

HERE is no denying the fact that without reforms the condition of the masses can not be improved. All reforms are hard and need sacrifices from the people and courage for sustenance from the administration. The new administration has come to power through people's mandate. People will generally support the reforms and even undergo hardships now. In another year's time, the initial euphoria may be over and then it will usually be late to introduce reforms. However, a close look at the parameters of the budget will surprisingly reveal that the new administration's vision is rather missing in respect of (i) disposal/down-sizing of state-owned enterprises (SOEs), (ii) privatisation, (iii) infrastructure development, (iv) attracting foreign and private investment in energy, telecom, etc. (v) harnessing national savings, (vi) handling the continuing operational losses and erosion of capital bases of nationalised commercial banks (NCBs), presently borne by the country's tax payers, and cornering the loan defaulters, (vii) putting the parallel economy of undeclared income into country's use and well-being, (viii) starting taxing large agricultural income realistically. etc. People had, on the other hand, expected some future directional sense in the budget to overcome these chronic problems causing constant fissures in the basket of our scarce resources.

#### Generation of Revenue and Sectoral Allocation

GENERATION OF REVENUE	Taka/Crore
Revenue receipts	
Budget 1996-97	14,025
(82%)	12,233
Non-tax revenue	3,095
(18%)	3,279
(100%)	17,120
Customs duties	4,410
(+15%)	3,850
Value-added tax	4,390
(+16%)	3,790
Income tax	1,850
(+17%)	1,583
Supplementary duty	1,973
SECTORAL ALLOCATION	
Revenue expenditures	
Education	2,233
Defence	2,215
Social and community service	990
Health and population control	748
Interest on foreign debt	700
Annual Development Programme (ADP)	
Total Domestic contribution	12,500
(+20%)	10,447
+17%	40,39
Transport	2,440
(+13%)	2,152
Education	1,769
(+26%)	1,402
Rural development	975
(+31%)	743
Agriculture	749
(+34%)	559
Physical planning, water supply and housing	758
(+29%)	587
Communication	396
(+13%)	352
Population and family planning industries	392
(-17%)	475
+8%	185
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Average jump of 15% has been projected across the board for all the four revenue receipt heads of customs duties, VAT, income tax and supplementary duties but its basis has not been explained.

Highest allocation jump (7%), compared to last year, in revenue expenditure goes to defence followed by 4% for agriculture. Health, population and family planning received 2% revenue expenditure allocation jump but a 17% reduction in ADP allocation. Isn't population our number one problem?

**Macro-Economic Steps**

**Perpetuation of the nationalised sector** : It has been envisaged to give the infamous state-owned enterprises (SOEs) an

## Brief Commentary and Reflections on Finance Bill '96

by Mushtaq Ahmed, FCA

other chance by strengthening the planning system and by toning up the management in the nationalised sector.

It is not clear why and with what favourable signals the SOEs have been given another chance of wasting scarce national resources considering their past record of having an unsatisfactory appetite for gobbling public money and creating insurmountable mountains of losses.

**Allocation of agricultural subsidy fund of Taka 100 crore for poverty alleviation and another Taka 100 crore for micro-credit** : Manifold uses of the agricultural subsidy fund of Taka 100 crore have been planned as subsidisation/rehabilitation of (a) 80% cost of farm irrigation and other agricultural machinery through the channels of participating banks, (b) farmers affected by natural calamities, (c) agricultural output and input prices, (d) cost of fuel and infrastructure for use of irrigation equipment through command area development, (e) cost of urea fertilizer, and (f) development of fishery and livestock subsectors.

It is also proposed to allocate another fund of Taka 100 crore from revenue and development budgets as the capital for the proposed organisation to su-

port companies? This will shay away the foreign investors.

**Enhancement of individual annual tax exemption limit by Taka 5,000 to Taka 60,000** : This is inadequate. Existing trend of market prices of essentials for bare survival demands its fixation at least at Taka 100,000. This would have been at par with the total annual exemption of Taka 100,000 already allowed now in case of agricultural income.

**Acceptance of individual returns with declaration of 10% higher income compared to previous year** : Under the existing law, such an acceptance, without raising any question, was conditional to equation of this 10% increase in total income with increase in total wealth which frustrated the very purpose of this incentive. That condition has now been withdrawn and intent of the initial incentive restored in full.

**Reduction in rate of withholding on export earnings** : This has been reduced from existing 0.50% to 0.25%. This

should be welcomed by our exporters. However, why not get rid of this withholding and make all export earnings free of VAT? We need foreign exchange.

**Full exemption of capital gains on sale of bonus shares** : Capital gains on sale of bonus shares, so long taxed, has now been made fully exempt at par with such gains on other shares listed with company's stock exchanges. This ought to further activate the stock market and attract both local and foreign investors.

