Donors have raisedaid, we have to ensure its best use

From Page 10

of its impact on government finance, the economy and the socio-economic situation. Enhancement of civil service compensation should keep pace with productivity and efficiency improvements. Expenditure on this account in excess of efficiency and productivity gains may lead to cost-push inflation. It is pertinent to mention here that expenditure on civil service compensation is about onethird of the total revenue expenditure; even a small increase on this account has a relatively significant impact on government's total expenditure. Therefore, in considering enhancement of civil service compensation, the government will have to be careful and sensitive to its implications for the economy, productivity gains, and the weakness of the economy of Bangladesh. It is more important to maintain stability of prices of essential goods than enhancement of wages and salary.

35. The growth of the economy has suffered a setback due to cyclone, the floods, tornado and other natural disasters. Economic growth was estimated at 4.2 per cent for 1990-91; it may decline to 3.5 — 4 per cent as a result of the cyclone. For 1991-92, economic growth is estimated at 5.7 per cent.

36. The Aid Group meeting was held toward the end of May this year. The international agencies and the friendly countries which participated in the meeting appreciated our successful efforts for establishing democracy. As would be evident from the pledge this year, they have given strong support for our democratic process and development initiatives for the welfare of the people. Last year only \$1.8 billion was pledged this year the pledge amounts to \$2.3 billion. We are expecting an additional pledge of \$200 million from Japan. The amount already pledged at the Aid Group meeting is 28 per cent higher than last year's pledge; it would be 33 per cent if the expected additional pledge were included. It is the highest amount of pledge ever made in the history of Bangladesh. Based on my personal experience, I would like to appraise you that the meeting this year was held in a spirit of cordiality and cooperation. The donor agencies and countries have enhanced the pledged amount without any new conditionality, which confirms their full confidence in the present democratic government. It is our responsibility to use these resources effectively to ensure welfare of the people and economic de-

37. As on 30 June, 1990, we received \$ 20.72 billion as "external assistance, 49 per cent (\$10.10 billion) of which is grant and 51 per cent (\$10.63 billion) is concessional loan. External assistance is required for our economic development. The level of investment would be very insufficient if it were limited to the rate of domestic saving only which is very low. In addition, we also need foreign exchange for financing import of industrial raw materials and consumer goods. Our dependence on external assistance is inherent in the structural gap between domestic savings and investment and between export and import.

38. Total receipt for the budget of 1990-91 was estimated at Tk. 8050.46 erores. Receipts from different sources were as follows: Tk. 6319.68 crores from taxes under the control of the National Board of Revenue: Tk 468 crores from other taxes; Tk. 1262.78 crores from non-tax revenue. In the revised budget receipt has been estimated at Tk. 7822.03 crores. The following are estimated receipts from different sources: Tk. 6011.10 crores from taxes under the control of the National Board of Revenue; Tk. 371.75 crores from other taxes; Tk. 1439.18 crores from non-tax sources. Receipts from external trade related duties and excise were lower; it is expected that receipts on account of income tax and sales tax would be higher. Estimated receipt from land development tax has been reduced from Tk. 120 crores to Tk. 60 crores which is explained by the remission granted by the government to help the farmers.

39. The estimates for rev enue expenditure stood at Tk. 7300 crores in the budget; in the revised budget the estimates stand at Tk. 7310.24 crores only. Additional expenditures had to be incurred in the wake of the Gulf crisis, the cyclone and other natural disasters. The estimates for expenditure on account of relief stond at Tk. 232.32 crores in the budget, which stand at Tk. 452.96 crores in the revised budget - i.e. on this accounts alone expenditure increased by Tk. 220 crores. In spite of this, it has been possible to contain revised estimates of revenue expenditure at about the level of the budget because of effective control over expenditures in other areas.

