

Text of Budget Speech

Reform steps in income tax administration taken up

The following is the remaining part of Finance Minister Saifur Rahman's budget speech at the Jatiya Sangsad (parliament) on Wednesday:

25. The present exemption, in respect of raw materials for industries as are approved by the Board of Investment form tax at import stage is not warranted by the over-all scheme of the rule, framed in this behalf. Viewed from this angle this general exemption to all industries approved by the Board of Investment, part from being inconsistent with general scheme, also discriminates against industries approved by the former Department of Industries. Besides, due to the enormous volume of imports made by industries approved by the Board of Investment, the major area of imports has remained outside the purview of tax with holding at import stage. With a view to augmenting revenue as well as to removing this anomaly it is proposed to withdraw this exemption from raw materials of the industries approved by the Board of Investment.

26. Donations to sports federations and clubs are at present exempt up to taka five lakh. This blanket exemption is being abused as a means for avoidance of tax on the one hand while the main objective of development of games and sports is also not being achieved on the other. With a view to bringing about real improvement in the over-all sports activities, it is proposed to restrict this donation of up to five lakh taka in the case of sponsors of first class national and international games and sports only.

27. Income from fish farming, duckery, poultry farming, cattle farming, dairy farming, horticulture, frog farming, cultivation of the mulberry, cocoon, mushroom and floriculture is exempt up to 30th June, 2000. Though the exemptions in other areas are subject to fulfilment of certain conditions, the exemptions in respect of these agriculture related activities are unconditional. As a result, this exemption benefit, in some cases, is being used as a tool for avoiding tax and legalizing black money. With a view to preventing this benefit from being misused, investment of 15 per cent of the declared profit is proposed to be made in Government security including Saving Certificates.

28. In order to issue refund of any excess tax paid by a taxpayer, as assessing officer is required to examine the relevant evidence and documents. It is, therefore, proposed to exclude cases involving claim of refund due to collection of tax at source from the scope of self-assessment.

29. Under the mercantile method of accounting expenditure on account of interest on loan by an assessee of any bank of financial institution is considered allowable at the time of assessment irrespective of whether the amount is paid or not. As a result, the debtor assessee apart from enjoying the benefit of deduction for tax purposes, also becomes prone to defer the payment of interest for an indefinite period. With a view to compelling the debtor assessee to discharge his debt liability it is proposed to treat the accrued interest which has not been paid within two years from the end of the income year in which it is allowed as income of the assessee.

30. So long I have outlined the measures directly related to revenue regarding income tax. It needs to be mentioned that a viable tax system cannot be evolved only through legal measures. The desired objective of augmenting the role of income tax in the resource mobilization process cannot be achieved unless the administrative machinery is made dynamic so as to keep pace with the fast changing tax laws. No reform measures worth the name in respect of direct tax administration was even contemplated during the last nine years. As a result, the number of tax payers has increased only marginally during the last few years. Due to limitations of the administration machinery in the income tax establishment, the potential new areas of taxation could not be properly explored. The field level officers, being over burdened with the existing work load, cannot even give due attention to the assesses already admitted in the tax net. Due to this administrative inadequacy a great number of prospective assesses remain outside the tax net and those within the tax net find it easier to dodge the tax department, the net effect in both the cases is the same, i.e., the state exchequer is being deprived of revenue. In order to lessen the overall burden of tax on the common people there is no alternative except increasing reliance on direct taxes especially income tax. To build a self-reliant economy it is essential to in-

roduce long term measures potent with foresightedness in the taxation policy right now. In order to achieve the budget target for income tax during the coming fiscal year and to meet the challenging need of increased internal resources in the years to come, some vitally important reorganization and reform measures in the income tax administration have been taken up this year. These measures include, among others, setting up tax offices in the newly created districts, division of the over-burdened tax circles, creation of an independent and effective survey zone to identify new assesses, separation of Directorate of Training and Inspection in order to strengthen the inspection programme and to improve efficiency of the officers and staff, creation of some posts of Commissioners (Appeals) to meet the end of justice and reorganization of the Taxes Appellate Tribunal. It has also been decided to create two new posts of Members in the direct tax wing of the National Board of Revenue for effective control and management of the reorganized tax administration. This programme will be implemented in the coming financial year. It is hoped that the dynamism which will be generated through the administrative reorganization will result in collection of increased revenue from income tax and strengthening the role of income tax in the resource mobilization efforts in the years to come.

