10% tax rebates on the additional tax paid by those individual taxpayers paying taxes at the highest rate of 25% disclosing more than 10% higher income in the assessment year 2007-08 (Annexure-A). Besides, I propose to keep the tax rates unchanged for the companies at the same level of assessment year 2006-07.

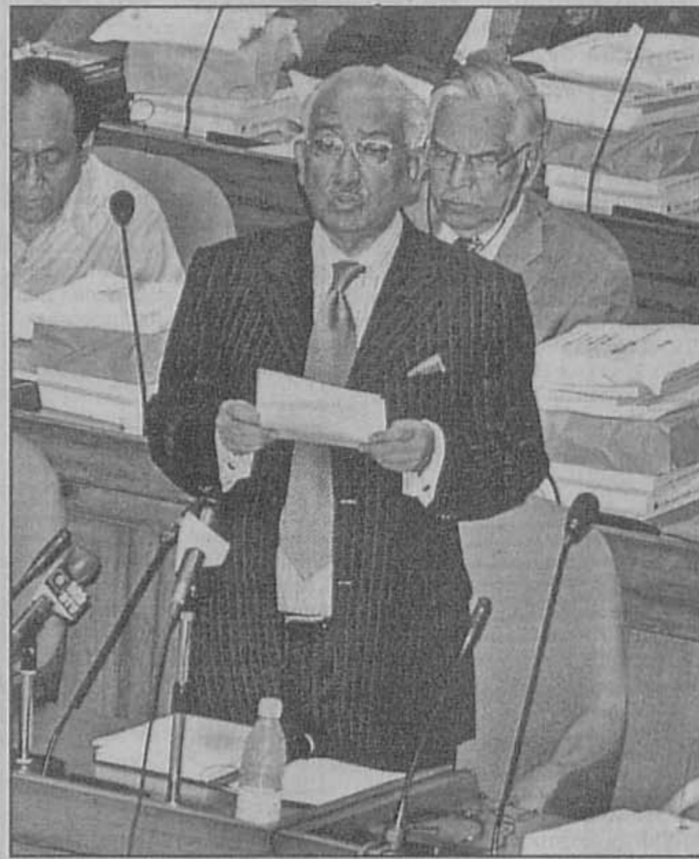
77. With a view to developing agro-processing, jute and textile industries benefit of tax exemption and rebate was allowed up-to 30th June, 2006. I propose these benefits be extended till 30th June, 2008.

78. Diamond cutting and polishing is emerging as a promising export industry in Bangladesh. I propose a reduced tax rate of 15% for this industry to encourage the investors.

Mr. Speaker,

79. With a view to simplifying the application of Income Tax Law and making it modern, I propose some additions and amendments in the Income Tax Ordinance, 1984:

- (1) To raise the admissible expenditure by way of perquisite for companies from taka 1 lakh 92 thousand to taka 2 lakh and to exclude incentive bonus, employers contribution to provident fund, pension fund, gratuity fund, and super-annuation fund from the definition of perquisite.
- (2) To allow accelerated depreciation at the rate of 50%, 30%, and 20% respectively in first three years of installation of machinery instead of allowing 100% depreciation in the very first year of their installation.
- (3) To raise the annual tax-exemption limit of conveyance allowance paid in cash from Tk. 12 thousand to Tk. 18 thousand for computing income of the salaried persons.
- (4) To treat the expenditure by way of salary or allowance as inadmissible if it is not paid by bank cheque or bank transfer to the employees whose monthly salary or allowance is Tk. 15 thousand or more.
- (5) To treat the investment made by the directors of private and non-listed companies as income of the company when such investment is not made by bank cheque or bank transfer.
- (6) To make it mandatory for the income tax practitioner to be a member of any registered Taxes Bar Association for working as an authorised person.
- (7) To raise the amount of allowable investment for the purpose of tax rebates from Tk. 2 lakh to Tk. 2 lakh 50 thousand irrespective of share purchase of a company.
- (8) In case of submission of tax return on self-assessment basis, the requirement to disclose in the first year of business an income of at least 15% of the amount shown as initial capital to be raised to 25%.
- (9) To withdraw the tax exemption benefit on remittance from abroad for resident persons who are not citizens of Bangladesh.
- (10) To re-fix the tax rate under Section 19B of the Income Tax Ordinance, 1984 to Tk. 300/- per square metre for a plinth area up to 200 square metre and Tk. 500/- for a plinth area over 200 square metre in case of purchase or construction of building and apartment in Gulshan, Banani, Baridhara, Bashundhara, Dhanmondi, DOHS etc. of Dhaka and Panchlaish, Khulshi of Chittagong and to keep the prevailing tax rates unchanged for other areas.

