

Text of budget speech

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Duty reduced on 2870 products

21. In the existing law, deductions at source in case of industries enjoying tax holiday are adjusted one year after the expiry of tax holiday. I propose that deduction at source for tax holiday companies will also be adjusted in the following year.

22. I propose to change the current rule regarding computation of capital gains. The existing law lays down that in case of inheritance, capital gain will be calculated on the actual cost of acquisition to immediate previous owner. This provision creates unnecessary complications in the event of transfer of inherited property. I, therefore, propose that capital gains will be computed on the basis of market price of the property at the time the current owner inherited it.

Customs Duty

23. I would like to discuss the philosophical basis of import policies in general and the amendments to customs law in particular. We believe in open and competitive economy. This does not imply that there will be no protection for domestic industry. It is not beneficial for any nation to ban import of foreign goods in the name of import-substitution in a closed economy.

24. The clear lesson we learn from our own experience and from other countries is that the industries which sell at exorbitant price third grade products using second grade technology seldom turn out to be efficient. The open economy has strengthened domestic industry in South East Asian Countries. On the contrary, high tariff wall in the closed economies of South Asia crippled local industry. The ban on imports in the name of protection leads to higher rent-seeking and sacrifices the legitimate interests of the consumers. We also want the protection of domestic industries. But there must be a limit to protection. No democratic government can allow protection to be used as an unbridled instrument for exploitation because the sacred duty of the government is to protect the interest of common people and not of the vested interest groups. The rates in the existing duty structure for protection of local industry range from about 72 per cent to about 118 per cent. It is desirable from the economic point to ease out the industries which fail to compete despite such high protection rates. The rate of protection should be determined in accordance with a legal procedure. The legal responsibility of advising the government on protection has been given to Tariff Commission. Necessary measures have already been taken to strengthen Tariff Commission and its legal responsibility has been defined. If any producer is aggrieved by the prevailing duty structure he can easily seek redress from the Tariff Commission.

25. We do admit that international market is not always competitive. At times excessive subsidies and such other incentives may very well lead to dumping of foreign goods in the domestic market at abnormally low prices. Such activities are totally contrary to the spirit of a competitive economy. In order, therefore, to protect the rightful interests of domestic agriculture and industry, I propose to include in the Customs Act provisions for anti-dumping and countervailing duty. It is expected that with these legal instruments it will be possible to protect local industry by applying internationally accepted methods; in the long run, investment and employment will also grow.

26. I now propose to present before the Parliament some of the changes in the rates of Customs Duties for the fiscal year 1993-94.

27. During the last two fiscal years we have been consistently reducing the rates of Customs Duties on a number of important items of imports. This year the process has been proposed to be extended further. So far rates of Customs Duties were reduced by executive orders without ever bringing about any change in the extremely high rates of statutory duties prescribed in the First Schedule to the Customs Act. This empowered the government to apply its discretion to increase the rates of Customs Duties whenever it needed to raise revenue. This sort of excessive discretionary powers are contrary to the concept of good governance. In the proposed Finance Act, therefore, statutory duty rates are proposed to be reduced and fixed at 100 per cent and below except in case of alcoholic beverages and other goods detrimental to health and hygiene. This change in law underlines government's commitment not to reflex the duties at higher rates in future.

28. In order to accelerate the process of industrialisation and to bring down the prices of generally used consumer goods I propose not only to reduce the statutory rates of duties but also to substantially reduce the existing effective rates. At present, there are prescribed rates of duties on about 12,800 items of imports. In this budget I propose to reduce the rates of duty on no less than 2,870 items. Excepting last year's budget, such extensive reduction of duties was never proposed. I have proposed to reduce the rates of duties on almost every type of item starting from agricultural pumps to kidney dialysis machines, from raw materials to finished goods. We have even gone to the extent of reducing duty on microphones so that those who wish to criticise the Finance Minister may do so more effectively and at a cheaper price. I would like to assure my critics in the language of Roman Roland, "I may not agree with what you say but I will defend to death your right to say so."

