

Direct tax system to face fundamental reforms

(From page 7)
and induce voluntary compliance by taxpayers on a larger scale. The cumulative effect of all these measures will enhance accountability and transparency of the tax administration and reduce discretionary powers of the taxation authorities.

13. In my last budget speech, I had indicated certain reforms and restructuring of taxation department designed to improve tax collection in the context of increased demand for resources. The implementation of the proposed scheme of restructuring has commenced. Among the important reforms are included creation of two additional posts of Members in the National Board of Revenue, four posts of regional Commissioners, five posts of Commissioners (Appeal), establishment of a separate Survey Zone, a Training Academy for taxation officials, and three additional benches of the Taxes Appellate Tribunal. Tax officials will be deployed more effectively at the institutional level for collecting information to identify new sources of revenue and to counter tax-evasion. Effective from July, 1992, tax officials will not visit the business premises or residences of taxpayers except on prior approval of their higher authorities.

14. I propose to bring about a fundamental structural change in income tax system with a view to making it more efficient and progressive. I propose to replace the existing "filing threshold" by the "conventional exemption limit" system. At present, the maximum limit of income not liable to tax is Tk. 40,000 in the case of assesses other than companies and non-residents. For income exceeding this limit, tax is levied on the entire taxable income determined after deduction of admissible allowances on a straight-line method. In the proposed system, tax will be charged only on the residual amount of income after deduction of Tk. 40,000 from total income and, subject to certain conditions, tax credit will be allowed at a uniform rate for admissible investments. In other words, under the existing system, in the case of a person having a total income of Tk. 41,000 tax is levied on the entire amount after deduction of admissible allowances. But, under the proposed system, Tk. 40,000 shall be deducted and tax will be imposed on the balance of Tk. 1,000 only. All taxpayers in general — and particularly those in relatively lower income bracket — will benefit from the new system. Revenue loss on account of the change is estimated at Tk. 60 crores.

15. In order to bring down the highest personal income tax rate from 45 per cent to 30 per cent, I propose to restructure personal income tax rates as follows:

On first Tk. 40,000 of total income	Nil
On next Tk. 20,000 of total income	15%
On next Tk. 1,50,000 of total income	20%
On next Tk. 3,00,000 of total income	25%
On the balance of total income	30%

It may be noted that under the present system the highest amount of personal income tax is limited to 1/3 of the income in excess of Tk. 40,000. In the proposed rate structure, the highest amount of tax will be limited to only 1/4 of such income. The government firmly believes that the reduction in personal income tax rates will encourage the assesses to voluntarily declare higher and correct income and thereby contribute to our development efforts.

16. The existing corporate tax rate for industrial companies whose shares are traded publicly is 45 per cent and the rate of those whose shares are not publicly traded is 50 per cent. It is proposed to reduce these rates to 40 per cent and 45 per cent respectively, which will benefit the taxpayers. For banks, financial institutions and all other classes of companies the existing rate of 55 per cent will continue. Revenue loss on account of reduction of corporate tax rate is estimated at Tk. 35 crores.

17. Under the present legal provisions, quite a few classes of taxpayers have been kept outside the purview of self-assessment. There is also the requirement that total income increases by at least 10 per cent every year. It has been observed that the existing legal conditions and requirements discourage the assesses from filing returns under self-assessment procedure. To encourage taxpayers to take benefit of the self-assessment procedure, I propose to liberalize widely its scope. It is proposed to extend self-assessment procedure to all assesses, subject to minimal conditions. Companies and their directors holding more than 5 per cent share, however, shall remain

outside the scheme. There will be no ceiling of total income for filing returns under self-assessment procedure; the minimum tax, however, will be Tk. 1500. The effectiveness of this procedure and its expanded scope in eliminating tax-evasion will be scrutinised through random sampling using computer. If any evasion or incorrect disclosure is detected, the government will take steps to impose exemplary punishment including penalty in accordance with the law. Broadening the tax-base is expected to yield revenue of Tk. 10 crores.

18. According to the existing law, capital gains tax is payable on gains arising out of disposal of government securities and stocks and shares of public companies as in the case of other capital assets. In order to help the share market become more active, it is proposed to exempt gains arising from capital assets of this category from capital gains tax.

