

Stock Market Development Indonesian Resemblance

The Jakarta Stock Exchange which started operating from 1977 was found to be rather inactive in the mid-eighties. But a reform measure in the finance sector undertaken in late 1988 encouraged development of the stock market. Tanya Gupta, who is a lecturer at the Department of Business Administration, North South University, Dhaka looks at the resemblances it bears to the development of Dhaka Stock Exchange.

THE Indonesian stock market development and reform bears some striking resemblance to the Bangladesh Dhaka Stock Exchange. It will be enlightening to look at the Jakarta Stock Exchange and the effect that reform measures had on the stock exchange and then compare it to the existing situation on the Dhaka Stock Exchange.

The Jakarta Stock Exchange in modern times, has been operating since 1977. In 1986 the main complaint about the stock market was that it was inactive. There were only 24 stock issues and 3 bond issues. One of the reasons attributed to the underdevelopment of the capital market was that it was relatively easy to gain financing from local sources. It was not necessary for a company to go public to raise money. It had other relatively easy sources of funds. Secondly, tax evasion and other forms of corruption

provision for time deposits held in Indonesian banks which was removed. This encouraged the development of the stock market as new options for investment had to be found.

PAKDES II (Package of December) introduced an even stronger measure in December 1988. This measure encouraged flow of foreign funds into the stock market along with the re-distributing expertise. It also allowed Indonesian investors access to foreign markets. It did so by allowing both wholly owned Indonesian firms and joint ventures with 85 per cent ownership to operate as securities firms. At the same time, licensing arrangements were made for securities firms in terms of capital requirement, licensing procedures and other regulatory measures. Danareska's monopoly was reduced as the priority that Danareska was given with respect to 50 per cent of new issues was removed.

straint faced by private manufacturing enterprises. The three surveys were sponsored by Bangladesh Chamber of Commerce in 1991 (1200 organisations), World Bank in 1991 (107 organisations) and by the Bangladesh Apex Agency in 1989 (500 entrepreneurs). These organisations are either unaware of the advantages of listing on DSE and the access to funds this implies or enlisting is not treated as attractive at present by these organisations. DSE could specifically target these organisations and offer incentives in line with their demands to encourage them to list themselves on the exchange. If they are not aware of the advantages of enlisting, they could be made aware through information dissemination. Income tax evasion is common here as well and is easier if the company is not listed. Danareska's equivalent here is Investment Corporation of Bangladesh (ICB). ICB is the

WITH 120 million population Bangladesh has not yet made significant strides toward a sound economic base after about 25 years of its birth. The reasons are many and common with other least developed countries of the world. In spite of the government's concerted efforts to raise revenue from domestic resources, the target is not being achieved. Only half a million people are tax payers. Our tax GDP ratio is 9.5 per cent which is lower than other comparable countries. Nevertheless, it is gratifying to note that revenue collection from the natural resources contributes about 40 per cent of our ADP. With the slow process of reducing customs duty in keeping with the free market economy, direct taxes, that is income-tax and wealth-tax along with VAT are gaining momentum. Of late, the government has been laying special emphasis on income-tax collection by way of administrative reforms, expansion of the tax net, simplification of tax statute, liberalisation of tax policies etc.

As is well known more than 80 per cent of tax revenue are collected from corporation banks and limited companies which again include significant portion from banks. But unfortunately this important sector is not given the attention it deserves while making tax assessment. These are made in stereotyped manner like other general assessments. Bringing in a specialised form of business unlike general trading houses or manufacturing concerns for which it deserves to be treated on a different footing keeping in view its distinct characteristics with regard to maintenance of accounts, strict supervision and control by the Bangladesh Bank, accountability to Board of Directors and shareholders, in-depth audit both internal and external.

Moreover, other factors like number of branches, employees, share market value, investments, deposits, advances, capital adequacy, reserve fund and last but not the least, quantum of bad and doubtful loan otherwise termed "classified loan" are significant. It is this particular area which has created a disastrous situation for the banks at present. Almost 30 to 40 per cent of the total loan advanced, have turned into bad or doubtful of recovery. This is simply staggering and posing to ravage the backbone of banks particularly the private commercial banks which are already trailing far behind in meeting the capital adequacy and reaching loan-loss provision target. On a rough estimate, the national figure of such loan will be more than Taka 12,000 crores against which the banks have to keep sufficient provision for loan-loss as per BIS requirement which they are unable to meet due to inadequate earning of profit.