Other Direct Taxes:

Wealth Tax

31. At present a house valued up to 25 lakh taka is exempt from payment of wealth tax if the owner himself lives in the house. The great rise in value of even small and plain houses in the recent years makes this exemption limit somewhat inadequate. Therefore, the exemption limit of a house if the owner himself lives in it is proposed to be raised to 50 lakh taka.

Foreign Travel Tax

32. At present Bangladeshis travelling abroad by air have to pay foreign travel tax at the rate of 12.5% of the fare subject to a minimum of 250 taka and maximum of 2000 taka. For air travel to SAARC countries, this tax is realised at the fixed rate of 500 taka. The present rates of foreign travel tax seem somewhat burdensome to the travelling public. In order, therefore, to make the tax rates fair and reasonable, it is proposed to impose this tax at the rate of 10% of the fare, but subject of a minimum of 250 taka and maximum of 1500 taka. For travellers to SAARC countries the maximum rate will remain unchanged at 500 taka. Likewise, for foreign travel by land it is proposed to fix this tax at 150 taka per traveller in place of the present 250 taka and for travel by sea at 500 taka in place of the present 800 taka.

33. Revenue collected through taxation is the main moving force of an economy. The tax payers deserve due recognition from the society for the sacrifice they make for greater national interest by way of paying tax dues. It is our duty as a self-respecting nation to place the tax payers in social esteem. With this end in view, it has been decided by the Government to introduce a system of declaring the Very Important Persons (Income Tax) in the coming financial year. Under this scheme ten assesses will be selected for declaring them as VIPs. But the assesses having a record of tax delinquency or tax paid by them falls short of specified amount or who are defaulters to scheduled banks including development finance institutions, shall not be considered eligible for being VIPs under this scheme.

Import Duties:

34. In formulating the budgetary proposals relation to import duty for the coming year the important principles followed are:

- (a) simplification of the import duty structure;
- (b) reduction of duty on some items of common use;
- (c) assistance to post-cyclone and post-flood rehabilitation and reconstruction efforts;
- (d) improvement of communication systems of the country;
- (e) rationalization of import duty structure by removing anomalies;
- (f) protection of the legitimate interests of domestic industries;
- (g) encouragement of education, research and health services; and
- (h) augmentation of revenue and prevention of misuse of foreign exchange.

35. Measures adopted to simplify the import duty structure are expected to ease revenue collection and make the tariff structure easily understandable to the tax-payers. At present imports are subject to

a number of different taxes, such as, customs duty, development surcharge, regulatory duty in some cases, and sales tax at various rates. This multiplicity of taxes not only hinders smooth revenue collection efforts but also confuses the tax-payers. To put an end to this situation, it is proposed that development surcharge and regulatory duty be withdrawn. In addition, with effect from 1st July a uniform rate of Value Added Tax, will replace Sales Tax. The resultant loss of revenue will be compensated by raising the rate of customs duty by ten per cent on all imported goods except a few.

36. Measures adopted to help reconstruction and rehabilitation efforts, following the recent cyclones, tidal-bows and floods, are as follows:—

- (a) Corrugated iron sheet is used in building low-cost housing for low income groups. On this consideration the present rates of customs duty including development surcharge of 58 and 28 per cent respectively on C. I. sheet and its main raw material BP. MS sheet, are proposed to be reduced to 50 per cent and 20 per cent respectively. On the same consideration it is proposed that rates of customs duty including development surcharge of 18 per cent and 38 per cent on pig iron and MS billets respectively be reduced to 10 per cent and 30 per cent respectively.