19. Interest on debentures is now exempt from tax up to Tk. 15,000. It is proposed to raise this limit to Tk. 20,000. Exemption limit for dividend will remain at Tk. 30,000.

20. The existing income tax law provides for imposition of tax on the amount paid as income tax by an employer on the salary income of the employees. This involves complex calculation to determine the amount of tax-demand of the concerned salaried assesses. To remove this complexity in tax calculation and to provide relief to the salary-earners, it is proposed to do away with tax-on-tax.

21. Under the existing provisions relating to computation of income from house property, 1/3 of the annual value of such property is allowed as statutory deduction for repairs. Up to 2 1/2 per cent of the annual value is also allowable as charges for rent collection, subject to production of satisfactory evidence. To obviate the tax-payers' difficulties in producing corroborative evidence of collection charges and to make the assessment process simpler, it has been proposed to merge repairs and collection charges together and allow 1/5 of the annual value as statutory deduction. As a result, house property owners will enjoy higher benefit than before. In addition, it has been decided to set up a "Central Cell" under the National Board of Revenue which will provide guidelines for determining annual value of house property in the important urban areas and thus help streamline the procedure and remove the wide variations in reported or assessed rental value.

22. Currently, Bangladeshi residents, not being companies, who remit income arising outside the country through official channels are required to pay tax at 30 per cent, or at their personal tax rate, whichever is lower. In the case of companies making such remittances rebate at 10 per cent is allowed on the amount of remittance. In order to encourage repatriation of income earned abroad for investment in Bangladesh, I propose to extend certain benefits to all classes of assesses. Should they invest their foreign income in setting up any new industry in Bangladesh, or in stocks, shares or government bonds, or use such income in the purchase of industrial units sold in auction by government-owned financial institutions, the amount so invested will be exempted from income tax.

23. At present, rebate is allowed to exporters at varying rates subject to fulfilment of certain conditions. If the manufacturer himself is the exporter, tax rebate is allowed at the maximum rate of 60 per cent; if the exporter himself is not the manufacturer, rebate is allowed at the maximum rate of 40 per cent. To remove the complex set of conditions, classification of exporters which baffles the mind, and provide incentive and benefit to all classes of exporters, I propose to allow tax rebate at 50 per cent on income attributable to export. This will obviate the present procedural complexity in allowing rebate on income from export and it is hoped that small exporters will benefit more. Loss from revision of rates of rebate is estimated at Taka 5 crore.

24. Simple interest is now payable at 18 per cent on the difference between the finally assessed tax and the advance tax paid by the assessee. If the amount of tax paid in advance falls short of 75 per cent of the assessed tax. To reduce the burden of the taxpayers and rationalise imposition of simple interest, it is proposed to charge simple interest on the difference between 75 per cent of the finally determined tax and the tax paid in advance. In view of the recent adjustments in interest rate structure, I propose to reduce interest rate from 18 per cent to 12 per cent which will be charged by or paid by the government, as the case may be. At the same time, it is pro-

posed that, at the option of the assessee, the undisputed refund can be treated as advance payment of tax by the assessee. Loss of revenue is estimated at Tk 3 crore on account of the proposed changes.

25. The law currently requires all assesses, other than individuals, to obtain "transfer of property clearance certificates" (TPCC) from the Deputy Commissioner of Taxes before transferring any immovable property. The process is inconvenient and takes time. For the convenience of all classes of transferees and for making the process of transfer quick and simple, I propose to abolish the system of obtaining clearance certificates. At the same time, I propose that the existing rate of deduction of tax at 5 per cent at source by the registration authorities be raised to 6 per cent. It is estimated that this would yield additional revenue of Tk 10 crore.

26. Taxpayers suffer from uncertainty as a result of delay in giving decisions by tax authorities in respect of certain proceedings under the Income Tax Ordinance. To improve this situation and ensure expeditious decision, the following steps are being proposed:

(a) The time-limit for decision by the National Board of Revenue on applications for tax holiday will be reduced from 6 months to 3 months, provided that the application is accompanied by all requisite information and complies with all legal provisions.

(b) Assessing officers will be required to pass assessment orders within one month of final hearing.

(c) Decision on application for registration of partnership firms will be given within one month of filing of the return, failing which the firm will be deemed to have been registered.