40. The government incurred additional expenditures for relief and rehabilitation after the cyclone and the floods that followed immediately. More than Tk. 175 crores have been allocated for these purposes up to May. Let me mention here some of these allocations: more than Tk. 130 crores to the Ministry of Relief for distribution of food, house building grants and other types of relief; Tk. 12 crores to the Ministry of Health and Family Planning for augmenting supply of medicines and health services in the affected areas; Tk. 4 crores to the Ministry of Communication and Ministry of Local Government, Rural Development and Co-operatives for repairs of roads; Tk. 1 crore to the Ministry of Education for grants to the students for purchase of text books; Tk. 10 crores to the Ministry of Agriculture for Agriculture Rehabilitation Programme; and Tk. 20 crores to the Local Government Division for provision of tubewell. Additional disbursements have been made from the Prime Minister's Relief Fund. Urgent steps have already been taken for immediate relief and rehabilitation; steps for medium term rehabilitation programmes also have been initiated. The demands for these purposes will be met on an urgent basis and according to needs from Tk. 63.22 crores proposed for unexpected expenditure in the revised esti-

41. The size of the Annual Development Programme was Tk. 5668 crores in the budget of 1990-91. The proposed allocation for the Revised Annual Development Programme is Tk. 6121 crores, which is Tk. 453 crores higher than the original estimates. Larger allocations have been made to the following sectors: rural development and institutions flood control and water resources, energy, transport, physical infrastructures and water sup-

42. External resources for the Revised Annual Development Programme have been estimated at Tk. 5350.38 crores, which exceed the original estimates by 230 crores. Domestic resources were originally estimated at Tk. 438.95 crores; the revised estimates stand at Tk. 770.62 crores, which is 12.6 per cent of the total development outlay.

43. Estimates of revenue expenditure in the proposed budget of 1991-92 stand at Tk. 8083.25 crores. The highest allocation has been proposed for education at Tk. 1255.57 crores which is 15.5 per cent of the total estimated revenue expenditure. This step has been taken in recognition of the critical role of education in the overall development of the country. Estimates of receipts stand at Tk. 8503.09 crores. Estimates of receipt from taxes under the control of the National Board of Revenue stand at Tk. 6490 crores and those from other taxes at Tk. 411.15 crores. Receipt from non-tax sources has been estimated at Tk. 1601.94 crores. The public sector enterprises will be better able to pay dividends and discharge debt service liabilities through more efficient management and rational pricing policies.

44. The estimated outlay on the Annual Development Programme of 1991-92 stands at Tk. 7500 crores, which is larger than the original and the revised Annual Development Programme of 1990-91 by Tk. 1832 crores and Tk. 1379 crores respectively. The outlay on the proposed Annual Development Programme is 22 per cent higher than the revised Annual Development Programme of 1990-91. In real terms, it means an increase of 13-14 per cent over the revised Annual Development Programme, provided inflation is effectively controlled next year. Allocation has been increased considerably for the following sectors : agriculture, rural development and institutions, irrigation and flood control, education, health and population planning, power and energy.

45. External resources for the Annual Development Programme have been estimated at Tk. 6435 crores, which ineludes project aid of Tk 4380 crores and commodity aid of Tk. 1730 crores. Revenue surplus has been estimated at Tk. 419.84 crores. After making adjustments for deficits on capital account and food operations, the estimates of domestic resources stand at Tk. 510.83 crores. Additional domestic resources of Tk. 554.17 crores will have to be mobilized for financing the Annual Development Programme of 1991-92. The above estimates show that domestic resources would provide 14 per cent of the total development outlay.

46. Recessionary trend has persisted from the last year which, as a result of natural disasters and external conditions, may get worse in the future. There may emerge some uncertainty with respect to external assistance as well as domestic resources. Appropriate strategies will have to be



Finance Minister Saifur Rahman presenting the budget in the Jatiya Sangsad . -PID photo

adopted, should this happen. We will also need additional resources for rehabilitation of the infrastructures and other physical assets damaged by the cyclone, for which external assistance is expected. In order to address this situation, the Government may opt for a *Core Development Programme" which at an estimated cost of Tk. 7200 crores. would be smaller. The proposed Annual Development Programme with an outlay of Tk. 7500 crores will be implemented provided adequate external and internal resources are available. To reach this end, we would need efficiency in design of projects. efforts for mobilisation of external resources, effective control on revenue expenditures particularly for unproductive purposes and public consumption - and determined efforts

domestic resources. 47. I will discuss the strategy and proposals for domestic resource mobilization in the second part of my speech.