29. In the interest of equitable incidence of taxation on all sections of the people so that the least incidence is borne by a representative individual, it is not justified to keep a number of fully exempted items in the Tariff. I, therefore, stand to reason to impose a minimum rate of duty on the existing fully exempted goods in phases. In order to put this idea into practice I propose to withdraw full exemption on a few items this year. At present sufficient quantity of antibiotics are produced within the country. There are existing exemptions on antibiotics and their raw materials. In order to encourage the pharmaceutical industry I propose to keep the existing exemption on raw materials intact while impose a minimum duty of 7.5 per cent on finished antibiotics.

30. All of the raw materials excepting some of the paper used in publishing are subject to customs duties. There is, however, no customs duty on imported books. Taking advantage of this situation some times even multiplication tables are unnecessarily imported. To remove this anomaly and to promote the interests of the domestic publishers I propose to impose a minimum duty rate of 7.5 per cent on imported books. Publications such as newspapers, periodicals, maps and globes etc. will, however, remain free of import duty.

31. Our industrious farmers have added a glorious chapter in the history of food production in Bangladesh. We are now on the threshold of attaining self-sufficiency in food grains. It is, therefore, time to protect our wheat and paddy farmers from the onslaught of unequal competition from abroad. I, therefore, propose to withdraw the existing full exemption on rice and impose a minimum duty of 7.5 per cent and increase the duty rate on wheat from 7.5 per cent to 15 per cent ad valorem. Duty on dry chilli was reduced when there was a large deficit in supply within the country. Now the situation has remarkably improved. In the interest of the farmers I propose to bring the duty of dry chilli at par with other condiments of daily use such as onion, garlic and ginger and fix it at the unified rate of 30 per cent ad valorem. At the same time for similar reasons I propose an increase of duty on mangoes from all sources from existing 60 per cent to 75 per cent ad valorem.

32. This year I propose to reduce the rate of duty on those easily identifiable parts and accessories of machinery which are primarily used in agriculture, textiles, dairy, poultry, pisciculture, leather processing and cold storage industries from 45 per cent to 30 per cent, 15 per cent and 7.5 per cent ad valorem. Customs duty on parts and components of motor cycle and three wheeled vehicles is proposed to be reduced from 75 per cent and 30 per cent respectively to 45 per cent and 15 per cent.

33. In order to help growth in the production of fish, poultry and livestock, duties on raw materials for feeds used in these sectors are proposed to be reduced from 75 per cent, 60 per cent and 45 per cent to 15 per cent and 7.5 per cent ad valorem. It may be mentioned here that due to the possibility of alternate uses and misdeclarations the lowest tariff could not be prescribed uniformly. Over and above those, duties on pumps and their accessories including those used in agriculture are proposed to be reduced from 45 per cent to 30 per cent ad valorem.

34. It is also proposed to reduce the duty on PVC resin from 30 per cent to 15 per cent ad valorem. In order to encourage the growth of local Bengali type writer assembling industry the existing import duty on Bengali typewriter is proposed to be raised to 30 per cent putting it at par with the tariff rate for English type writer.

35. To make export goods more competitive in the

external market the Duty Drawback System has been made easier, more transparent and considerably faster. Apart from this the imported raw materials which are used in export, have been separately identified and existing duty rates applicable to them have generally been proposed to be reduced substantially. It is expected that this will solve immediate liquidity problem and help exporting industry to some extent. The existing Duty Drawback Facility will also continue side by side and further expanded if necessary. It is relevant to mention here that the Duty Exemption and Drawback Office has already transformed itself into a strong and efficient organization and an amount of about 150 crores taka has been reimbursed to the exporters as duty drawback during the current fiscal year.

36. I propose to reduce the duty rate of out-board motors from 30 per cent to 7.5 per cent ad valorem and also to reduce the duty rates of photographic and cinematographic films from 45 per cent to 30 per cent ad valorem. In order to encourage export oriented ornament industry, the tariff rate for uncut diamond, gold and silver is proposed to be reduced from 75 per cent to 7.5 per cent ad valorem.