- (b) In order to bring down the prices of aluminium utensils the present rates of customs duty including development surcharge of 18 per cent on aluminium scraps and 38 per cent on aluminium sheets, plates and circles are proposed to be reduced to 10 and 30 per cent respectively.

- (c) With a view to strengthening cyclone forecasting and forwarding system it is proposed to reduce the present rate of 28 per cent of customs duty inclusive of development surcharge on weather forecasting equipments to 10 per cent.

37. With a view to reducing customs duty on some items of common use the following proposals are made:—

- (a) Customs duty on hand sprayers for agricultural use, electric smoothing iron and its heating elements and artists' brush, will be reduced from 100 per cent to 75 per cent.

38. Efficient road transport and tele-communications systems are essential infrastructures for development. To assist this sector, the following measures are proposed:—

- (a) Efficient tele-communications boost economic development and encourage foreign investment. On this consideration, it is proposed to reduce duty on polyester foil and petrojetly, essential raw materials of telephone cable manufacturing industry, from 100 per cent to 40 per cent. Besides, duty on digital and analogue telephone exchanges are proposed to be reduced

from 100 per cent to 20 per cent and on PABX exchange from 100 per cent to 50 per cent.

39. The following measures are proposed with a view to removing anomalies in the customs duty structures:—

- (a) At present customs duty at the rates of 20, 30, 50 and 100 per cent are levied on different types of paper and paper boards. Variation of rates on similar products encourages tax evasion through mis-declaration. In order to remove this anomaly, it is proposed to impose customs duty at the uniform rate of 75 per cent on all papers and paper boards except papers used in the diagnosis of diseases, cigarette paper and wall paper. This measure will also be an incentive to the local paper manufacturing industries;
- (b) Metalised zari and lumi lux yarn are similar products and have identical use. Presently these two products are liable to customs duty including development surcharge at the rates of 58 per cent and 28 per cent respectively. With a view to removing this anomaly both these items are proposed to be subjected to a uniform rate of 60 per cent;
- (c) Duty on ball point pen ink is proposed to be revised to 75 per cent from 50 per cent to bring it at par with other writing inks;
- (d) The existing rates of customs duty including development surcharge of 18 and 28 per cent respectively on paper cups and glass bottles used in the manufacture of food and drinks are proposed to be revised to a uniform rate of 30 per cent. In order to discourage use of plastic, duty on plastic cups is proposed to be enhanced from 50 per cent to 60 per cent;
- (e) In order to rationalise duty on brass sheet and brass strip it is proposed to enhance duty on brass sheet from 28 per cent (with DSC) and fix the rate of 40 per cent on both these items;
- (f) By increasing the rate of 18 per cent of customs duty including development surcharge on natural strings and reducing the rate of 158 per cent on artificial strings both these items, used in tennis and badminton rackets, are proposed to be subjected to a uniform rate of 60 per cent.
- (g) In order to rationalise the rates of duty on raw cotton and cotton linter, it is proposed that the present duty exemption on cotton linter be withdrawn and a duty of 5 per cent levied thereon;
- (h) On stainless steel pipe the present rate of 28 per cent of custom duty including development surcharge will be revised and fixed at 40 per cent; the rate applicable on steel rods;
- (i) The rates of duty including development surcharge of 38 and 58 per cent leviable on various types of resins will be revised to a single rate of 40 per cent.
- (j) The rates of duty including development surcharge of 28 and 58 per cent leviable on various types of surface active agents will be revised to a sin-

gle rate of 40 per cent;

- (k) All varieties of base metal electrodes will be subjected to a uniform rate of 75 per cent instead of the present two rates of 30 and 100 per cent.

40. The following proposals have been made with a view to protecting the legitimate interests of local industries:—

- (a) Potassium chlorate, manganese dioxide and red phosphorus are essential raw materials for match manufacturing. If is, therefore, proposed to reduce the present rate of 58 per cent customs duty including development surcharge to 40 per cent.
- (b) For protecting the domestic forest resources, it is proposed to reduce duty on wood veneers, an import substitute of wood, to 30 per cent from the existing rate of 58 per cent (inclusive of development surcharge).
- (c) Customs duty of various rates from 10 per cent to 100 per cent of industrial moulds and dice are proposed to be reduced and made uniform at 10 per cent.