**Enhancement of annual exemption limit for agricultural income** : This has been raised from Taka 55,000 to Taka 100,000 per year providing a significant boost to economic activities centring on agriculture.

**Reduction of mandatory payment prior to filing an appeal to the Appellate Tribunal** : There is a requirement to pay 50% of the difference determined on the basis of the order of the first appeal and the tax payable on the basis of the return prior to filing an appeal.

with the Appellate Tribunal. The percentage has now been brought down to 40% as a relief to the assesses' cash flow.

**Stopping the taxing of banks' doubtful interest income falling due on overdue and stuck-up loans, but making it conditional to non-allowance of the bad debts** : There was a time prior to passage of June 1990 budget when, albeit followed since long, no provisions made in the books of account of banks were summarily disallowed for tax assessment purposes. One can see how big a damper it was for the banks in accounting as an expense their known debt losses thereby inflating both their profits and the loan portfolios with all their inherent ramifications.

In the June 1990 budget this disincentive was removed from our tax laws and a tax deduction for bad debt provisions, based upon the classification and approval of Bangladesh Bank, was allowed to the banks up to a maximum of 4.50% (increased to 5% in '94) under section 29 (xviii) of the Income Tax Ordinance 1984 on the condition that such a provision is actu-

ally made in the books of account. Almost concurrently, Bangladesh Bank mandated that all doubtful interest income be no more accounted for as income in the banks' profit and loss accounts but be kept hanging in balance in interest suspense account until actually realised in cash from borrowers making it then qualified to be treated as income and thus accounted for in the banks' books of account as well as profit and loss accounts. But the tax department started, and to date continues, the practice of adding such doubtful, national and unreal income to the actual and realised income of the banks and equally taxing the sum of the two types of income — one unreal, the other real.

Considering this tax treatment as highly unfair it has now been decided under section 28 (3) not to tax such interest suspense any more. Up to this, the decision was fully justified and very fair — although long overdue. But, surprisingly, the justice done with one hand has been, at the same time, taken away by the other. Now the decision not to tax interest suspense has been made conditional to not allowing the legitimate deduction of 5% provision for bad debts by the said clause (iii) of Section 29.

**Reduction in highest rate** : The highest rate of customs duty has been brought down from 50% to 45% to accelerate the pace of imports for trade and industry. It needs further lowering the maximum rate in concert with other fast developing countries in the region. Bangladesh has to appear competitive. Local industries will have to become competitive and producers of good quality products. Visionless defence of local consumer industries is economic folly. Conditions must be created where those desirous of survival should be competent.

Computers (especially PCs, etc.) need to be made tax-free.

#### Value-added Tax (VAT)

**Expansion of VAT collection net** : VAT is collected at present only at the import and production stages. It is now being, step by step, expanded up to supplies at wholesale and retail levels.

At present VAT is levied on 29 types of economic services. It is now being extended to include services rendered by shipping agents, audit and accountancy firms of chartered accountants, consultancy and supervisory firms, leasing companies as well as traders in motor cars, air conditioners, dish antennas, etc.

Among the professionals only chartered accountants and consultants have been brought under VAT. It is highly unfair that other professionals like doctors, engineers, lawyers, etc. have been left out. They should be likewise inducted.

**Extension of tax holidays to expansion units** : In fulfilment of a long-overdue and oft-repeated demand of industries, the incentive of tax holiday, upon compliance of prescribed conditions, has been extended to expansion of existing industrial undertakings. This is sure to attract and encourage both foreign and local investment.

**Scope of appointment of Accountant Member of the Appellate Tribunal extended for retired members of National Board of Revenue** : The scope of filling in the post of Accountant Member of the Appellate Tribunal by serving Commissioners of Taxes, chartered accountants and cost and management accountants has now been extended to include retired members of the National Board of Revenue and retired Commissioners of Taxes. In the same vein, the position of President of the Tribunal, so long filled in by the judicial members of the Tribunal, has now been permitted to be also filled in by any member of the Tribunal. These steps, specially the first one, are likely to create some controversies as the strict requirements of candidature are going to be somewhat diluted to accommodate certain categories of retired government officers.

However, it appears now that some Indian leaders are finally recognising the plight of the enclave residents. In a recent letter to the federal United Front government in India, West Bengal Chief Minister Jyoti Basu called for exchange of enclaves between his country and Bangladesh.

His statement is significant because Jyoti Basu's CPI (M) party is a partner in the Indian coalition government headed by Prime Minister HD Deve Gowda.

Is India undergoing a change of heart? The sooner it comes the better for Bangladesh.