for enhanced mobilisation of

FISCAL MEASURES

As the background of my presentation of revenue and taxation policies for the fiscal year 1991-92, I desire to reiterate with a heavy heart what I have said in my speech of the first part that the economic policy of the Government of the Shaheed President Ziaur Rahman, aimed at development, self-reliance and welfare of the underprivileged rural people, has undergone a colossal deterioration because of indiscipline, lawlessness and

structural corruption of the past government and on the other the huge devastation, following an unprecedented cyclone alongwith tidal bore and flood within 40 days of assumption of power by this government, has turned the situation from bad to worse. But the government with international acclamation has successfully withstood the enormous problems, resulting from cyclone, with firm determination, utmost sincerity, hard work and assistance from home and

3. The downward trend in the economy should be re versed and discipline in the economic activities should be restored by proper management. For the sake of the economy itself the mobilisation of resources from the internal sources has to be strengthened. It may be noted here that the Tax/GDP ratio is hardly satisfactory in Bangladesh. In our three neighbouring countries — India, Pakistan and Sir Lanka, the Tax/GDP ratio is 17%, 11% and 15% respectively, whereas in Bangladesh the ratio is only 8%. Considering these factors, it is proposed to increase the tax receipts under the control of the National Board of Revenue by 20% in the coming fiscal year. Its successful implementation, it is hoped, will increase the Tax/GDP ratio to 8.5%. It is not impossible to achieve, if there is political will, accompanied by adoption of right and proper strategy. It may be mentioned here that in 1980-

81 during the last BNP regime,

has so far been discussed seems to be ambitious. Dependence solely on the tax collecting machinery is not enough. The change and restructuring of the tax-rate is indispensable as a complementary to the above. The entire fiscal proposals have been prepared in conformity with the political aspiration of the government, paying regards to the social justice and equity, so that the lower income group and the prices of the essential commodities are not adversely affected. Considering the plight of the cyclone and tidal bore affected people incentive measure have been incorporated in the 'tax proposals for house building and rehabilita tion work, despite the limited

option of the government. Before placing the various tax proposals, I like to mention here that, the value added tax (VAT) which is in existence in many developed and developing countries, is going to be introduced in Bangladesh from 1st of July, 1991. It is a modern and progressive tax system. This will expand the tax base, simplify the tax collection procedure and will help in curving the tax evasion

7. In the light of the above background, I now proceed to present some of the major and important proposals relating to direct and indirect taxes.

Direct Tax:

8. Among direct taxes, income tax is the most important source of revenue. Significant changes and reforms with far reaching effects have been proposed in this

were allowed in the past to legalise black money will not be repeated by the present Government. Our democratic Government will discard such undemocratic and discriminatory tax measures as will benefit the vested groups.

Now I proceed to outline the tax measures in brief.

Income Tax:

9. A large share of income tax revenue is collected from the public limited companies, sector corporations and nationalised banking, industrial and business enterprises. The books of accounts of these companies and organizations, maintained and prepared strictly in accordance with the canons of accounting principles and then subjected to meticulous auditing are expected to reflect the true and correct state of affairs of such companies and organizations. But unfortunate though, due to long historical reasons, things did not transpire in the direction. With a view to creating a congenial atmosphere for collection of revenue and also in consonance with the winds of political changes in the country it is proposed to accept the income tax returns of filed by the public limited companies, sector corporations and nationalised banking, industrial and business enterprises as correct and complete subject of fulfilment of certain condi-

10. Under the existing tax law the capital gain arising from the transfer of building or lands appurtenant thereto is exempt, subject to the condition that the gain is invested in the acquisition of residential house property within a specified period of time. But this exemption is not applicable in the case of gain arising from transfer of vacant land only. To achieve the over-all socio-economic objective and meet the basic needs of the poeple it is imperative to encourage investment in housing as much as possible. With this end in view it is proposed to exempt capital gains arising from transfer of vacant residential lands if the gain is invested in the acquisition of new residential house property within

11. At present surcharge is leviable at the rate of 15 per cent of income tax changeable on income. To meet an emergency situation this surcharge was introduced in 1988 at the rate of 6 per cent. Subsequently this rate was raise step by step to the present 15 per cent. Surcharge is a distortion in the taxation

is proposed to rationalize the slabs of taxable income as well as the rates of tax and also to lower the highest rate to 45 per cent from existing 50 per cent. It needs to be mentioned that as a result of the proposed measure the marginal tax payers in the low income group will be benefited and at the same time tax payers in the high income group will

also get relief. 13. The provision of law as it exists now enjoins an individual tax payer having income exceeding taka forty thousand to file statement of assets and liabilities along with his return of income. In consequence the common tax payers in the lower income group are facing great difficulties in submitting wealth statements. To mitigate this inconvenience, it is proposed to withdraw the provision of compulsory submission of wealth statement for individual assesses having total income not exceeding taka on lakh.