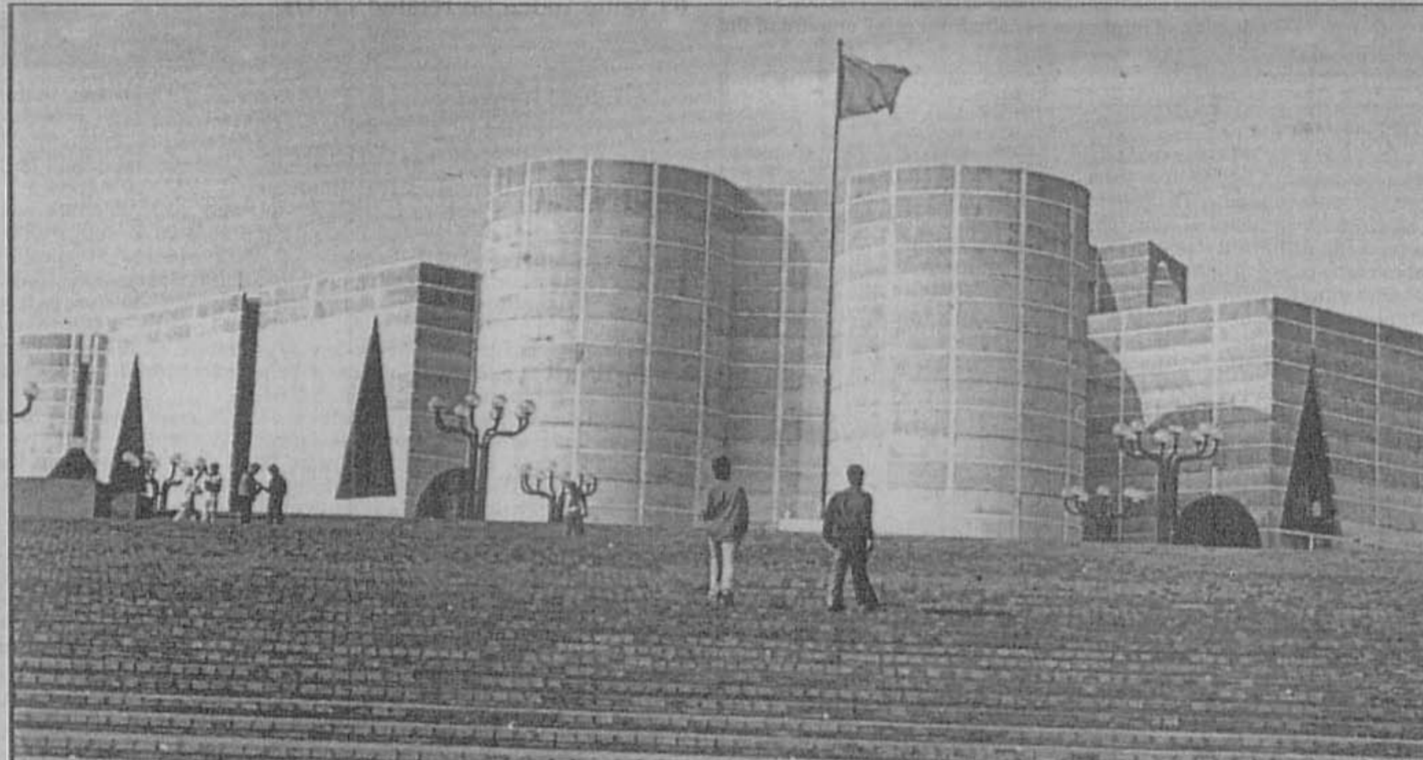


80. Our entrepreneurs sometimes complain about the issues of dumping and undervaluation of imports. I would like to take this opportunity of making our stand on the subject crystal clear. We have effected necessary amendments in the Customs Act to deal with the issues of Anti-dumping duty and Countervailing duty in consonance with the principles laid down by the World Trade Organization (WTO). I want to reiterate that the Government will not hesitate to take appropriate measures as and when our entrepreneurs come forward with necessary information and documents. I have this unflinching faith that our business community and industrial entrepreneurs will spare no pains to protect our domestic industries using all these instruments made available to them.

81. In consideration of the contribution of our Agriculture Sector to the economy, fertilizer, seeds, capital machinery, drum-seeder and other agricultural inputs have been exempted from duties and taxes at the importation stage. To continue with this facility and to further expand its nature and scope, I propose to withdraw Infrastructure Development Surcharge (IDSC) from all kinds of hybrid rice seeds.