41. The present government is committed to improve and modernize education system through scientific research. Simultaneously, essential medical services have to be made easily available to the people. To achieve these objectives, I propose the following measures:—

- (a) A number of new items will be added to the list of scientific instruments and equipments and subjected to a duty rate of 10 per cent.
- (b) Customs duty including development surcharge levied at the rate of 28 per cent on pencil sliat is proposed to be reduced to 20 per cent.
- (c) Custom duty including development surcharge levied at the rate of 58 per cent on calculating machines is proposed to be reduced to 30 per cent.
- (d) Duty rates of 20 per cent and 100 per cent respectively on ECG recording paper and Ultrasonogram recording paper are proposed to be reduced and unified at 10 per cent.
- (e) Some essential item for use with kidney dialysis machines, in cardio-vascular and orthopaedic surgeries are now charged at various rates of customs duty. It is proposed to reduce these rates and made uniform at 10 per cent.
- (f) The present rate of 28 per cent including development surcharge on imported medicines is proposed to be reduced to 10 per cent. At present customs duty including development surcharge are levied at the rates of 18 and 28 per cent on various pharmaceutical raw materials. It is proposed to bring down these rates to 10 and 20 per cent respectively. There will be no adverse effect on the retail prices of medicines; even after Value Added Tax is imposed at the import stage on medicines and pharmaceutical raw materials presently exempt from sales tax;
- (g) Medicines which are now fully exempt from customs duty will continue to be exempt from duty and will not

be subject to VAT.

42. Revenue augmentation and judicious use of hard-earned foreign exchange are important preconditions for development. Considering these, I propose the following measures:—

- (a) Powdered milk imported in bulk is generally used in the preparation of sweets. On the other hand, condensed milk is not an essential consumer item. Despite this large import of these two items discourage local milk production and livestock development. It is, therefore, proposed to revise present customs duty including development surcharge on these two items from 28 per cent to 40 per cent. However, customs duty including development surcharge on powdered milk imported in tin cans up to 2.5 kilogram, used as baby food, will be reduced for 23 per cent to 20 per cent.
- (b) Present customs duty including development surcharge on unrefined palm oil and unrefined soyabean oil is 38 per cent. Although there is adequate facility in the country to refine crude soyabean, oil, facility to refine palm oil is insufficient. On the other hand, international market price of crude palm oil is much lower than that of crude soyabean oil. On these considerations, it is proposed to revise the rates of duty on unrefined soyabean and palm oil to 40 per cent and 50 per cent respectively. It is expected that this measure will not affect adversely the retail prices of edible oils.
- (c) Exemption of customs duty on beverage concentrate and crown corks is proposed to be withdrawn and customs duty of 30 per cent imposed thereon.
- (d) To arrest widespread misuse of VCP/VCR components, it is proposed to enhance customs duty on some of these items from 30 per cent to 75 per cent.

43. The following measures aim at increasing efficiency of local industries and discouraging investments in undesired sectors:—

- (a) Duty on pillar proof caps will be reduced from 100 per cent to 75 per cent.
- (b) The present duty of 150 per cent on built-up air-conditioners up to three h.p. and that of 100 per cent on air-conditioners above three h. p. are proposed to be unified and fixed at 100 per cent and all CKD air-conditioners and their parts are proposed to be subjected to a duty of 75 per cent;
- (c) Duty on white cement will be fixed at 75 per cent instead of the present rate of 100 per cent.
- (d) All imported lifts will be charged to duty at the rate of 10 per cent instead of the present rates 20 and 50 per cent charged respectively on CKD and CBU lifts;
- (e) Neutral glass tubes imported for the manufacture of glass ampoules now fully exempt will be subjected to a duty of 10 per cent. At the same time the rate of customs duty on glass ampoules will be enhanced to 30 per cent from the present rate of 18 per cent including development surcharge;
- (f) Customs duty including development surcharge of 58 per cent of fork lifts, used primarily by industries, will be reduced to 20 per cent.
- (g) Duty of 50 per cent on CKD refrigerator and deep freeze will be enhanced to 75 per cent and on parts reduced from 100 to 75 per cent.