14. The existing provision of an industrial company enjoying tax-holiday having to invest 50 per cent of its exempted profit in the purchase of Government bond appears to have created some problems for the industrial companies in the form of depletion of cash available with them. So in order to preserve the liberal investment climate, and also to remove any problem in this regard it is proposed to make provision for investment of 20 per cent of the exempt income in the purchase of Government

bond or security. 15. A provision was made by the Income Tax-(Amendment) Act, 1990 requiring an assessee to pay half the amount of tax determined on the basis of the order of the Appellate Joint Commissioner and the Taxes Appellate Tribunal before filing a reference to the High Court and to pay half the amount of tax determined on the basis of the order of the Taxes Appellate Tribunal and the High Curt Division before filing an appeal to the Appellate Division. The Supreme Court is the highest Court of protecting the legal rights of the citizens in general and also the tax payers. To make the procedure for seeking justice in the highest appellate forum easier, it is proposed to lower the existing requirement of 50 per cent tax payment of 25 per cent and also to enable the National Board of Revenue to modify or

waive the requirement. 16. At present there is no time limit for disposal of appeal by the Taxes Appellate and collect tax at the rate of 5 per cent by the registration authorities at the time of registration of transfer deeds.

18. The ceiling for investment allowance is at present fixed at one-third of the total income or taka two lakh whichever is the less. In the context of our economic condition, the ceiling of investment allowance is too much liberal. It is evident that the existing high ceiling of this allowance is unreasonably going to the benefit of high income group only. There is no economic justification for encouraging personal savings in the case of high income groups in a Least Developed Country like ours at the cost of internal resource in the hand of the Government. So in the interest of mobilizing domestic resources, it is proposed to lower the ceiling of investment allowance to thirty per cent of total income or taka one lakh whichever is the less.

19. At present there is provision of presumptive assessment for assesses deriving income from profession. The main objective of this provision is to simplify the legal formalities of assessment process. In order to bring the assesses deriving income from business under this system and with a view to widening its scope, it is proposed to introduce presumptive assessment in the case of business income

Under the Income tax Rules, entertainment allowance is partially exempt from tax. This allowance is in fact addition to salary. Due to the existing exemption of allowances and perquisites, in part, there is a tendency among employers to give benefit to their employees in terms of exempt allowances, and thus resort to legal avoidance. So in the interest of revenue, it is proposed to withdraw the existing exemption of entertainment allowance and to bring it under the purview of tax.

21. At present, dividend is-

sued by public limited companies is entirely exempt and dividend up to fifteen thousand taka issued by private limited companies is also exempt. This exemption is however, not applicable in the case of intercorporate dividends. Exemption of divided income almost entirely is rare in our experience. Moreover dividend is very much an assessable income classified under the head 'income form other sources' and as such does, not by any reason, qualify for special treatment. Above all, exemption of dividend cannot be continued indefinitely. In order to safeguard the interest of revenue as well as to reduce the tax burden of the middle income group of assesses and at the same time encourage mobilization of saving, investment and development of capital

market, it is proposed:-(a) to exempt dividend up to taka thirty thousand, issued by the public limited companies except intercorporate div-

idends; (b) to withdraw the existing partial exemption of dividends issued by private limited com-

panies: (c) to deduct tax in dividends at source at the rate of 10 per cent in the case of recipients other than companies

