

Budget '94-95

'Export growth is one of our cornerstones of development strategy'

expanding the tax base the Value Added Tax has laid the foundations of a scientific and democratic tax system.

Mr. Speaker, Sir,

The present democratic Government inherited a moribund economy languishing in the maze of a wrong and inward-looking policy of import substitution. On the plea of building import substitution industries, Bangladesh nurtured a "Licence Raj" behind the high tariff wall. In the hands of the authorities in power, import licensing became a potent medium of corruption and wrong-doing. Today as a result of the liberalization of

It is said that where there are two economists there are usually three opinions rather than just two. In spite of so much differences of opinion among the economists on various issues, the main-stream economists today are unanimous on the question of liberalisation of international trade. This unanimity of the mainstream economists is reflected in the recently concluded Uruguay Round Agreement. It is now impossible for any one to bury one's head in the quicksand of protectionism denying this new world order. Nor is it necessary. Protectionism has hindered industrial development in most economies including those in South Asia. Realizing this truth every South Asian country is now adopting liberal trade policies. It is sometimes claimed that in some East Asian countries selective protection had borne good results, but we must keep in mind the fact that unlike us they never provided a general protective wall for an indefinite period of time. Limited protection sometimes resulted in more harm than good even in some East Asian countries. The main point is that today's international perspective is different and no country can fully replicate the experience of any other country. Protection has forced the people of Bangladesh to buy inferior commodity at high prices during last fifty years. But this has not given any impetus to industrialisation. In order to avail of the protective facility, precious capital in many cases has been wasted on the establishment of industries which produce goods of insignificant value addition. Protection has discouraged the export industries. Finally, protection, by creating a monopolistic market, has limited the productive and innovative capability of the entrepreneurs. Many infant industries under protective shield have remained so even after the lapse of half a century. Because of protection they never felt the urge to be competitive.

Mr. Speaker, Sir,

The transition from protection to liberal trade is likely to create inconveniences for some industrial units. But those units which are able to tide over the temporary inconveniences will eventually establish themselves as far more productive entities. I have full confidence in the creative and innovative capability of our entrepreneurs. It is, therefore, my firm conviction that most of the existing industries in Bangladesh will successfully move from protectionist to market economy. We have already received some signals which support this hypothesis. Exports are expanding at a fast pace. Exports are projected to increase at the rate of 15 per cent during the current fiscal year. The statistics of the L.C.s registered with the Bangladesh Bank during the first nine months of the current fiscal year indicate that the value of imports excluding back-to-back L.C.s for exports has grown by only 4.46 per cent compared to the same period of last fiscal year. This is consistent with the growth of GDP in Bangladesh. Therefore, the fear that trade liberalisation leads to flooding of local market with foreign goods is not supported by the evidence from Bangladesh. In 1992-93 the manufacturing sector has grown by 7.98 per cent. Since fiscal year 1978-79 this is the highest annual growth for manufacturing during the last 14 years. During 1992-93, 62 thousand new jobs have been created in the new tax holiday industries alone. Many more jobs were created in non-tax holiday industries the statistics of which have not yet been finalised. This trend of industrial growth continues. These facts clearly indicate that the policy of trade liberalisation has brought about a dynamism in the economy.

Mr. Speaker, Sir,

During last three years the greatest emphasis has been given to improvement of administrative efficiency in tax collection. In Bangladesh there still remains a tendency to evade huge amount of taxes on various pretexts. If these losses are reduced by improving the administrative capability there will be no need to increase the rate of taxation in order to mobilise more domestic resources. But this requires a firm application of law. In all countries of the world tax collecting agencies have to conduct extensive surveys and raids in order to plug leakages. Such activities are often resisted by vested interest groups. This is why efficient tax administration presupposes unstinted support of the tax payers and the general public. I hope that political leaders, industrialists, trading community and the honourable members of the Parliament would contribute to creation of public opinion so that tax enforcement agencies can properly discharge their assigned tasks.