37. The existing rates of duty on milk imported in retail packing and in bulk are 25 per cent and 45 per cent respectively. At present a few industries for packing of milk are operating in the country. I propose to reduce the duty rates on milk imported in bulk from 45 per cent to 30 per cent ad valorem. This will lead to an increase in the production of retail packing of milk and a consequent reduction of prices may be expected. In order to further accelerate the process I propose to equalise the rates of duty on imported milk in retail and bulk packing at 30 per cent ad valorem. Infant food is also primarily milk-based. If the duty on infant food is significantly different from that on imported milk the possibility of distortions remains. Therefore, I



President Abdur Rahman Biswas giving his approval to the Finance Bill 1993-94. — PID photo

propose to change the existing duty rates of 15 per cent and 60 per cent on imported infant food in retail and bulk packings respectively, and fix them at the unified rate of 30 per cent ad valorem. The implementation of this proposal will encourage domestic retail packing industry and the level of local value addition will gradually go up. With the increase in the supply of locally packaged goods the prices are likely to register a downward trend. These measures proposed in this budget are, however, temporary. In the context of the all out drive being made to encourage the dairy and milk products under the personal leadership of the Prime Minister, Begum Khaleida Zia, it may be necessary in near future to reconsider the justification of the low duty rates fixed in this sector.

Mr Speaker,

38. There is an existing special exemption rate of 7.5 per cent ad valorem of customs duty on cotton. The normal duty rate of similar raw materials is 15 per cent ad valorem. In spite of the special exemption there is a demand for reduction of this rate to zero. This demand is not tenable on three grounds. First, the government has undertaken a long term plan for production of cotton in the country. Therefore, a zero rate may send wrong signals with regard to the government's good intentions. It will not be consistent with cotton development programme undertaken by the government. Secondly, for similar raw materials uniform principles should be followed. If a special concession in duty is allowed to one sector similar demands will crop up in others. Thirdly, the problem of the textile industry is basically structural. This problem cannot be solved by tinkering the rates of duty. This sector actually needs long term and far reaching reforms. Therefore, demand for change in the duty rate of cotton is not acceptable. Nevertheless considering the prevailing crisis in the spinning industry I propose the exemption of 50 per cent ad valorem of existing duty on cotton as an interim measure for 1993-94 fiscal year only. This will bring down the effective rate of duty on cotton to only 3.75 per cent ad valorem. It may be mentioned here that imported cotton is already exempt from VAT.

Value Added Tax

39. This august parliament may perhaps recall that in the budget proposals for 1991-92 fiscal year we had introduced the Value Added Tax (VAT) in this country. In the history of our tax administration this was an unprecedented and bold step. The VAT procedures are gradually becoming simpler and more transparent and by now it has earned international acclaim and appreciation. This is a modern, timely and improved tax administration system. At present all industries which come under the purview of cottage industry have been given complete exemption from this tax. Smaller industrial units which are not covered by the definition of cottage industry and having a turnover not exceeding 5 lakh taka pay turnover tax at the rate of 2 per cent. In order to encourage small productive units I now propose to enhance the turnover limit to 7.5 lakh taka in place of 5 lakh taka only.

40. Apart from this I propose to withdraw VAT in the following cases:

(a) With a view to creating employment for the landless, the small and marginal farmers, the unemployed village youth, the underprivileged and the women, and also to run livestock and poultry farming, and efficiently to promote their growth as healthy industry I propose that VAT be withdrawn from cattle and poultry feed at the import stage.

(b) In order to reduce dependence on powder milk and to bring about self reliance in nutrition, I propose to withdraw VAT from milk products such as butter, ghee, whey, curd and cream etc.

(c) Presently, insecticides used in agriculture are exempt from VAT. However, some of the insecticide inputs used for purposes other than agriculture are subject to VAT. In order to make insecticides more abundantly available I propose to lift VAT from all kinds of insecticides and their ingredients.