In such incongenial circumstances, the government introduces allowance of expenditure @ 4.5 per cent of the total arrear outstanding loan or actual provision whichever is less, as provision for bad and doubtful debts effective from 1990-1991 assessment year since raised to 5 per cent in 1994. But the government did not accept the banks' treatment of interest not received from loans classified under BIS guidelines issued in its circular B.C.D.34 of 1989 and continued to tax them as income accrued during the year. The plea of the banks, however, is clear and plausible. How can the statute charge tax on interest which has not been

Taxation of Banking Companies in Bangladesh: A Critical Review

M Eradatullah who is a former Commissioner of Taxes and now working as Tax Consultant with National Bank Limited writes that the banking sector is not given the attention it deserves while making tax assessment and explains how the rigid application of tax statute as to the problems faced by the banks has put them in a traumatic situation.

received during the year nor there is any possibility of its recovery in near future, the bankers argue.

The tax authorities are uncompromising on this issue since I.T. Law permits them to do so on accrual basis under section 17(1)(a) of I.T. Ordinance, 1984. As a result, the banks are overburdened with huge amount of tax on such unrealised interest from 1990-1991 to 1995-1996 assessment years. As remedial measures and being unable to pay these taxes, they have contested such assessments in different appellate forums in addition to moving to BB, Ministry of Finance, IRD and Banking Division. But no tangible result has yet been achieved.