44. Special concessions of customs duty allowed illogically to certain importers are proposed to be withdrawn and same rate of duty will be charged from all importers of the same commodity. With this purpose imported rock phosphate and rock sulphur will be fully exempt from duty for all importers. Aluminium sections, angles used for the manufacture of doors and windows will be subjected to a single rate of duty of 40 per cent for all importers. Presently, plastic sheets are subjected to 30, 50 or 100 per cent rates of duty for different importers, a

single rate of 75 per cent will be applied irrespective of who is the importer. Similarly the present rates of 30 and 100 per cent on unrecorded audio and video tapes will be made uniform and fixed at 60 per cent.

45. Those of our nationals who work abroad and earn foreign exchange often want to import gold bullion for the marriages of their children. Besides, some countries which impose restrictions on the remittances of foreign exchange do not impose any ban on the taking out of gold bullion. Because of the present total ban on the import of gold bullion such passengers encounter harassments. With a view to removing this, passengers returning after a continuous stay of not less than three months shall be allowed to import gold bullion up to 200 grammes on payment of a duty of 10 per cent ad valorem. The present facility of importing gold jewellery up to 100 grammes in weight without any duty and taxes will continue. Besides, the present rate of 50 per cent of duty including development surcharge on items importable under the Baggage Rules will be reduced to 40 per cent. However, additional concession of duty and taxes for purchase of these items from the duty-free shop of the Bangladesh Parjaton Corporation will be discontinued.

46. With a view to ensuring quick assessment and preventing undervaluation, the values of goods subject to tariff values, are proposed to be refixed in line with the prevailing international market prices. Tariff Values for some new items are also proposed to be fixed.

Excise Duty:

47. I have already stated that, Value Added Tax (VAT) will be introduced from the 1st of July, 1991. This tax will be levied, as a substitute for excise duty, on most of the goods and services which are now subjected to excise duty. It may be mentioned here, at the import stage, Sales Tax will be abolished and VAT will be levied and collected in its place. However, for some initial administrative difficulties, a few selected commodities, such as, tobacco products, natural gas, petroleum products, etc., and also a few 'services' will continue to remain within the purview of excise duty for the time being. I will now present the proposals relation to excise duty:—

48. Presently, there are six different specific rates of excise duty on natural gas, depending on its varying uses. There has been no change in the rate since 1st of July, 1989, although prices of its substitutes have in the meantime increased substantially. Natural gas is a large and well-organized sector. In this background, considering the need to rationalise the excise duty structure of natural gas and for generating additional revenue, it is proposed to raise the excise duty on gas used in the production of fertilizer and power by five per cent and in other cases, by 10 per cent of the existing rates. Due to these proposed increases, the price of natural gas will increase by an average of about less than five per cent at the consumer level. The enhanced rates of excise duty on gas will take effect from the 1st of July, 1991.

49. Multiple excise duties currently leviable on the banking and financial sectors are causing difficulties in collection and stated to be adversely affecting national savings. In order to bring about administrative simplification and to lessen the effects of such multiple taxation, it is proposed to withdraw the excise duty presently levied on bank cheques and on the loans disbursed and investments made by banks and other financial institutions. At the same time it is proposed to exempt bank accounts having a maximum deposit of taka five thousand at any time in a year. From next year, excise duty at the rate of taka 120 per account per year is proposed to be levied on such bank accounts which will have balance (credit or debit) exceeding taka 5,000 but not exceeding taka 1,00,000 at any time in a year, and on bank accounts having balance (credit or debit) exceeding taka 1,00,000 at any time in a year, excise duty at the rate of taka 200 per account per year is proposed to be levied. The incidence of the proposed duty will be borne by the comparatively affluent section of the society.