(d) In order to give impetus to jute products and their exports I propose that VAT applicable to jute cuttings be abolished.

Stamp Duty

41. Many of the duty rates prescribed in the First Schedule to the Stamp Duty Act, 1899 have remained unchanged since ages. On the other hand the expenses for printing, security, upkeep and accounting of the stamps have continuously increased. These rates have, therefore, been reflexed in this budget. At the prevailing circumstances it will not be financially feasible for the government to continue with the

stamps of one taka and two taka denominations for long. The duty for revenue stamps has, therefore, been increased to four taka. Apart from these, rates for Bonds including Customs Bonds have been proposed to be adjusted keeping in view administrative expenses as well as import value of goods.

42. At present there are various complexities with regard to rate of stamp duties applicable to bank loans. In order to remove the complexities in case of mortgages to banks and financial institutions I propose to prescribe lower rates for stamp duties. On the other hand in order to discourage undervaluation of stamps it has been proposed to provide for higher fines and punishments.

Motor Vehicles Tax

43. Though the cost of road building and road maintenance is increasing every year, during the last four years there was no tax increase on motor vehicles used for passenger transport. I, therefore, propose to increase the tax on taxi cabs with the capacity to carry up to four passengers from 1000 Taka to 1200 Taka. Proportionate increase has been proposed in case of other taxis, buses and lorries.

Foreign Travel Tax

44. Expenses on foreign travels have been increasing every year. With a view to bringing about adjustments with the rising expenses I propose to enhance the foreign travel tax on travels to North America, South America, Europe, Africa, Australia and Far Eastern countries from 1700 Taka to 1750 Taka, for SAAFR countries from 500 Taka to 550 Taka and for all other countries from 1200 Taka to 1250 Taka. It is also proposed to increase the rate for travels overland and by sea from 150 Taka to 200 Taka and from 500 Taka to 550 Taka respectively.

45. There will be an overall revenue loss if my proposals are approved and implemented. Due to the proposed reforms of income tax there will be a gross loss of 144 crore Taka and despite an additional revenue of 19 crore Taka from a few of the proposed measures the net loss will stand at 95 crore Taka. In import duties we shall suffer a gross loss of 228 crore Taka. Even after an increase of 30 crore Taka due to new measures of which duty on wheat payable by the government will be around 20 crore Taka there will be a net loss of 198 crore Taka. There will be a loss of 40 crore on account of VAT. There will be an increase of 5 crore only from new rates of foreign travel tax. The net loss in total revenue collection will thus stand at 328 crore Taka. I am not going to propose any new tax measure in order to cover this deficit in the interest of reducing the tax burden on the people in general and to stimulate economic activities in particular. The loss will be compensated by means of administrative reforms and restructuring rather than imposition of new taxes. Two new VAT collectorates will be set up to give a thrust in this area. Steps are being taken to fill up the large number of vacant posts in the Income Tax Department. I hope that by taking various administrative measures it will be possible to collect an additional revenue of 388 crore Taka during the next fiscal year. It may be recalled here that in the budget for the 1992-93 fiscal year also an amount of 310 crore Taka was proposed to be raised by administrative and procedural reforms. This target has been mostly attained in case of Income Tax and Value Added Tax. In the context of the prevailing political stability, we expect to reach next year's target with the spontaneous co-operation of the tax payers who will benefit from the substantial reduction of taxes which in turn is expected to generate adequate economic activities within the country.

46. On the basis of the existing tax structure during 1993-94 fiscal year the NBR's tax revenue is estimated at 9300 crore Taka. Administrative improvement and the ongoing reforms which implemented will generate net revenue gain amounting to 60 crore Taka; and total tax revenue of NBR will stand at 9360 crore Taka. Non NBR revenues are estimated at 675 crore Taka. Total estimated tax revenue for fiscal year 1993-94 will, therefore, stand at 10,035 crore Taka.