Direct Taxes

Income tax

I would like to place my proposals on direct taxes first. The main source of direct taxes is income tax which constitutes only 19% of the revenue collected by the National Board of Revenue. Compared to many other countries the collection of revenue from income tax in Bangladesh leaves much to be desired. The lack of transparency in tax administration and time-consuming appeal procedures are the main reasons for this state of affairs in income tax collection. In order to remove these obstacles we have to evolve a system which will create confidence in the minds of the tax payers on the one hand and safeguard the revenue of the Government on the other. With this end in view I would like to put forward two proposals.

First, under the present system there is no specific provision in law for the assessing officer to record in writing his objections regarding the assessee's return and to allow the assessee an opportunity to submit his replies in writing before any hearing is allowed to him. Many assesseees have complained that they do not get adequate opportunity to put forward their views. They also complain that their statements are not at all considered in finalizing the assessment. I, therefore, propose to amend section 83 of the Income Tax Ordinance in a manner which will enhance the confidence of the tax payers in the process of determination of his tax liability. Under the proposed system, the assessing officer will record in writing his objection or reasons for his dissatisfaction and allow the assessee to file his views in writing. If the assessing officer is not satisfied with the assessee's explanation, he will issue notice for hearing on the assessee. In addition, the assessing officer shall have to record the justification for computation of income in the assessment order itself. The proposed measures will make the process of assessment much more transparent.

Secondly, disposal of appeals often requires a long-time under the present system. With a view to evolving a generally acceptable system for quick disposal of appeal cases, I propose to set up a Taxes Settlement Commission which would be run by experienced full-time and part-time members. All assesseees other than limited companies having a paid up capital of more than taka fifty lakh will be eligible to file appeals to this Commission. Orders passed by the benches of the Commission shall be binding on the assessee as well as the Government and no appeal will lie

Text of Budget Speech

against this order. The Commission shall have to dispose of a case within six months of the receipt of the application.

Mr. Speaker, Sir,

The present procedure for filing appeals will continue for those assesseees who opt to avail of the existing system of appeals instead of going to the Taxes Settlement Commission. I propose three amendments for simplifying the existing appeal procedure. At present the assesseees have to pay 50% of the tax determined on presumptive assessment before filing an appeal. As the assesseees do not always get sufficient opportunity to place his arguments in the case of presumptive assessment I propose to reduce the rate of tax payable while filing an appeal from the present 50% to 25%. Secondly, there is no time limit in the income tax law for communicating to the assessee the orders of the Commissioner (Appeals) or the Appellate Joint Commissioner. As a result, in many cases it takes a long time for the assessee to know the outcome of his appeal. To remove this problem I propose an amendment to the income tax law which lays down that the concerned appeal authorities must communicate their orders to the assessee within a maximum period of thirty days. Thirdly, at present the appeal authorities instead of giving decisions may set aside the case for reexamination and send it back to the assessing officer. This causes undue delay in the disposal of appeal cases. I, therefore, propose to restrict the scope for setting aside cases. Under the proposed amendment a case may be set aside and sent back for re-examination only where the service of notice is faulty.

Mr. Speaker, Sir,

In order to ensure growth of investment in the private sector it is essential to develop the capital market. The income tax law, however, contains some provisions which are not congenial to the development of capital market. Savings certificates issued by the Government may be cited as an example of disincentive to investment in the capital market. Savings certificates are risk-free and their interest rates are also attractive. Further, investment tax credit at 15% on the purchase of savings certificates upto a maximum of Taka one lakh is allowed in case of an individual assessee. As a result, they are not encouraged to invest in the share market. With a view to attracting such individual investors to the share market I propose to withdraw the facility of investment tax credit on savings certificates purchased after June 30, 1994. Interest on savings certificates will, however, continue to remain tax-free. Secondly, the tax holiday companies at present are required to invest at least ten per cent of their profits in National Investment Bonds. I propose to withdraw this condition of compulsory investment in the National Investment Bonds so that the tax holiday companies are encouraged to invest their profits in other activities. However, to ensure that investment by tax holiday companies is not reduced it is proposed to enhance the required rate of investment of such companies from 25% to 30%.

