

to be raised to Tk. 3992.34 crore - an increase of 3.56 percent. In the next fiscal year, total allocation for this sector in the ADP is Tk. 1652.51 crore and in the revenue budget, Tk. 2339.83 crore. In the ADP for FY 1997-98, a sum of Tk. 335 crore has been proposed for Food for Education Project. However, the effectiveness of this programme will be evaluated in near future and the next course of action will be determined in the light of this evaluation. It is not enough to raise allocation for education sector. We have to ensure proper utilization of funds. We propose to launch three experimental programmes to promote excellence in education. First, NGOs, voluntary organizations and local communities make significant contribution to spread of primary education by running cost-effective programmes. In FY 1997-98, I propose to earmark Tk. 25 crore to provide grants to primary schools run by NGOs and local communities. Secondly, non-availability of books in libraries of secondary schools and colleges compromise the quality of education. In the next fiscal year, I propose to allocate Tk. 2 crore for the purchase of books for educational institutions. Thirdly, the quality of science education needs to be upgraded to encourage the spread of technology in Bangladesh. In FY 1997-98 I propose to allocate Tk. 3 crore for science laboratories of secondary schools and colleges. I know that these allocations are too inadequate in view of enormous requirements of educational institutions. However, in future these allocations will be reviewed on the basis of performance of these programmes.

40. Health, family planning and nutrition sub-sectors supplement each other. Health for all is not a mere slogan for social justice, it is an imperative for raising productivity. In the revised revenue and development budgets for 1996-97, total allocation for health and family planning is Tk. 1847.41 crore. In 1997-98, this allocation is proposed to be raised to Tk. 1908.3 crore. In next fiscal year's ADP, special emphasis has been laid on family planning and the allocation for this sub-sector has been proposed to be raised by 38.8 percent. Though in recent years, Bangladesh experienced deceleration in population growth, we have no scope for complacency. There is strong political commitment to family planning programme and all out efforts will be made to implement this programme.

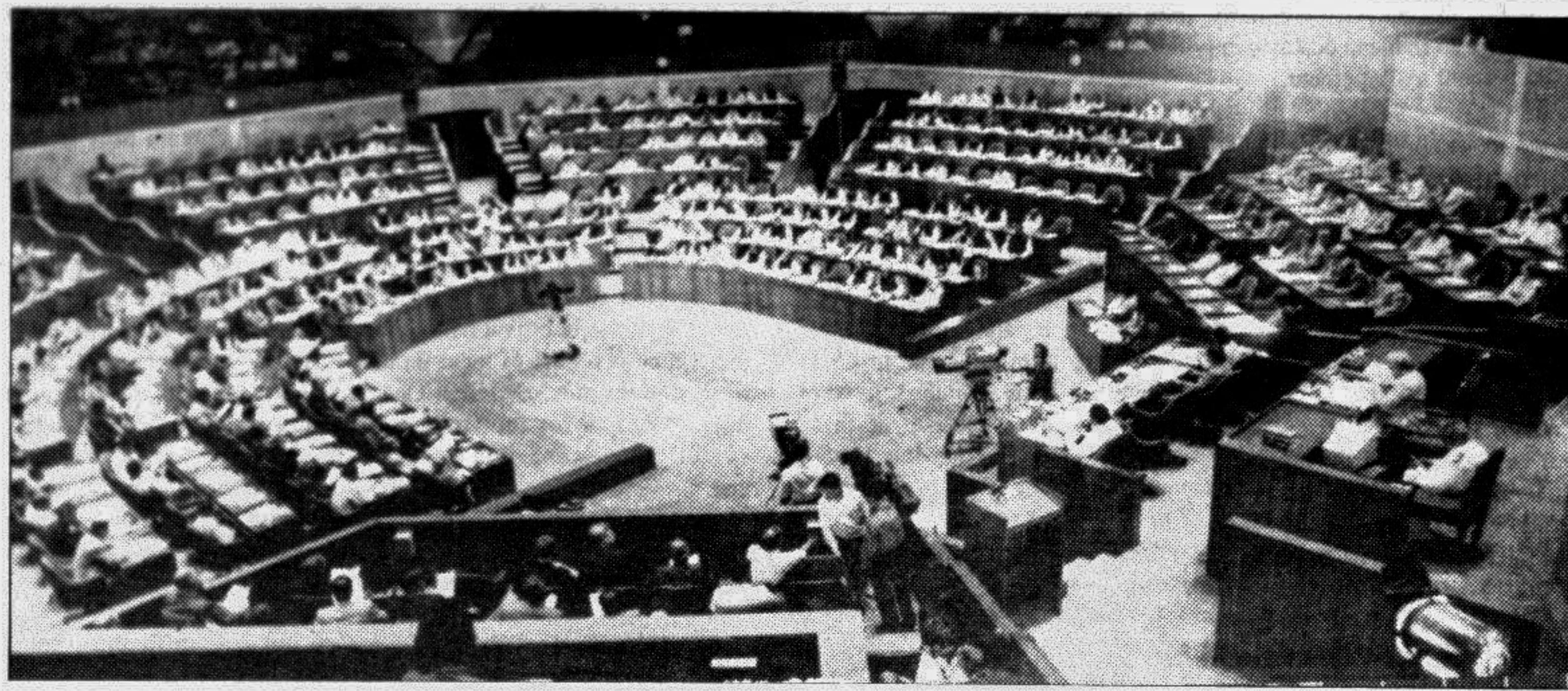
41. Because of long-standing discrimination, women in Bangladesh are isolated from and invisible in the mainstream economy. The rights of children are equally threatened. The development of women and children is therefore a priority of the Government. The allocation for Women and Children Affairs Ministry is proposed to be raised to Tk. 49.98 crore in next year's ADP - an increase of 44 percent. Not merely in the historical sense, Bangladesh is literally a young country in the demographic sense also. We should intensify the activities of youth development both for ensuring social justice as well as for promoting economic growth. In FY 1997-98, a sum of Tk. 51.97 crore has been provided in the ADP for youth development programme. Additional resources for youth programmes will be provided for micro-credit from the proposed employment generation bank. We notice with joy new sparks of enthusiasm in the sports arena. As a token of recognition of the success of Bangladesh cricket team, I propose to allocate Tk. 2 crore in revenue budget for development of cricket. Total allocation in the ADP for 1997-98 for the sports and culture sector has been proposed at Tk. 80.1 crore.