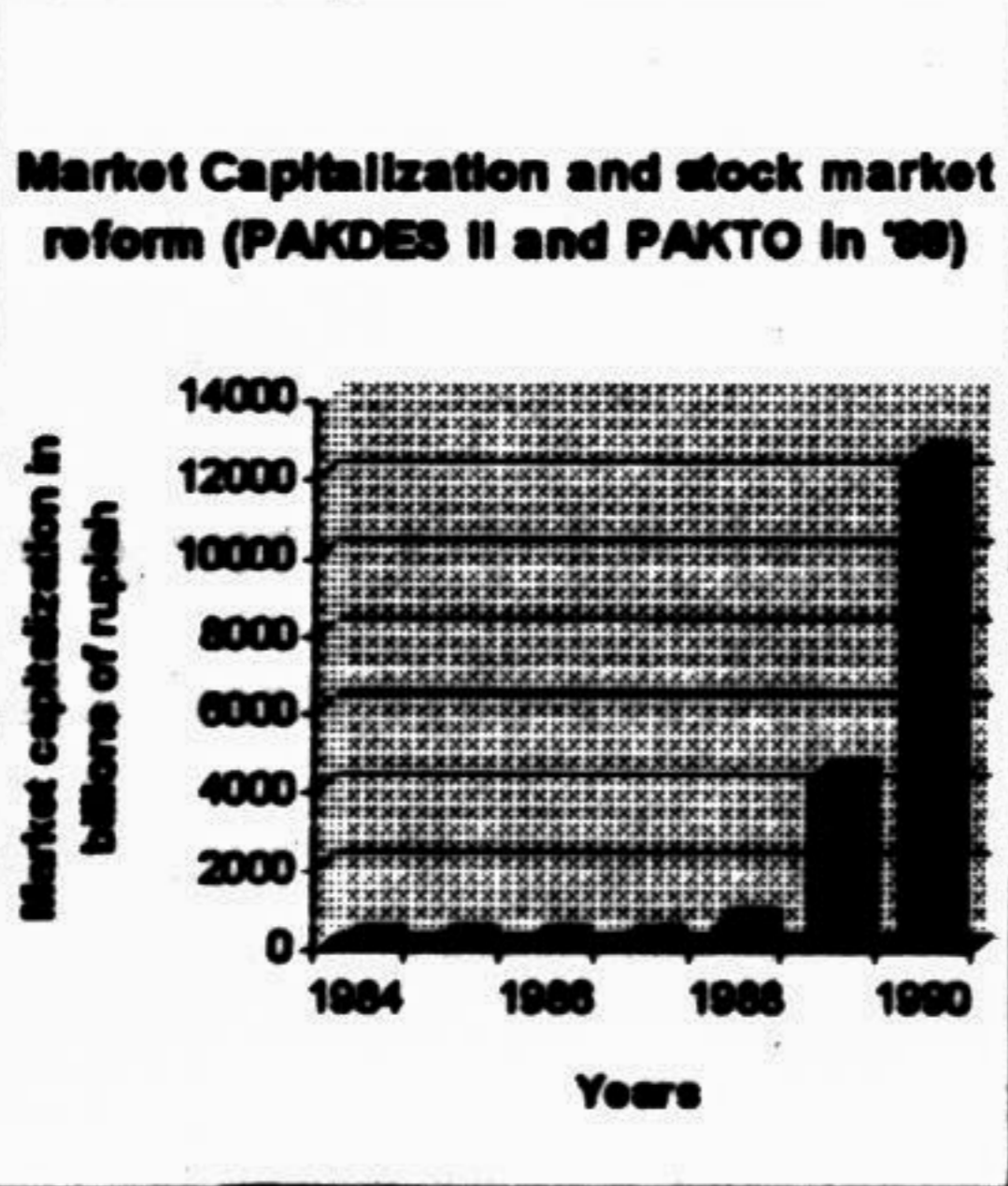
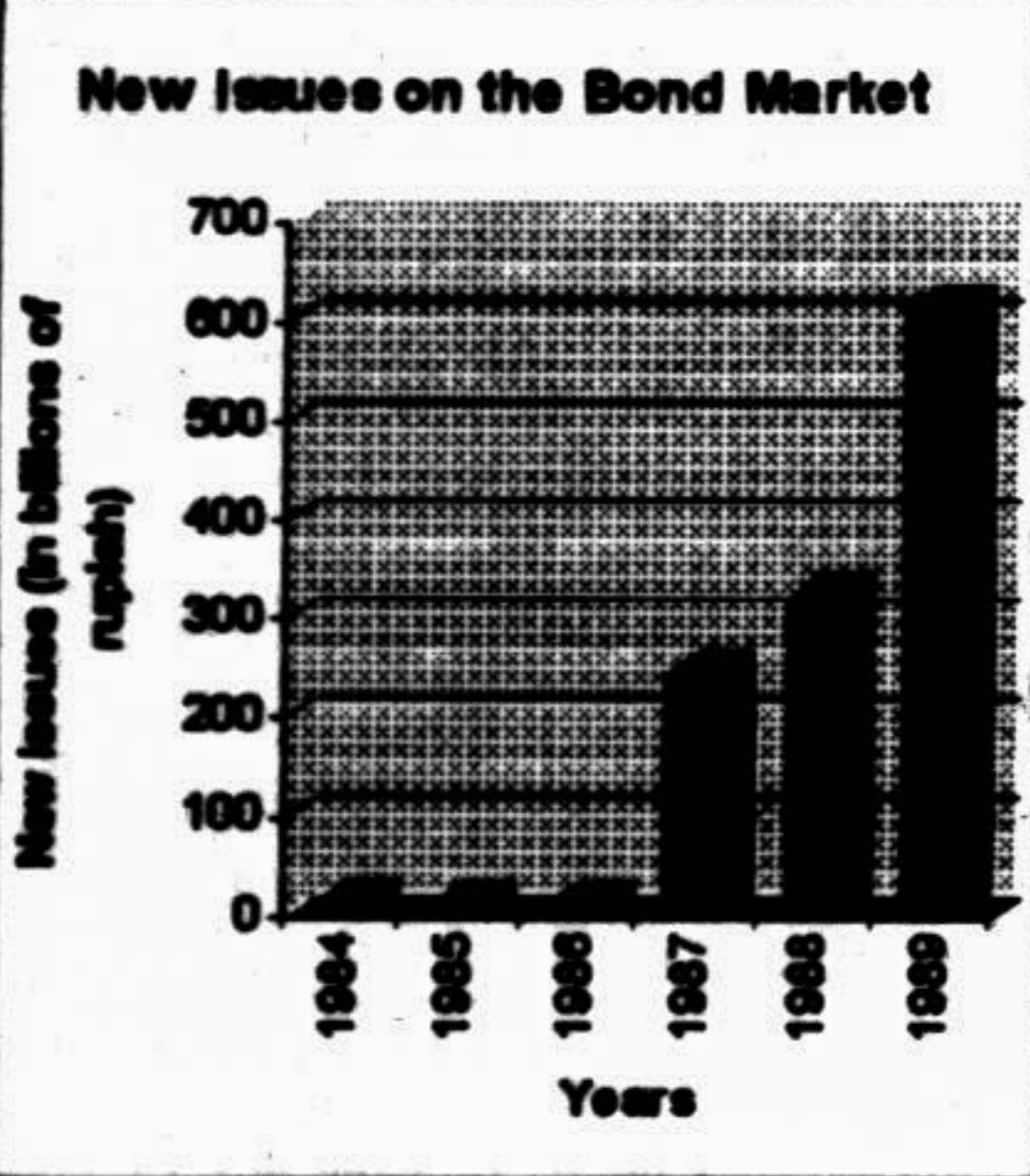
The present government, however, realising the gravity of the issue and finding merit in the grievances of the banks, has brought about amendment in this year's Finance Act (Section-28) under which interest on "classified loan" will no longer be taxed on accrual basis but will be charged to tax in the year in which the bank will show it in its income account or the year in which it is actually received, whichever is earlier. This is a very welcome measure