(d) Time-limit for giving effect to orders on appeal shall be reduced from two years to sixty days.

(e) Refund created in consequence of any order passed in appeal or other proceeding will be paid to the assessee within one month from its creation for which no application from the assessee will be required.

27. In view of introduction of the "Conventional Exemption Limit" system and substantial reduction in tax rates, it is proposed to reduce the maximum rate of investment allowance from 30 per cent to 20 per cent; the ceiling will remain at Taka 1 lakh. The assesses in the lower income group will benefit more from the proposed change.

28. Under the existing rules, benefits provided by the employers in the form of unfurnished and furnished accommodation are added at the rate of 15 per cent and 20 per cent, respectively, of basic salary to the total income of the assesses. Keeping in view the rise in house rent, I propose to enhance these rates to 20 per cent and 25 per cent, respectively. As a result of this adjustment, an additional amount of revenue of Taka 2 crore is expected.

29. The Income Tax Ordinance provides for deduction of tax at source from importers and exporters. Although this provision has been applied in the case of importers, exporters are yet to be brought under its operation. Export earning constitutes about 10 per cent of our GDP. With a view to attaining economic self-reliance and involving all in our development efforts, I propose deduction of tax at source at the rate of 1 per cent of export value. The concerned banks will make the deduction and the amount so deducted will be adjusted

against tax demand in future. The proposed measure is expected to yield additional revenue of Tk 50 crore.

30. At present, no tax is deducted, at source from contractors on payments up to Taka 25,000. On the other hand, tax is deducted at the highest rate of 3 per cent on payments exceeding Taka 10 lakh. It has been observed that in many cases the amount of tax deducted at source exceeds the amount of tax actually payable. But difficulties are faced by the assesses to get the refund after completion of

under the law. Persons assessed to presumptive income tax may take advantage of self-assessment or may be assessed under alternative procedure the next year.

31. Industries enjoying tax holiday are now statutorily required to invest at least 20 per cent of their tax-exempt income in government bonds and securities. To help the taxpayers, it is proposed to reduce the said rate of investment to 15 per cent only. At present there is no prescribed

time-limit for purchase of bonds; to remove this difficulty, I propose to fix the time-limit to nine months from the end of the income year within which period investment in bond has to be made. The government has made necessary arrangements for issuing the National Investment Bond. The concerned taxpayers will be required to invest in these bonds. Those who did not invest earlier in government bonds and securities also will have to invest in these bonds the full amount of their past obligations as required under the law within the financial year 1992-93.

32. The underlying rationale of tax holiday is to help the process of industrialisation. With this end in view, it is proposed that the enterprises enjoying tax holiday will be required to invest at least 20 per cent of their tax-exempt income in the same industry, or any new industry or in any other productive asset. Assessors will be required to make such investments within two years following the expiry

of the tax holiday period. The existing law provides for cancellation of the benefit of tax holiday if the assessee fails to comply duly with the terms and conditions under which the benefit was granted. It is proposed that the government may suspend partly or fully or may cancel the benefit of tax holiday in national and public interest. I would like to assure everyone in this context that the government will exercise the power only as an emergency measure and in extreme situations.

33. Returns filed by multinational corporations and Bangladeshi public limited companies qualify for acceptance as correct and complete if accompanied by audited accounts certified in the prescribed form by chartered accountants. In the case of Bangladeshi public limited companies, if it is discovered by any tax authority that the chartered accountant wilfully or knowingly withheld any information relating to the particulars of income, penalty can be imposed on him as per provisions of the law. But, in the case of multinationals no such provision for penalty exists. In

order to remove this discrepancy, it is proposed to make the provision for penalty equally applicable in relation to multinationals also.

34. Income tax practitioners are enrolled by the National Board of Revenue, but the concerned Commissioners of Taxes can disqualify them from practising. It has been proposed to vest in the National Board of Revenue the power to disqualify the income tax practitioners, which will remove the anomaly and fulfil a long-standing demand of the income tax practitioners.

35. The income tax department is subject to audit by the Comptroller and Auditor-General. The Constitution, the laws relating to the office of Comptroller and Auditor-General, and the income tax law provide for such audit. Steps are being taken by the Comptroller and Auditor-General to strengthen the audit system. It is expected that this will enhance accountability and transparency of the taxation department and thus help improve the efficiency of tax administration.