Mr. Speaker, Sir,

For a long time there exists in the income tax law a provision for deduction of tax at source on both imports and exports. This provision was, however, not applied to exporters till the financial year 1991-92. Considering the contribution of exports in the Gross Domestic Product, the deduction of advance income tax at 50 paise per 100 taka of export was introduced in the financial year 1992-93. This led to a vociferous protest from exporters against this nominal tax. Last year exports of some goods like Jute goods, fresh fruits and vegetables were exempted from deduction of advance income tax at source. Though the government has to bear considerable financial burden for creation and maintenance of infrastructure for exports, exporters are reluctant to pay tax even at this low rate. I propose further exemption from deduction at source in the coming year. A proposal to exempt the export of tax holiday companies from deduction at source subject to prescribed rules has been incorporated in the budget.

Considering the extent of bad and doubtful debts of commercial banks it was provided in the Finance Act, 1990 that banks would be entitled to a special deduction for their provision against such debts for a period of 3 years. In 1993 this exemption has been extended for a further period of 3 years. However, the banks are demanding exemption of unrealised interest in suspense account. Instead of allowing special deduction for unrealised interest I propose to increase the allowable deduction from 4.5% to 5% of total outstanding debt and interest of a bank. This will reduce the burden of bad and doubtful debts on the banks.

Mr. Speaker, Sir,

At present the rate of income tax for publicly traded companies is 40% whereas it stands at 45% in case of companies which are not publicly traded. I propose to reduce this rate to 37.5% and 42.5% respectively in order to encourage domestic investment. Since the financial institutions in Bangladesh are not as yet fully competitive and the ceiling on allowable deduction for bad and doubtful debts of the commercial banks has been increased, the rate of income tax for banks and financial institutions has been kept unchanged.

At present individual income upto Taka 50,000 is exempt from tax. I propose to increase this exemption limit from Taka 50,000 to Taka 55,000. The marginal tax payers will thus be totally exempt from payment of income tax. Though there are at present more than 5 lakh registered assesseees in the country, income tax was realised from only about 2 lakh 16 thousand assesseees in the financial year 1992-93. Average collection expense for each tax payer was Taka 1258 in the last financial year. This expenditure is continuously increasing due to increase in the overall administrative expenses. Keeping these facts in view and the extension of exemption limit to Tk. 55,000 in order to give relief to the marginal tax payers, I propose to fix a minimum tax at Taka 1200 for individual income tax payers. Income above Taka 50,000 but upto Taka 1 lakh is at present taxed at the rate of 15%. I propose to enhance this limit of 15% tax rate from Tk. 1 lakh to Taka 1 lakh 30 thousand subject to the condition that income tax in no case shall be less than Taka 1200. I also propose to enhance the minimum amount of tax for self-assessment from Taka 1500 to Taka 1800. The tax rate for the next Taka 1,60,000 following the above mentioned Taka 1,30,000 will be 20%. Above that the highest rate of 25% will apply. The present limit of allowable perquisites is Taka 60,000. Considering the increase in cost of living particularly in house rent, this maximum limit is proposed to be raised from Taka 60,000 to Taka 72,000.

Wealth Tax

Mr. Speaker, Sir,

At present a house owner has to pay wealth tax even on his own dwelling house if the value of such house exceeds Taka fifty lakh. Determination of the value of such dwelling houses is quite cumbersome. I, therefore, propose that no wealth tax shall be payable on one house, regardless of its value, if the house is used as residence by the owner. If the

owner resides in a flat or an apartment he will be entitled to similar exemption.