Mr. speaker,

84. This is my considered view that we should keep the price of some of the basic commodities within the reach of common people. The total tax incidence of garlic, turmeric, chilly and ginger is 20% and that of onion, pulses (Peas and chickpeas) is 13%. I propose reduction of tax incidence of all these items to 5% as is the case with rice, pulse and lentils. It is imperative to keep the price of sugar stable in the domestic market in view of the abnormal escalation of price in the international market. Total tax incidence of sugar is now 43.75%. Having considered the interest of the consumers, the sugarcane growers, sugar industry as well as its workers, I propose imposition of specific duty of Tk. 5,000/- on sugar per MT at the importation stage. This will bring down the price of sugar by nearly Tk.



(11) To re-fix the tax rate for purchase of land under Section 19BB of the Income Tax Ordinance, 1984 by enhancing the rate from 5% to 7.5% and make this benefit available all over the country. Also to re-fix the tax rates for purchase of motorcar under Section 19BBB raising the rates of 5% and 7.5% to 10% and 15% respectively.

(12) Government gives export cash subsidy on export of various items with a view to encouraging the export business. I propose to deduct tax at source at the rate of 5% on the amount of cash subsidy for it being a net receipt to the exporter and treat the deduction as final settlement of tax liability.

(13) To deduct tax at the rate of 5% on the receipts of non-resident courier companies and treat it as final settlement of tax liability.

(14) To collect advance income tax at the rate of 3% on the bills paid by the user of credit cards.

(15) To introduce the provision of minimum income tax of Tk. 5,000/- or 0.50% of turnover whichever is higher for companies irrespective of profit or loss.

Mr. Speaker,

80. During the last few years, time limit for filing and disposal of appeals has been reduced to a great extent. Still there is room for reduction of the time limit. Delayed disposal of appeals sometimes deprives the taxpayers of justice and at the same time defers the revenue collection of the government. So I propose further reduction of the time limit for filing and disposal of appeals in different stages including Taxes Appellate Tribunal (Annexure-A-1).

INDIRECT TAX

Customs Duty

Mr. Speaker,

81. Over the past few years, we have been trying to reform and rationalize our tariff structure consistently. At present, we have a four tier Customs Duty: 0% and 6% for basic raw materials and capital machinery for industry; 13% for intermediate goods and 25% for finished goods. I propose changes in the rates of duty keeping the four tier structure unchanged. I also propose that the rates of duty namely 13% and 6% be reduced to 12% and 5% respectively. I think we should take a fresh look at the existing structure of supplementary duty. Whereas the tier may remain intact, the two rates of 35% and 25% be brought down to 20% and 15% respectively. I trust and hope that this reform will help the growth of domestic industries and have salutary impact on economic progress and prosperity.

tions so imposed.

91. With a view to making our paper & printing industry more competitive, I propose imposition of supplementary duty @ 15% on advertising materials, commercial catalogues etc. (Annexure-B-2). We have been consistently pursuing a policy of making telecommunication facilities available at the door-steps of the people. In pursuance of this policy I propose reduction of duties on cellular mobile telephone sets from Tk. 300/- to Tk. 200/- per set. Likewise I propose that the same duty of Tk. 200/- be imposed on cellular fixed wireless telephone set.

Value Added Tax

Mr. Speaker,

92. Value Added Tax has assumed a very important role in the process of economic development of the country. In this current year collection of VAT at domestic level is expected to reach 11,000 crore.

93. To make VAT system more modern, transparent, effective and simple, I now propose some changes in the Value Added Tax Act, 1991 and the Rules made there under (Annexure-C).

Mr. Speaker,

94. In order to ensure quicker disposal of appeal cases I propose to reduce the time limit for disposal of VAT appeal cases from one year to nine months for Commissioner (Appeal) and Customs, Excise and VAT Appellate Tribunal. In the Value Added Tax Act there is provision for imposition of a minimum fine ranging from an amount equal to the amount of tax evaded to a maximum of two and a half times of tax evaded. It is a binding for the VAT officials to impose a minimum penalty equal to the amount of tax evaded even for minor offences. In order to remove this inconsistency I propose to reduce the minimum penalty from equal amount of tax evaded to fifty percent of the amount of tax evaded and also to reduce the maximum penalty from two and half times to double of the evaded amount. Moreover, I propose to reduce the extent of minimum penalty for minor offences from Taka ten thousand to Taka five thousand and for offences of less serious nature from Taka twenty five thousand to Taka ten thousand.