Wealth Tax:
Mr. Speaker, Sir,

36. According to provisions of the law, income tax and wealth tax together cannot exceed 50 per cent of the total income of an assessee. I propose that the limit be fixed at 30 per cent, which is expected to encourage savings and investment and is also consistent with the proposed reduction of income tax rates.

Foreign Travel Tax:

40. Foreign travel tax is now payable by Bangladeshis travelling abroad by air at the rate of 10 per cent. Of the ticket value subject to a minimum of Taka 250 and a maximum of Taka 1,500. For travel to SAARC countries, however, the maximum amount of tax is Taka 500. In view of the rise in air fare, the 10 per cent rate has become irrelevant and in all cases virtually tax is charged at the fixed higher rate. In order to simplify the procedure of collection of this tax, I propose specific rates as follows: Tk 1,700 for North America, South America, Europe, Africa, Australia and the Far East countries; Tk 500 for SAARC member countries; and Tk 1,200 for all other countries. Tax at the rate of Tk 150 and Tk 500 for travel by land and sea, respectively, shall remain unchanged. Additional revenue of Taka 20 crores is expected from adjustments of travel tax rates.

41. The above proposals relating to reduction of direct taxes will result in loss of revenue estimated at Tk 103 crores. On the other hand, the proposed new measures are expected to yield an additional revenue of Taka 92 crores. On the net, there will be a loss of Tk 11 crores. But steps taken for broadening the tax-base, recovery of arrears taxes, curbing evasion and expeditious disposal of pending cases are expected to yield an additional revenue of Taka 211 crores. Thus, the net increase in revenue will be Taka 200 crores, the major portion of which will come from measures for administrative improvement.

Development Levy and Jamuna Bridge Levy:

42. Development levy is currently charged at 6 per cent. On interest on deposits in post office, and dividend earned from stocks, shares, mutual funds and unit trust. In addition, Jamuna Bridge levy is charged at the rate of 4 per cent. On interest on deposits, in banks and post office, profit from savings certificate and investment in Wage Earner's Development Bond and dividend. To provide incentive to savings and investment and in view of recent reduction of interest rates, I propose to abolish both the levies.

Advertisement Tax:

43. Value Added Tax has been introduced on advertising agencies with effect from the financial year 1991-92. According to the advertisement tax law, advertisement tax is charged at the rate of 15 per cent on advertisements through media excepting newspapers. It is proposed that advertisement tax be abolished for media to which VAT applies.

Stamp Duty:

44. Stamp duty is now charged under the Stamp Act, 1899 at the rate of 10 per cent, up to Tk 1 lakh and 18 per cent on the amount exceeding Tk 1 lakh. Consequently purchasers tend to understate the value of the property registered in order to avoid stamp duty at the higher rate which causes loss of revenue to the government. In order to check this tendency, it is proposed to replace the two rates of stamp duty by a uniform rate of 12 per cent.

INDIRECT TAXES

Import Duty:
Mr. Speaker, Sir,

45. I would now like to place before the House some salient features of the customs duty structure proposed for financial year 1992-93.

46. In order to encourage development of housing and construction industries and physical infrastructure of the country, I propose to reduce customs duty on grey Portland cement from 20 per cent to 15 per cent, white cement from 75 per cent to 45 per cent, billet from 30 per cent to 15 per cent, rod from 60 per cent to 45 per cent, BP sheet from 20 per cent to 15 per cent, CI sheet from 50 per cent to 30 per cent, sheet piling from 60 per cent to 45 per cent, wood from 20 per cent to 7.5 per cent, veneer sheet from 30 per cent to 15 per cent, coal from 10 per cent to 7.5 per cent and stone and stone boulders from 20 per cent to 15 per cent. There will be no value added tax on imported log. The government will incur an estimated revenue loss of 20 crore taka as a result of these measures. But these measures are expected to encourage expansion of our construction industry and improvement of the physical infrastructure.