INDIRECT TAXES

Import Duty

Mr. Speaker, Sir,

I would now like to place before the house the salient features of the proposed changes in customs duty rates for the year 1994-95. Customs duties are being reduced all over the world. For surviving in the world market, we have to move in line with the world trade system. The natural resource base in Bangladesh is fragile. Most of the raw materials needed for industrialization are required to be imported. Not merely for facilitating international trade, duty reductions have also become imperative in the interest of domestic industries. The government continuously reduced import duties for last three fiscal years. This year, I propose to advance this process further. I propose to reduce the highest rate to 60 per cent in 1994-95. However, supplementary duties equal to the amount of customs duty reduction is proposed to be imposed in case of goods for which high rates were levied on health or religious grounds (for example, cigarette, wine and liquor). I propose to reduce customs duties in case of 3116 H.S. Codes of goods in this budget. Duty rates will remain unchanged for only 3057 H.S. Codes. Many of the goods, for which duty rates remain unchanged benefited from duty reduction in the last budget.

For infusing dynamism in industrial production in the country, duty rates for 148 basic raw materials and 1024 semi-processed raw materials are proposed to be reduced. Duty rates for soda ash and caustic soda are proposed to be reduced from 45 per cent to 30 per cent. Imported ball bearings are essential for many industrial machinery. I propose to reduce the duty rates of ball bearing from 60 per cent to 30 per cent. In certain cases ball bearings are also produced in the country. For encouraging such industries duty rates for their raw materials are proposed to be reduced from 60 per cent to 15 per cent. Among other proposed duty rate reductions, the following deserve mention: duty rates for unwrought zinc, ferro manganese and limestone from 30 per cent to 15 per cent, for crude tar, from 15 per cent to 7.5 per cent, for Rosin and Carbon from 45 to 30 per cent, for chalk from 45 to 15 per cent, for monofilament of vinyl chloride from 60 per cent to 30 per cent, different types of bitumen from 60 to 45 and 30 per cent, and for essential oils from 45 to 30 per cent etc.

In view of the unusual increase in the price of edible oil and sugar in the international market I propose to reduce the duty rates for these items. Duty rates for crude soybean oil and refined soybean oil are proposed to be reduced from 45 per cent to 30 per cent and from 60 per cent to 45 per cent respectively. Customs duty rate for refined palm oil is proposed to be reduced from 75 per cent to 60 per cent, while the present 5 per cent supplementary duty for crude palm oil is proposed to be withdrawn. I propose to reduce the duty for sugar from 60 per cent to 30 per cent.

For encouraging export, the government has already withdrawn all duties and taxes on capital machinery used in 100% export oriented industries. Keeping in view the problems and potentials of the domestic textile sector I propose to extend this facility of duty free import of capital machinery to this sector for next two years. I propose to reduce customs duty of capital machinery for textile industries from 45, 30 and 15 per cent to zero in case of 17 H.S. Codes.

The textile sector in Bangladesh is now in a critical situation owing to the prevailing cotton crisis in the world market and rapid decline in productivity of the mechanized textile sector in the country. Keeping in view the interests of domestic cotton growers, in the last budget I proposed to impose a duty rate of 3.75 per cent for cotton for the 1993-94 fiscal year only. Considering the worldwide cotton crisis, I propose to withdraw entirely all duties on raw cotton for this fiscal year. At the same time, with a view to encouraging handloom industry I propose to reduce the duty on cotton yarn from 15 per cent to 7.5 per cent. I also propose to reduce Customs duty on nylon chips from 7.5 per cent to zero. However, VAT at the import stage will remain as it is. In case of textile spares which are not produced locally, I propose to reduce customs duty from 30 to 15 per cent. In addition, the duty rates for certain important textile dyes are proposed to be reduced from 60 and 45 per cent to 30 per cent. It may be recalled here that the nineteen point programme of the BNP has mandated that everybody will get at least the basic requirement of clothing. This measure is a bold step towards fulfilment of that promise.

As a result of the rapid expansion of leather industry, there is often a shortage of raw hides and skins in the country. I, therefore, propose to reduce the customs duty on different types of raw hides and skins from 60 per cent to 30 and 15 per cent. For encouraging the production of good quality shoes in the country, I propose to reduce the duty on different components of shoes from 60 per cent to 30 per cent. Duty rate for synthetic organic tanning substances is proposed to be reduced from 30 per cent to 15 per cent.