Mr. Speaker,

95. To encourage the development of local dairy industries I propose to withdraw 2.5 percent supplementary duty from local production of packet powder milk in packs of 2.5 kg and over. I also propose to reduce tax from Taka 900 to Taka 800 for each cellular mobile phone connection to ensure availability of telecommunication facilities to the masses at affordable price. At the same time I propose to impose a tax of Taka 800 per connection of the cellular fixed-wireless telephone.

Mr. Speaker,

96. To remove distortion and to ensure equity among tax payers I propose to withdraw exemption extended to the services of providers namely, land developer, graphic designer and black and white photo studio and also to bring the services, namely, hotel, decorator and caterer, community centre, beauty parlour, shipping agent, air-conditioned bus service, air-conditioned railway service and transmitting advertisement though satellite channel under VAT system from Turnover system.

Mr. Speaker,

97. Revenue target under the NBR for FY 2005-06 was fixed at Tk. 35,652 crores. In the changed circumstances, towards the end of the fiscal year revenue collection is expected to reach Tk. 34,456 crores. Having made a dispassionate evaluation of the current trends and the prospects of the coming year, revenue target under NBR for FY 2006-07 has been fixed at Tk. 41,055 crores. Components of Income tax, Customs duty, Value Added Tax and other duties will be Tk. 8,500 crores, Tk. 9,485 crores, Tk. 22,615 crore and Tk. 455 crore respectively. I trust and hope that this target will not be difficult to achieve if we can properly translate the budget proposals into action.

Mr. Speaker,

98. With anguish in my heart I would like to mention that collection of revenue, implementation of development projects, and other important economic activities of the government are being seriously jeopardized by a spurt in the number of court cases, delay in their disposal, and our inability to recruit officials because of cumbersome legal processes. In spite of all our sincere efforts, it has become very difficult to achieve the revenue target. I should like to draw the attention of the honorable members of parliament and appeal to them to undertake reforms of the existing laws. Without this reform, implementation of development projects and collection of revenue in terms of billions of taka will remain stuck in the cobweb of procrastination and legal complexities. Consequently, our revenue management will not be able to achieve its goals in the competitive global economic environment.

Mr. Speaker,

99. As I have mentioned earlier, the budget for FY 2006-07 aims at increasing public welfare by poverty reduction through human resource development, development of agriculture and industrial growth, expansion of trade and commerce. The sole objective of the budget is to build a happy, self-reliant, vibrant and prosperous Bangladesh. We have been guided by the existing realities and economic compulsions in the preparation of the budget. The Government has successfully faced and weathered global recession, globalization of economy, natural disasters and unprecedented high oil prices in the international market. In spite of these adversities, the economic success that the Government has achieved is commendable. The success of the Government in maintaining sustainable growth and the development of social sectors has been widely acclaimed both at home and abroad. I must also add in this connection that we have many challenges ahead. We have to tackle the volatile oil price, alleviate poverty, augment internal resources mobilization, and further improve the law and order situation. This is a daunting task. But we have to face it fair and square. We have to move ahead along the path of development. There is no room for failure in this challenge.

Mr. Speaker,

100. In the last 5 years, the present Government has been through natural disasters, political instability and many external shocks like global economic recession, economic globalisation, and oil price hike. Despite these obstacles, the success achieved by the present Government in economic management is remarkable. Overcoming negative impact arising from oil price hike, accelerated poverty reduction, sustainable development, and further improvement in law and order are the challenges that we must successfully face. We have to march towards development and prosperity. We cannot afford to fail.

Mr. Speaker,

101. Bangladesh is no more a country of despair; this is a country of hopes and potentials. A recent research study by US-based Goldman Sachs predicted the emergence of 11 countries as stronger economies by 2050 outside the 4 countries originally focused in their BRIC (Brazil, Russia, India and China) research. Bangladesh appeared as one of the 11 countries. Like Goldman Sachs, many agencies and institutions speak of immense potentials of Bangladesh. Many hold views that Bangladesh is a role model for socio-economic development including disaster management. We have earned this reputation because of our unrelenting efforts to unlock the potentials. We must believe in our unending potentials. We have to come out of vicious cycle of poverty by forging unity emanating from tolerance and mutual respect. We have to build a society where good performers would be rewarded and wrong-doers punished, where politics will be based on ideology and logic, unity and welfare.

Mr. Speaker,

102. I have had the rare privilege of presenting this budget for the 12th time before this august House. Before I conclude I would like to make this clarification call to all of you, "let us unlock the potential of this country, and let us unite in the interest of the people and our dear motherland. Let us establish peace and stability, and let us create conditions conducive to economic welfare and economic development".

May Allah be with us in our onward march.

Allah Hafeez.
Bangladesh Zindabad.