lock cannot be allowed to continue for indefinite period. It is high time that the issue be resolved with an open mind so that the interest of both the government and the banks are equally safeguarded.

In this connection we may consider the relevant Indian Income Tax Law since the Bangladesh and Indian tax statute are basically similar. In India this issue was a burning one in early 50s and Reserve Bank of India had to issue instructions to the banks for keeping the "suspended interest" out of taxable income due from loans doubtful of recovery and this was corroborated by central Board of Direct Taxes. This was, however, not accepted by all tax officials for which many disputes cropped up and went up to Supreme Court. At last the controversy came to an end with passing of bill in 1991 which enabled the scheduled banks and public financial institutions to pay tax on such interest as may be prescribed having regard to the guidelines issued by the Reserve Bank of India in which it is credited by the bank to its profit and loss account or the year in which it is actually received by the bank whichever is earlier (Section 43D).

many banks with tax demand. In view of the present precarious condition of the banks on account of heavy bad loan and BB's mounting pressure to cover up the deficit of loan-loss provision, it can be safely concluded that it is simply impossible for the banks to clear the outstanding tax liability due chiefly to interest suspense. Can our benign government not take a realistic view of the whole issue and direct the ministry concerned (NBR) to make the amendment under Section 28 of I.T. Ordinance regarding "interest suspense" effective from 1990-1991 assessment year and save the banks from virtual imminent collapse? We are a poor nation, and a child too. Let our banks grow and economic activities flourish.

Income will automatically generate leading to widening of tax base which is so very essential for the smooth and rapid development of the country as a whole. Side by side the banks should not sit idle over these huge irrecoverable loan. Rather they should launch vigorous operations for recovery and the defaulters should be taken to task. There is no denying that the primary responsibility of becoming these loans into bad



were also common among the local businesses. It was far easier to get away with this if the company was not listed on the Jakarta Stock Exchange. The third major reason behind the underdevelopment of the stock market was the ubiquitous presence of Danareska, a national investment trust. Danareska was entitled to purchase 50 per cent of all new issues. It also acted to stabilise stock prices.

The Package of October (1988) (PAKTO) was introduced with the intention of encouraging competition in the banking industry and related bank reform. Although PAKTO was meant mainly for bank reform, it did have an impact on the stock market as well. An existing rule that prohibited bank and non-bank financial institutions from issuing shares on the stock market was scrapped by PAKTO. This allowed bank shares to be traded on the market for the first time. There was also an income tax exemptions

Market capitalisation rose drastically with the introduction of reforms. The bond market was stimulated as well with the number of new issues increasing dramatically in 1988-89. The number of bidders/dealers went up from 39 to 143. 12 new securities firms came up and bond issues jumped from 6 to 20.

The Dhaka Stock Exchange has about 135 stock issues, 4 bond issues and six mutual funds. About 30 issues are traded daily. Out of 195 members, 30 to 40 members are active. The DSE faces similar problems as the Jakarta Stock Exchange used to face. Firms in certain specific sectors have easy access to funds from DFIs, NCBs and other sources. Therefore they are not encouraged to list themselves on the DSE. Access to funds is however cited as a major problem for firms in sectors other than the subsidised sectors. For example, limited access to credit is cited as the most important con-

largest investor on the DSE. It was created by the government to develop the capital market. It underwrites securities, manages mutual funds, it offers lending schemes as well. ICB also has priority in the purchase of shares being issued. A percentage of any offering is reserved for ICB. It has performed poorly with a bad loan component of 40 per cent in recent times. Like Danareska's role was examined as well. The priority it gets with respect to purchase of shares being issued should also be revised.