It is possible to generate rapid self-employment in Bangladesh through the expansion of pisciculture, poultry and dairy farming. Considering the potentials of these sectors, duties and taxes of different ingredients used in these sectors were significantly reduced last year. In the current budget I propose to reduce the duty rate in case of poultry feeds and medicines with duty rate of 7.5 per cent to zero. As a result duty rate in case of 14 H.S. codes will be reduced to zero. In addition I propose to reduce the duty rate of capital machinery used in the poultry sector from the present 7.5 per cent to zero against six H.S. Codes. I also propose to withdraw all duties and taxes in case of eight hormones and ingredients essential for the fisheries sector. With a view to increasing the supply of high quality cattle in the country I propose to completely withdraw all duties and taxes on hybrid breeding cows imported from abroad. Moreover, I propose to reduce the duty on refrigerated van used by dairy industry from 15 to 7.5 per cent.

Crockery is a promising industry for Bangladesh. Already this sector has achieved notable success in the export market. In order to encourage this sector the duty rate on refined china clay is proposed to be reduced from 30 per cent to 15 per cent. Similarly, I propose to reduce the duty rate on gold compounds from 30 per cent to 15 per cent.

For a long time duty rates for petroleum and petroleum products are fixed on specific rate basis. But duties in case of all other items are determined on an ad valorem basis. As the assessment of duty on an ad valorem basis is more scientific it is proposed to change the basis for duty assessment in case of these products from specific to ad valorem. There will, however, be no effect on the domestic prices of these goods as a result of these changes. The duty on tallow, a raw material for soap is proposed to be reduced from 60 to 30 per cent. However, it is also proposed to impose VAT on tallow.

With a view to encouraging the watch and clock assembling industry in the country I propose to reduce the duty rate of watch and clock parts and components from 60 per cent to 15 per cent. I also propose to reduce the duty rate in case of built up watches and clocks from 60 per cent to 45 per cent. In order to encourage the domestic construction firms to undertake big construction works in the country I propose to reduce the duty rates in case of construction equipment and transports from 45, 30 and 15 per cent to 7.5 per cent. It is expected that as a result of these measures the domestic construction firms would be able to compete against foreign

firms in international tenders.

Despite recurrence of natural disasters the toiling peasants of Bangladesh have attained remarkable success in agricultural production. In order to keep up this trend of development I propose to reduce customs duty on low lift pumps from 30 per cent to 15 per cent and on power tillers from 15 to 7.5 per cent. In order to encourage the conservation of the limited forest resources of the country I propose to reduce customs duties on different types of wood and wood products from 60 per cent to 30 per cent and that of tea chests and particle boards from 60 per cent to 45 per cent. For encouraging the production of rubber goods in the country I propose to reduce the duty in case of synthetic latex rubber from 60 per cent to 45 per cent.

Mr. Speaker, Sir,

The B.N.P. in its 19 points programme has pledged to provide basic medical care to the people. With a view to realising this the government has considerably increased the allocation of funds for health sector. In order to reduce the cost of medical treatment in the private sector I propose to reduce the duty on most medical equipment and appliances from 15 per cent to 7.5 per cent. The duty rate on kidney dialysis machine is at present 7.5 per cent. I propose to reduce this rate to zero. In addition I propose to reduce the duty rate in case of the accessories necessary to perform kidney dialysis from 60, 30 and 7.5 per cent to 15, 7.5 and zero respectively. At present, the duty rate on ambulance is 45 per cent. I propose to reduce the duty rate on ambulance fitted with electro medical apparatus to 15 per cent.

The extension of scientific education is necessary for the mental development of the youth of this country, while games and sports are necessary for their physical development. Keeping these in view I propose to reduce the customs duty in case of scientific instruments from the present 45, 30 and 15 per cent to 7.5 per cent. The duty rate for some sports goods are at present fixed at 60 and 45 per cent. I propose to reduce all these rates to 15 per cent. In order to promote human resources development and to encourage mass education and publication industry, duty on most of the categories of paper is proposed to be reduced from 60 to 45 per cent.