50. Presently, development surcharge at the rate of ten per cent of the excise duty is leviable on most of the excisable goods and services. In keeping with the government's pledge to remove multiplicity of taxation and to simplify the duty structure, it is proposed to discontinue this levy of development surcharge with effect from 1st July, 1991.

Narcotics and Liquor:

51. In the context of our cultural heritage, religious injunctions and social values and government is rightly taking steps to discourage consumption of liquor and spirits. With this end in view, it is proposed to increase the rates of duty on locally produced alcohol and spirits. Simultaneously it is also proposed to increase the licence fee charged on the trade dealing in alcohol and spirits.

Motor Vehicle Fees:

52. Proposal for refixation of different fees under Motor Vehicles Rules, 1990 and Motor Vehicles Rules, 1984 has been brought to include in the budget of 1991-92. In this proposal the registration fees of Motor vehicles, being used for personal purposes, has been suggested to bring down to some extent. While the registration fees of Motor vehicles plying on hire, such as bus, Minibus, Truck, etc., has been suggested to be increased slightly. Besides, route permit fees of different category of vehicles, fees relation to driving licence excepting driving licence fee have been proposed to be enhanced.

53. So long the details of the increased as well as the decrease of the direct and the indirect taxes as a result of the tax and revenue proposals for the financial year 1991-92 has just been placed before the august House. The increase of revenue in case of Income Tax will stand at Tk. 78 crore as a result of taking some new measures. Administrative re-organisation and reform, will yield an additional revenue of Tk. 200 crore, while some welfare measures will lead to the decrease of revenue amounting of Tk. 78 crore in this sector. Thus the net increase of revenue in the Income Tax sector amounts to Tk. 200 crore. There will be a net increase of Tk. 200 crore in Customs and Sales Tax. The increase of Revenue in Excise Duty will be Tk. 50 crore. Newly introduced Value Added Tax (VAT) shall yield an additional collection of Tk. 250 crore. The total collection of revenue on account of direct and indirect taxes is expected to stand at Tk. 7,200 crore, which includes and additional revenue of Tk. 700 crore. Out of this additional revenue of Tk. 700 crore, Tk. 450 crore will be realised as a result of the procedural amendment in the tax collection system, reforms and re-organisation in the tax administration. Additional collection from newly proposed taxes will amount to Tk. 250 crore only.

54. After the years of blood shedding and supreme sacrifice of many valuable lives the country is poised for getting a budget presented by a popular and democratically elected government. In spite of various constraint, shortage of time and other limitations, efforts have been made throughout this Finance Bill to reflect, as far as possible, the political philosophy and socio-economic objectives set forth by the BNP Government. I firmly believe that the implementation of the new measures and the introduction of free market economy will create a socio-economic environment which will encourage efficient and productive economic activities.

55. At the outset of the budget I said that the main aim of our government is to create a society based on justice by strengthening the Bangladesh nationalism. Our government, with its nationalistic attitude and in the light of our past administrative experiences, will create a self-reliant Bangladesh by formulating and implementing sound political, economic and social principles. But I want to make it absolutely clear that we do not believe in an inward looking and narrow nationalism. Our nationalism is lively and vibrant, which keeps space with the present-day economic situation and acknowledges the reality of regional co-operation and inevitability of international interdependence. By proper and priority based utilization of the resources, derived from internal and external sources, the ultimate aim of our government is to build up a self-reliant country, where democracy, rule of law, social justice, and a firm determination for the protection of human rights shall prevail.

56. Before I conclude my speech, I take the opportunity to remind this august House that we have a sacred commitment and sincere desire to ensure food, clothing, education, health and employment for every citizen of Bangladesh. To make our efforts a success and fruitful, the administration must be made corruption-free and the nation must be united. As a nation, we have to remain prepared for short term sacrifice for the sake of long term development. In-shallah, we shall be successful in achieving our goals.



Awami League backed Chhatra League holding a rally on DU campus on Thursday protesting new taxes proposed in the national budget. —Star photo



Khelafat-e-Majlish procession in the city on Thursday protesting new taxes proposed in the national budget. —Star photo