The Indonesian stock market was once a market very similar to the Dhaka Stock Exchange. The process of financial reform helped deepen its market, increase activity and bring expertise to the Jakarta Stock Exchange. Learning from the experience of other developing countries, it is possible for Dhaka's stock exchange to develop as well.

The question whether real income has materialised has to be examined in the context of commercial and business realities of the situation in which the assessee is placed and not with reference to his system of accounting.

and widely acclaimed by all quarters.

But unfortunately this benefit has been made conditional by curtailing the existing 5 per cent tax-free provision for bad and doubtful debt allowed under Section 29 (1) (viii) aa) by adding a new proviso which is reproduced verbatim: "Provided further that no deduction under this clause shall be allowed to an assessee if he avails himself of the computation of his income from interest on bad or doubtful debt under Sub-section 3 of Section 28."

This is clear that by virtue of this amendment the existing benefit of 5 per cent tax-free provision will not be admissible to those banks who avail of the benefit of computation of interest suspense concurrently available. This, of course, does not mean that we should follow the Indian system out and out but can be adapted to suit our context. In this regard, there may be interdepartmental meeting between Banking Division, NBR, BB wherein the representatives of scheduled banks may be invited along with representatives from Tax Bar and Chamber of Commerce. In this way, an agreed and harmonious consensus may be reached which ultimately will be very effective in quicker disposal of tax cases and collection of taxes. This may be possible by suspending the operation of new proviso to Section 29 for another three years.

This will enable the banks to fully comply with both loan loss provision and capital adequacy requirement within this period.

Meanwhile, a pragmatic and lenient view may also be taken as regards tax charged on unrealised interest for the year prior to the new amendment. Our Finance Minister has very aptly pointed out in his budget speech that taxing interest which has not been received or the possibility of recovery is very remote has overburdened

This is exactly what we have introduced this year for treatment of interest on "classified loan". And again, there are also provisions for allowing provision for bad and doubtful debt "the rate not exceeding ten per cent of the total income" in Indian law which means both the benefits are concurrently available. This, of course, does not mean that we should follow the Indian system out and out but can be adapted to suit our context. In this regard, there may be interdepartmental meeting between Banking Division, NBR, BB wherein the representatives of scheduled banks may be invited along with representatives from Tax Bar and Chamber of Commerce. In this way, an agreed and harmonious consensus may be reached which ultimately will be very effective in quicker disposal of tax cases and collection of taxes. This may be possible by suspending the operation of new proviso to Section 29 for another three years.

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or doubtful of recovery lies with bankers. Had the interest been fully realised, the government would not be deprived of considerable amount of revenue from this important sector. At the same time we should also bear in mind that banks are not totally isolated institutions from the governmental machinery. These are governed by Banking Companies Act, 1991, and under strict supervision and control by the Central Bank. Moreover, there is a government-nominated director, not below the rank of Jt Secy to the government, in the Board of Directors of every private bank.

After all, to quote from certain celebrated court decisions of India: "What the Income Tax Act purports to tax is business profits and business profits are the true profits of the business ascertained according to commercial principles. There may be an expenditure or there may be a loss which may not be an admissible loss under any of the specific provision of the statute and yet such an expenditure or loss would have to be allowed in order to determine what are the true profits of a business" (Aruna Mills Limited v. C.I.T. (1957) 31 ITR 153-163 (Bombay HC)). As regards method of accounting their lordships in C.I.T. v. Motor Credit Co. Pvt. Ltd. (1981) 127 I.T.R. 572 (Madras HC) observed: "The regular method of accounting determines only the mode of computing the taxable income and the point of time at which the tax liability arises. It

cannot determine the range of taxable income or the orbit of taxation. Where no income has resulted, it cannot be said that income has accrued merely on the ground that the assessee has been following mercantile system of accounting. Even if the assessee makes a debit to that effect, no income can be said to have accrued to the assessee. There can be no liability to tax on a hypothetical income. Hypothetical accrual of income based on mercantile system of accounting followed by the assessee is not to be taken into account. What should be considered is whether the income has really accrued to the assessee. The question whether real income has materialised has to be examined in the context of commercial and business realities of the situation in which the assessee is placed and not with reference to his system of accounting." Lord Halsbury, L.C. observed in 'Gresham Life Assurance Society v. Styles' the intention of the Act is to tax only profits, i.e. profits in its natural and proper sense in a sense which no commercial man would misunderstand. (1892) AC 309, 315 Tax case 185, 188.