Mr. Speaker, Sir,

In the interest of domestic production, I propose to raise the duty on globe and atlas from zero to 7.5 per cent and on cut flower from zero to 15 per cent. For safeguarding the interests of the domestic cement producers, I propose to impose 5 per cent supplementary duty on grey portland cement. The duty on M.S. billet is proposed to be raised from 15 to 30 per cent on the same ground. Keeping in view the ill effects of smoking the duty rate on certain tobacco and tobacco products is proposed to be increased.

It is essential to reduce customs duty on bicycles and motor cycles to reduce the transportation costs of low income families for commuting to work places and of students for going to their educational institutions. I, therefore, propose to reduce the duty on bicycle from 75 to 30 per cent and motor cycle from 60 to 45 per cent. I hope that importers will pass the benefit of duty reduction to consumers. I also propose to reduce the duty on fire fighting vans from 30 to 7.5 per cent. Considering the interest of the consumers it is proposed to reduce the duty on battery from 75 to 45 per cent and the duty on different kinds of paints, varnishes, plastic products and cotton cloth from 60 to 45 per cent.

A revolution is taking place globally in information technology. Today television is not just a mass media, it is also an effective tool for the spread of education. In the meanwhile an open university has been established in the country. Televisions so far attracted a high rate of customs duty for protection of domestic television assembling units. It is considered necessary to reduce the rate of duty on television for the spread of education and technology in the country. I, therefore, propose to reduce the rate of customs duty on television from 60% to 45%. At the same time it is proposed to reduce the duty of Cathode Ray Tubes (C.R.T) from 30% to 15%. Also in order to encourage the use of telephones in the country I propose to reduce the rates of customs duty on telephone equipment from 45% and 30% to 30% and 15%.

Apart from the reduction in duty rates, it is also necessary to bring about improvements in customs procedures for encouraging investment in the country. For expediting clearance of goods, voluntary pre-shipment inspection procedure has already been introduced. Provisions are also being made in the Customs Act to enable the customs authorities to accept per-shipment certificate value in case of goods where tariff value already exists. To implement the new system, necessary notifications would be issued within a short time. Moreover, provisions for scientific chemical tests and draft survey are also being incorporated in section 200 of the Customs Act. An advisory body consisting of representatives from various ministries and the private sector will also be constituted to advise the National Board of Revenue in matters of valuation of imported goods. Moreover, necessary administrative arrangements are being made to expedite cases of Customs Appeals.

To enable the non-resident Bangladeshis to import gold without difficulty I propose to refix customs duty at the rate of Tk. 300 per tola of gold. The Baggage Rules will also be amended within a short time in the interest of the Bangladeshi nationals coming from abroad.

Mr. Speaker, Sir,

In any country undergoing wide changes in duty rates it is not unlikely that tariff anomalies might arise. If any producer is aggrieved by duty rate changes he may seek redress through the Tariff Commission. But it should be remembered that protection cannot be maintained for an indefinite period in the larger interest of the people. The Tariff Commission has been requested to announce time frame of protection in cases where it has recommended protective rates.

Value Added Tax

Mr. Speaker, Sir,

Since Value Added Tax in Bangladesh is still confined to the import and manufacturing stages the credit mechanism is not yet fully operative. In most of the countries of the world this problem is solved by making VAT compulsory in both wholesale and retail distribution of goods and services. As an alternative, it is also possible to solve this problem by a system of voluntary registration of wholesalers and retailers. I, therefore, propose to allow the wholesalers and retailers to register on a voluntary basis.

Mr. Speaker, Sir,

At present an inconsistency exists between the Turn Over Tax limit and the Cottage Industry exemptions. Cottage industries upto a turn over of Tk. 15 lakh are exempt. Small industries with a turn over of Tk. 7.5 lakh on the other hand pay tax at the rate of 2%. I, therefore, propose that small industries with the turn over upto Tk. 15 lakh be taxed at the rate of 2%. At the same time in order to do away with the misunderstanding between the taxpayers and the tax administration at the field level I propose to constitute a Turn Over Tax Determination Commission.

Incomplete