— NEWS NETWORK

## Enclaves: Islands of Miseries

by Shahiduzzaman and MM Islam

**T**HEY are Bangladeshis, but they hardly belong to Bangladesh. Because they live in enclaves encircled by Indian territories. "We are not allowed to travel to our mainland. Thus we are condemned to live in isolation," said a resident at a Bangladeshi enclave along the Kurigram frontier.

India has also a number of enclaves within Bangladesh territory. But there the plight of residents is not as widespread as that of Bangladeshi. The Indians are almost free to move both into India and Bangladesh because Bangladesh does not have enough guards to control them. But India has a tighter control over Bangladesh with forces four times higher than Bangladesh's.

Most of the enclaves are located along Rangpur-Kurigram-Lalmonirhat frontier. Of the total enclaves here, about 50 Bangladesh enclaves fall in Indian territory while some 68 Indian enclaves fall in Bangladesh land.

Trapped in a vicious circles, many of the inhabitants, living in the enclaves, are not even aware of their nationality. Their world ends with the boundaries of the enclaves. They are like those who live in isolated islands.

If they try to venture out of their enclaves to come to the mainland, they are caught by the BSF guards. A group of young Bangladeshis who recently fled their enclaves told their tales of miseries and persecution.

We don't feel that we belong to Bangladesh. We had never had our freedom. There are beatings and other forms of torture by the BSF if we try to leave our enclaves," said one of the young men, who now are afraid of returning to their enclaves.

Excepting Dahaigram-Angarpota, the 32 enclaves in Lalmonirhat consists of 32 acres of land with 950 population. There are about 17 enclaves in Kurigram which consists of 2,651.3 acres of land with 12,230 population.

More than 13,000 population, living in those enclaves, are living in a wretched condition. They do not have any police station, not to speak of the civic amenities such as health care, schools and transports.

Although Bangladeshi people are barred from movement to and from the enclaves, the Indian people have free access to everywhere. Even many of them doing their day to day business in Bangladesh territory

have been lucky. But Bangladeshi in other enclaves continue to live a miserable life with access to no civic facilities, health care, education, shopping and socialising.

Bangladesh has about 90 enclaves within the Indian territory, while India has about 130. This is the legacy of the British rule in the subcontinent. In delineating the border little attention was paid to the plight of the people who were condemned to live in enclaves.

Since its independence Bangladesh has tried to resolve the problem. But always had a lukewarm response from India. Thus the enclave people, isolated from the mainland, continue to suffer. They can't travel to the mainland because

they are under fire on Star Plus, tonight at 1:00

Hours 5:00 BBC World News 5:10 Newsnight

6:00 Frame by Frame 7:00 Rewind VJ Sophie 8:00 Jump Start VJ Trey 9:00 Frame by Frame 11:30 The Vibe VJ Luke 12:30 By Demand VJ Trey 15:00 Rewind VJ Sophie 2:30 First Day First Show 3:00 Sansui Mangla Hai 4:00 Planet Ruby 4:30 By Demand VJ Trey 1:30 20:30 Already red alert 7:00 Big Bang VJ Alessandra 7:30 Eveready red alert 8:00 Planet Ruby 8:30 Already red alert 8:33 The Vibe VJ Sophie 9:30 Oye 10:00 First Day First Show 10:30 Eveready red alert 10:33 Launch Pad VJ Sophie 11:30 The Vibe VJ Trey 12:00mn Over The Edge VJ Sophie 12:30 Big Bang VJ Alessandra 1:00 Hayash 2:00 By Demand VJ Trey 3:00 Big Bang VJ Alessandra 4:30 Asian Top 20 VJ Trey

6:00 Voltron 7:00 Teenage Ninja Turtles 7:30 G I Joe

8:00 am Tiltaw Aur Tarjuma/Hamid/Haif 8:30 Cartoon 9:00 Khojain 8:45 Ab Pata Chalis 9:05 Khat Farmash 9:20 Sangan Sargam 9:45 Ilaaj-Bill-Ghiza Pakistan 10:00 Shab Dagh 10:35 English Film: God Troop 10:55 Milli Naghma 11:00 Khabraan 11:10 The

Andaz on Zee TV. Tonight at 12:30

STAR PLUS

6:00 Saber Rider And The Star Sheriff 8:30 The New Twilight Zone 12:30 Hearts Afire 1:00 Grace Under Fire 1:30 Barnaby Jones 2:30 Videofashion News 3:00 The Oprah Winfrey Show 4:00 Hooperman 4:30 Home and Away 5:00 The Sullivan 5:30 Gabrielle

And Dangerous 15 (Arabic Subtitles) 11:30 Family Baby Girl Scott PG? (Arabic Subtitles) 1:30 Comedy: The Night Before 15 (Arabic Subtitles) 3:30 Barnaby Jones 2:30 Videofashion News 3:00 The Oprah Winfrey Show 4:00 Hooperman 4:30 Home and Away 5:0