In view of above unhappy position of the banks what is more frustrating the assessing officers of Tax Department who are assessing make heavy disallowances from Income & Expenditure A/C on very frivolous grounds or without verifying all supporting papers. Disallowances are made from almost all items of expenditure by stating some common defects such as 'not corroborated with verifiable evidences or not properly vouched' and verifiable. Such proposition is absurd in case of banks because books of accounts are audited externally and internally with detailed comments of the auditors including audit team of BB. Moreover, major expenditure are subject to regular scrutiny and approval by different committees constituted by the Board of Directors. The assessing officers should however carefully check whether there are taxable requisites, capital expenditure, bad debts written off not due, undue foreign travelling, excessive entertainment expenses beyond Rule and whether depreciation correctly charged. Another very important point to see is whether provision for bad and doubtful debt has been lawfully claimed and whether there is any collection from such debt which were already allowed earlier as provision.

This amount is to be included as income. This is all about an ideal assessment of a bank or for that matter any financial institution. Instead, most tax officials take unnecessary pain to touch A to Z resulting in a thumping assessment which is neither acceptable to the assessee nor to the Appellate authorities. The litigation goes on and on and revenue collection on account of such assessment are stuck up for years together.

From the foregoing it is evident that rigid application of tax statute as to the problems faced by the banks, is causing immense hardship and has put them in a traumatic situation. Let them overcome it by giving them a little compassionate treatment for sometime so that they can be put on right gear. Otherwise there may be serious stifling of the growth or even the whole edifice of the banking sector may crumble soon.

The Daily Star Entertainment Guide

Saturday 9th November
(All programmes are in local time. There may be changes in group programmes.)

BTV
3:00pm Opening Announcements
4:00pm Al-Quran Programme Summary
5:30 News 5:15 Patriotic Song
6:30 Recitation from the Tripitak
7:30 Movie of the Week
8:00 News in Bangla 5:00 News in Bangla 5:25 Bantosh: Folk Songs
8:00pm News in Bangla 6:00 News in English 8:00 News in Bangla 8:25 Glimpses from JS
10:00 News in English 10:25 Glimpses from JS 11:00 Drama Series: Dynasty 11:30 News in Bangla 11:35 Tomorrow's programme summary 11:40 Close down

BBC
6:00am BBC World News 6:10 Newsnight 7:00 BBC World News 7:10 Newsnight 8:00 BBC World News 8:20 Window On Europe 9:00 BBC World News 9:20 Earth Report 10:00 BBC World Headlines 10:05 World Focus: Assignment 11:00 BBC World News 11:20 Earth Report 12:00noon BBC World News 12:20 Window On Europe 1:00 BBC World Headlines 1:05 World Focus: Heart Of The Matter 2:00 BBC World Headlines 2:05 Time Out: Around The World In 80 Days 3:00 BBC World News 3:30 Time Out: Holiday 4:00 BBC World Headlines 4:05 World Focus: Horizon 5:00 BBC World News 5:20 Earth Report 6:00pm BBC World Headlines 6:05 World Focus: Wheeler On America 7:00 BBC World News 7:20 This Week 8:00 BBC World News 8:30 Time Out: Film '96 9:00 BBC World Headlines 9:05 World Focus: Assignment 10:00 BBC World News 10:30 Time Out: Tomorrow's World 11:00 BBC World News 11:30 Time Out: Ploy's American Pie 12:00noon BBC World News 12:20 This Week 1:00 BBC World News 1:05 Earth Report 2:00 BBC World Headlines 2:30 BBC World Focus: Horizon 3:00 BBC World News 3:25 Time Out: Jeremy

CHANNEL V
6:00am Frame by Frame: 7:00 Rewind VJ Sophia 8:00 Frame by Frame 8:30 Asian Top 20 VJ Trey 10:30 Big Bang Weekend VJ Alessandra 12:30 Billboard US Countdown 2:30 The Ride 3:30 Rewind VJ Sophia 4:30 House Of Noise VJ Luke 5:30 [V] 1's 6:00pm Classic Rock 7:00 Top of the Pops 8:00 BPI: Oye! 9:00 The Ticket 9:30 Fashion Police 10:00 Soul Curry VJ Sophia 10:30 Jump Start VJ Trey 12:00am Big Bang VJ Alessandra 12:30 The Ticket 1:00 Over The Edge VJ Sophia 2:00 Music Update Tokyo 2:30 The Ride 3:00 Big Bang VJ Alessandra 4:30 V Spot