47. I would like to emphasize that most of the proposed tax measures do not entail any significant revenue gain. In budget of 9360 crore Taka, only about 54 crore Taka (including about 20 crore to be paid by the government on wheat import) will be generated from fresh tax measures. On the contrary, I have already announced measures which will contribute to revenue loss of 382 crore Taka. These tax measures have been placed before the House for determination of some fundamental principles at the national level. We have to decide as to what measures we shall take for protection of agricultural and dairy products, what are the measures we are going to take in the interest of our publishing industry, what are the steps we must take to encourage our pharmaceutical industry, what measures do we take to discourage rent-seeking in the garments manufacturing sector. Today in Bangladesh different lobbies have cropped up to press the demands and interests of various sectors of trade and industry. I have had the opportunity to enter into dialogues with many such group. I am afraid, in the course of such dialogues, I did not have the good fortune to encounter a single lobby which really wants to protect the interests of the teeming millions and the poor common consumers of Bangladesh. Hon'ble Members of the Parliament, you are the elected representative of the people. You are their last refuge. The proposal relating to the interests of the common farmers and consumers of the country merit your consideration.

48. In protecting national sovereignty and in accelerating progress there is no alternative to effective mobilisation of internal resources. There is an increasing reluctance from the donor countries in giving enhanced aid. Conditionalities are also mounting steadily. Therefore, in order to attain economic freedom in its true sense we have to quickly increase our rate of savings and revenue. There is no other way to develop economically.

49. In an open and competitive global economic environment in order to effectively meet ever new challenges we have to take up overall reform measures of our fiscal system so that it becomes sufficiently resilient and outward looking. I drew the attention of the Hon'ble members of the Parliament to this issue in the first part of my speech. The reform programmes have to be fully implemented because they actually eradicate wastages and inefficiencies and encourage sustainable development. In the recent past our huge success in macro-economic stabilisation yielding the lowest ever inflation rate of about 2 per cent, rising tax revenues, restrained current expenditure, reduced fiscal and current account deficit and high levels of foreign exchange reserves attests to our reform programme's remarkable performance. We must, therefore, carry forward our reform measures to their logical end.

50. While I talk about reforms I wish to remind the House that the need for major policies, institutions and economic development strategy was clearly delineated in the manifesto on the basis of which BNP was elected to power in 1991. The Hon'ble Prime Minister, has given strong leadership to the reform agenda by regularly and repeatedly expounding many of the key themes such as promotion of internal savings, transparency in the government actions, growth with equity, competitiveness and export development, limits of the government's abilities, borrower's responsibility and elimination of rent-seeking and corruption. I am pleased to note that leading figures of the mainstream opposition political parties indicate little or no substantial disagreement with the main objectives of BNP government's economic platform.

Mr Speaker,

51. This budget presents visions of economic, political and social progress of our people. It calls for larger investment in man, machine and materials. It calls for the adaptation of policies and institutions to meet the emerging challenges of a world transformed almost overnight. It calls for vibrant political institutions at local and national level for a participatory development process within the framework of democratic pluralism, it calls for a reformed bureaucracy and an enterprising, mission-driven administrative organ responsible, responsive and accountable to the people. It calls for human resource development and environmental protection. It holds out vision of a growing economy that provides more jobs, more income and less poverty and promises equity and fairness to vulnerable sections of society through targeted poverty reduction programmes and by well-conceived social safety net. And in our endeavours to realise these objectives we shall remain ever steadfast to our commitment to democracy, rule of law and protection of human rights.

52. The distinguished British Philosopher Edmund Burke rightly observed that a political system which does not know how to change cannot survive. What Burke said about the political system is more crucially relevant in the case of economic system. The economic world is always in a state of flux. The inevitable price of failure to adjust in this fast changing world is the nurturing of economic stagnation and underdevelopment. We will have, therefore, to move forward with courage under the dynamic and bold leadership of Prime Minister Begum Khaleida Zia.

Khoda Hafez
Bangladesh Zindabad.