47. In order to improve the transport sector and to keep transportation cost within the reach of the common people, I propose to change the customs duty structure significantly. Duty on imported diesel operated bus and mini-bus will be reduced from 60 per cent to 30 per cent. Duty rates for diesel and petrol operated bus and mini-bus will be uniform. In order to encourage local assembly of diesel operated bus and mini-bus, I propose to reduce customs duty on CKD imports from 20 per cent to 15 per cent. Customs duties on CBU and CKD auto-rickshaws will be reduced from 60 per cent and 40 per cent to 45 per cent and 30 per cent respectively. The various rates of customs duty applicable on auto-rickshaw engines will be rationalized at 7.5 per cent irrespective of their engine capacity.

48. Due to existing high tariff structure, prices of automotive vehicles like motor car, station wagon, mini-bus and jeep have gone beyond the purchasing capacity of most people. Inadequacy of transportation facilities slows down normal speed in life in general, and professional dynamism in particular. In order to improve the situation, I propose to revise the customs duties on these vehicles. Customs duty on motor car and station wagon up to 850 cc will be reduced from 60 per cent to 45 per cent; on those exceeding 850 cc but not 1000 cc from 100 per cent to 75 per cent; on those exceeding 1000 cc but not 1300 cc from 175 per cent to 100 per cent; and on those exceeding 1300 cc from 350 per cent to 200 per cent. However, supplementary duty at the rate of 20 per cent will be imposed on motor cars and station wagon exceeding 1000 cc. Customs duty rates of 100 per cent and 75 per cent applicable on spare parts of automotive vehicles will be rationalized at uniform rate of 45 per cent. I propose to reduce customs duty on tyres and tubes for motor car from 100 per cent to 75 per cent. These measures, combined with reduction of prices of petroleum products, will result in a revenue loss of 50 crore taka. But it is expected that these measures will encourage investment in the transport sector and thereby ease our trans-

portation problem. Cost of maintenance of automotive vehicles will also be reduced significantly.

49. In order to provide support to local industries, I propose to reduce customs duty on spares of machinery from 60 per cent to 45 per cent. In order to ensure uninterrupted supply of electricity in industries, I propose reduc-

tion of customs duty on electric generators from 10 per cent to 7.5 per cent. As a result of these measures, the government will incur an estimated revenue loss of 20 crore taka.

50. In order to help modernize and encourage agriculture, I propose to lower customs duty on certain agricultural implements such as sprayers, seed planters, fertilizer spreaders, milking and dairy machinery, special type of motors, pedestrian tractors, etc from 25 per cent to 15 per cent. The above measures will have positive impact on prices of agricultural implements. At present, importation of diesel engine of capacity from 3 hp to 20 hp is allowed free of duty in order to help irrigation. But this facility is being widely misused. In order to prevent further abuse, I propose to levy a nominal customs duty of 7.5 per cent on this item. As a result of these changes, the government is expected to incur a loss of 5 crore taka as customs revenue.

51. I propose to reduce customs duty on ink from 60 per cent to 45 per cent and on biology box and geometry box from 20 per cent to 15 per cent. Customs duty on all papers except cigarette paper, which is at 75 per cent now will be reduced to 60 per cent. Duty on cigarette paper will be 125 per cent instead of the present 150 per cent. Customs duty on some scientific and laboratory equipment such as specially made ceramic wares; furnace, oven, carbon brush, carbon electrodes, thermometers etc, will be lowered from 10 per cent to 7.5 per cent. These measures will involve a revenue loss estimated at 5 crore taka.