and at the rate of 15 per cent

in the case of companies. 22. Among the liscal meentives for industrialization taxholiday is the most important. This scheme is being continued for a long time. By Finance Act, 1989 the tax-holiday scheme has been extended straightaway up to 2000 without proper evaluation. It may be mentioned that at the time of renewing the tax-holiday scheme periodically in the earlier occasions, the contribution of the scheme used to be reviewed. Though this scheme is playing considerable role in encouraging investment and industrialization it is necessary to reschedule the time period of this scheme for periodic evaluation of its utility and effectiveness at reasonable inter-

companies forming an association with "another person", not being company is considered as an association of persons and taxed at individual slab rate. By avaling this provision of law, some companies forming association with persons other than companies, are escaping higher corporate rate of tax and paying taxes at the lower individual slab rates. So in the interest of revenue, it is proposed to include such as-sociations in the definition of

val. So it is proposed to con-

tinue the tax-holiday up to

23. At present one or more

1995 instead of 2000.

24. Any foreign association of body even if incorporated as a company in its country of origin cannot be considered as a company in Bangladesh unless declared by the National Board of Revenue to be a company. To remove this inadequacy in our law, it is proposed to include a foreign association or body incorporated in the country of origin as company

for tax purpose. Remaining part of budget speech of Finance Minister will appear tomorrow

REVENUE DETAILS OF EXPENDITURE SUMMARY OF BUDGETARY **OPERATIONS**

Taka) Taka) Revised Budget Budget Revised Budget 1990-91 1990-91 1991-92 1990-91 1990-91 1991-92 84.30 70.10 Organs of Government General Revenue 8503.09 8050.46 7822.03 Administration of Justice 34.75 33.78 32.77 Tax 6787.68 6901.15 6382.85 34.82 34.82 Non-tax 1439.18 1262.78 1601.94 I Total Expenditure 16373.34 1577213 13989.49 201.73 179.81 Fiscal Services 8083.25 7300.00 Revenue Expenditure 7310.24 52.64 Secretariat Development Expenditure 5668.00 7500.00 6121.00 87.43 Non-ADP Projects Foreign Affairs 85.00 80.15 208.07 General Administration, Public Order and Safety 198.62 207.18 458.95 Food for Works 505.88 509.80 (excluding Police and BDR) Capital Expenditure — Non-development 1899.36 120.50 Net Outlay in food stock 264.01 532.51 305.15 138.19 Loans and Advances (Net) (-)324.50(-)195.47Bangladesh Rifles (BDR) (-)331.61152.15 132.85 140.40 187.95 2000 20,00 20,00 **General Services** 198.62 190.30 Grameen Bank Defence 1209.83 1179.97 1111.85 Overall Deficit (-(-)7870.25(-)7950.10(-)5939.031255.57 1185.12 1182.01 Education III Financing 401.75 394.36 Health and Population Control 386.93 A Foreign 6431.51 5222.39 5317.46 Pension and Retirement Benefit 246.10 224.10 2969.89 2575.34 2908.81 Grants Social and Community Services 709.36 488.68 3327.54 4326.72 3528.15 (387.02)(183.75)(V.G.D., Test Relief) (292.29)Of which: 70,68 66,06 Project Assistance General Economic Services 63.44 (4380.00)(3690.00)(3580.00)(1345.00)(1730.00)(1240.00)Commodity Assistance Agriculture and Allied Services 191.37 203,45 203.33 Non-ADP Projects Assistance (180.41)(85.00)(80.15) Industries and Mining 25.12 27.37 Special grants to Budgetary Resources 79.26 79.25 Water and Energy Food Aid (1006.20)(972.96)(1331.35)Transport and Communication 122.09 Others (15.38 (excluding Railways T&T, and Post Offices) (-)921.47(-)787.10(-)690.44 Repayment of Debt Extraordinary Expenditure 66.03 Deferred payment food - Net (-)78.00(-)95.59(-)92.49683.51 988.44 Subsidies 1438.74 **B** Domestic 716.64 2632.64 (372.71)(Food) (362.71)(586.14)Of which: Grants-in-aid Contributions Permanent Debt (Net) 1677.82 100.75 26.69 Floating Debt (Net including SAF) 23.32 8.08 18.78 Interest on Domestic Debt 417.07 350.68 247.82 **Public Account** 548.60 538.24 437.48 416.00 Interest on Foreign Debt 558.36 325.00 314.91 Extra Budgetary resources 382.90 318.75 600.00 Un-expected Expenditure* 63.22 Financing by new measure / Bank Total — Revenue Expenditure 7300.00 7310.24 554.17

extravagance in different sector during the nine years of autocratic rule, which has brought the over-all economy to a critical stage. The result of the same has given rise to unprecedented corruption as well as huge unproductive investment. In reality investment has declined and the burden of foreign aid and loans have increased to a great extent. As a result, the development activities have become totally dependent on foreign aid. Due to the lack of matching local fund, the government could not even utilise properly the available foreign assistance.