STAR PLUS
6:00am Nanny and the Professor 6:30 Voltron 7:00 Aerobics Oz Style 7:30 Star News 8:00 Sky News 8:30 SKY Business News 9:00 Sky News 9:30 Kats & Dog 10:00 Incredible Hulk 10:30 Spider Man 11:00 Jack Thompson Down Under 11:30 BBC Documentary 'All Our Children' 12:30noon Mystery Movie Inspector Morse 'Ghost in the Machine' 2:30 The Bold & the Beautiful 4:30 Jubilee Plus 5:00 Hindi Film: Baywatch 9:30 Baywatch Nights 10:30 L.A. Law 11:30 Theftakers 12:30am Movie: 'The Money' 2:30 El TV 3:00 Hardcastle and McCormack 4:00 Voyage to the Bottom of the Sea 5:00 The Wild Wild West

STAR SPORTS
7:00am World Highlights HL 7:30 Sports India 8:00 Spanish Football League HL 8:30 World Wrestling Federation Raw 9:30 NBA-Inside Stuff 10:00 Gillette World Sports Special 10:30 The World Football Show 11:30 US PGA Tour Merrill Lynch Shootout Day 4 HL 1:00 Golf Cup Match 1 Teams TBC 2:30 Spanish Football League HL 3:00

ZEE TV
6:00 The News 6:30 Jagran 7:00 ZED 8:30 Mere Ghar Ana Zindagi 9:00 Bourvita Quiz Contest 9:30 Vajan 10:00 Ad Mad Show 10:30 Gaane Anjane 11:00 Adarniya Pradhan Mantri 11:30 Captain Cook Shahi Dawat 12:00 Philips Top Ten 1:00 Tol Moi Ke Bol 1:30 Asian Sky Shop 2:30 Nirocal Ashiana 3:00 Casper Kya Scene Hai 3:30 Manasi 4:00 TVS Sa Re Ga Ma 5:00 Aap Ki Masand 5:30 Sivaram's Cine Magic 6:00 Beeg Ka PG 6:30 Tumhare Lye 7:00 Zaike Ka Safar 7:30 Sur Taal 8:00 Helpline 8:30 17 Shirley Road 9:00 No Problem 9:30 Paribarath 10:00 Natrat 10:30 News 11:00 Ghoomta Aana 11:30 Player's Gold Action Movie 1:30 Colgate Gel Yodlee Aeoo 2:00 Shakti 2:30 ZEE Arabia: Arabic Prog 5:30 ZEE Aa: Infotainment TM

EL TV
07:30 Ched Chad 08:30 Devotional 09:30 Tarane Aur Fasane 10:30 Dear El 11:00 Hakke Bakke 11:30 Karz 12:00 Teen Do Paanch 12:30 Intezar 01:00 Akanksha 02:00 Rajesh Khanna Special 3:00 Praful V3 3:30 Apni 4:30 Nukkad 5:00 Emmal The Real Court Down 5:30 Man Naste Man Hoo 06:30 Khusiyan 6:00 Brigadier Salwan 7:30 Sopyan 8:00 Meri Marzi 8:30 Kinetic Hassan Pal 8:30 Hee Hee Ha Ha 9:00 Kam 9:30 Sivaram Kamal Kombination 10:00 Suhana Safar 10:30 Stand By 10:40 Liberty Public Demand 11:30 Teri Bhi Chup Meri Bhi Chup 12:00 Kinetic Hassan Pal 12:10 Gambler

PTV
8:00am Titawat Aur Tarjuma

STAR MOVIES
7:30am Comedy: The Super 18 (Arabic Subtitle) 9:30 Classic: Topper Returns PG (Arabic Subtitles) 11:30 Comedy: The Gold Rush PG (Hindi Subtitles)

STAR PLUS
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SONY ET
8:30am Kuch Dil Ne Kaha 9:00 Yaadon Ki Baar 9:30 Cine Matinee-Hindi Feature Film 12:30 Chamatkar 1:00 Siddhi 1:30 Kaash 2:00 Sunday Ki Sunday 2:30 The Nirlep Rasoi Show 3:00 Khyo Khyo Chand 3:30 Movie

Garfield by Jim Davis

Tom and Jerry