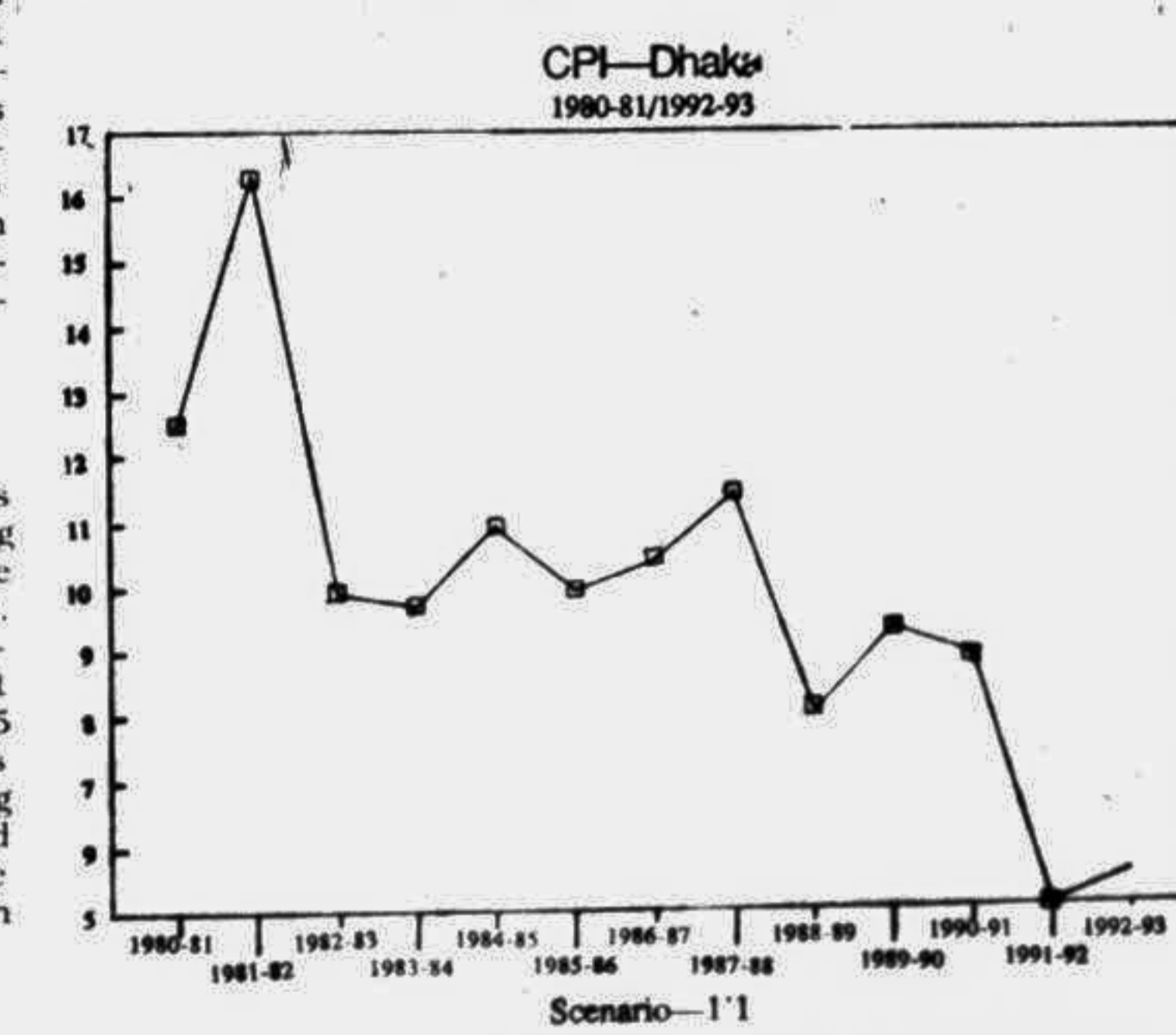
52. I propose to reduce customs duty on most machinery used for medical purposes and apparatus and instruments such as catgut, bandage, first aid box etc from 30 per cent to 15 per cent. However, total duty exemption on some life saving instruments like pacemaker and heart valve will continue. Customs duty on ambulance will be reduced from 60 per cent to 45 per cent. A loss of 5 crore taka is expected as a result of these measures.



Jatiya Party leaders at a meeting during the budget session at the parliament. Star photo



MPs belonging to Jamaat-e-Islami listening to Finance Minister's budget speech at the parliament. Star photo



Comment: The annual rate of inflation (measured in terms of Consumer Price Index in Dhaka) for 1980-81 to 1992-93 is presented in the graph above. It rose by 4 percentage point to over 16% in 1981-82. Afterwards it steadily declined. It took a dip in the current year to 5% from around 9% in 1990-91. The forecast for 1992-93 is between 5-6%.

53. Anti-malaria and anti-tuberculosis drugs are now produced in the country. These and other medicines imported in retail packages are totally exempt from customs duty. But raw materials imported for manufacturing these medicines attract 10 and 20 per cent customs duty rates.

(To be continued)