"Includes provision for completed Development Schemes.

2. No self-respecting country could accept this state of affairs and it is not all desirable to allow it to continue. We are firmly determined to bring about a total change of this situation. In these circumstances, the mobilisation of internal resources is essential to provide funds for the over-all development activities, as well as to finance the recurring expenditure of the government. In the present context, it is undoubtedly a difficult task. On the one hand, there is a social degradation due to economic mismanagement and

while I was in charge of the Ministry of Finance, the rate of increase of internal resources was 25%.

4. It is not the desire of the present democratic government to increase the collection of revenue by raising the rate of tax and introducing new tax measures. As such, the administrative reorganisation will form the main foundation for collecting the additional revenue. With this end in view, while formulating the tax proposals, special attention has been given to the introduction of new and advanced techniques for collection, simplification of payment methods and procedures, which include elimination and adjustment of distorted tax system of surcharge, plugging of loopholes, broadening of tax base, more reliable method for the valuation of imported commodities and increasing the efficiency of tax collecting machinery. The services of outside professional organisations, will be introduced, if necessary, to inspect and audit the accounts in order to control the evasion of taxes.

5. The proposals for increasing the revenue which

measures are to broaden tax base, encourage investment for industrialisation, harmonise tax laws with welfare needs of the people and to strengthen the role of income tax through administrative reorganisation in the context of over-all resource mobilization. The scheme of reorganisation of the tax machinery aims at modernising the tax management. The present system of collection, dissemination and utilization of the information about tax payers has proved inadequate in detecting tax evasion and preventing leakage of revenue. So it has been decided to introduce computerisation for processing informa tion gathered about tax payers Through proper utilisation of the improved information and management system by an efficient and dynamic administrative machinery brought through reforms it is expected that new tax payers will be unearthed and tax evasion will also be controlled. I take this opportunity to categorically declare that the discriminatory 'tax amnesty' opportunities as

year's income tax measures.

The main objectives of these

system. Moreover, surcharge not being a permanent measure, cannot be continued indefinitely. So in order to simplify the existing procedure it is proposed to withdraw the surcharge chargeable at the rate of 15 per cent. The substantial loss of revenue resulting from the proposed withdrawal of surcharge on income tax cannot be recouped from any source other than the corporate sector. So to reduce the loss, at least partly, it is necessary to rationalize the corporate tax rate. It is, therefore, proposed to raise the existing rate of 40 per cent and 45 per cent as applicable in the case of "publicly traded" industrial companies and 'not publicly traded" industrial companies to 45 per cent and 50 per cent respectively. But even after this upward adjustment these companies will pay less in terms of total tax than what they are required to pay now.

12. Presently the highest rate of individual tax is 50 per cent. In order to encourage personal savings and invest ment the tax payers are required to be left with adequate disposable income at their hands. With this end in view it Tribunal. As a result huge number of appeals are pending at the Tribunal level and the number of undisposed appeals is increasing alarmingly. Consequent upon the delay in disposal of appeals by the Tribunal, the recovery of tax is also being delayed. Apart from the revenue remaining blocked the tax payers are also suffering from uncertainty. To remove the difficulties of the tax payers as well as expedite the process of tax collection, it is proposed to fix two years' time limit for disposal of appeals filed by the assesses to the Tribunal 17. At present a transferer

of immovable property is required to obtain an income tax clearance certificate by paying anticipated liability of tax arising on account of capital gains and arrear taxes, if any. With a view to removing gross irregularities concomitant with the issuance of certificate for transfer of property as alleged and helping an intending seller of not having to go though lengthy legal formalities, it is proposed to dispense with the existing provisions in the case of transfer of immovable property located in urban