42. We are proud of the pristine natural beauty of enchanting Bangladesh. Dark clouds of pollution pose a threat not only to her natural beauty but also to human and animal life. A National Environment Management Programme has already been launched. Social forestry programme will be further intensified in the future.

43. Economic growth is an important element in our development strategy. Growth and development are not synonymous. The American statesman Franklin Delano Roosevelt rightly observed, "The test of our progress is not whether we add more to the abundance of those who have much, it is whether we provide enough for those who have too little". Special emphasis has been laid on poverty alleviation projects in the proposed budget. The allocation of Tk. 4959 crore in the proposed ADP for 1997-98 for agriculture, rural development, water resources, primary education, rural electrification, health, family planning and local government will contribute to poverty alleviation. In the proposed revenue budget for 1997-98, a sum of Tk. 1471 crore has been earmarked for transfer programmes for the poor (such as gratuitous relief, test relief, VGD, FFW, housing for the poor, allowance for the aged). In other words Tk. 6430 crore in the development and revenue budgets will contribute directly to poverty alleviation. About 23.3 percent of total government expenditure will be spent for poverty alleviation. Moreover, the allocation for other development projects will also contribute indirectly to poverty alleviation.

44. We welcome the surge in the NGO activities in poverty alleviation since the assumption of office by the present government. The initiatives of NGOs in Bangladesh have added a new dimension in devising creative and innovative programmes for poverty alleviation. These programmes have been hailed at home and abroad. The present Government would like to extend its helping hand to the NGOs. In our view, NGOs supplement the activities of the Government. It is evident that the government alone cannot eradicate poverty in a country like Bangladesh. In the first nine months of 1996-97, the NGOs received foreign donations to the tune of Tk. 952 crore for poverty alleviation. The Government is providing additional funds to the NGOs through Palli Karma Shahayak Foundation (PKSF). Furthermore, NGOs will have access to allocation of Tk. 75 crore proposed to be earmarked in FY 1997-98 for innovative programmes in housing and primary education sectors.

45. Good governance is not a mere means for us, it is also our end. It is good governance alone which will galvanize government organizations to do extraordinary things with ordinary people. We are also participants in the global quest for reinventing the Government. We have already undertaken preliminary steps for administrative reform with the assistance of World Bank and other development partners. We are pledge-bound to infuse a new life in Government's functioning through planned administrative reforms. These reforms will not be confined to the Central Government; Local governments at the



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grass-roots will also be strengthened. Local Government Commission has already submitted its report recommending a four-tier local government. We hope that proposals for local government reforms will be finalized during the current session of the Parliament.

46. Our resources are limited; our goals are wide, varied, and difficult to achieve. All our goals cannot, therefore, be realized in a month, a year or even in five years. We are aware of the complexity of our problems. They are likely to be compounded if they are not solved immediately. Nevertheless we are optimistic. We know that the destiny of a nation is not determined by accidents. We cannot wait for the change of destiny, we must conquer our destiny. The same spirit and the vitality which animated us to win the red Sun of Freedom will propel us to change our economic destiny. We will introduce total transformation through small changes. A Chinese proverb rightly says, a journey of thousand miles begins with a small step. Despite the fact that our goals are difficult to reach, we have already started to move. Certainly we will reach our destination in the shortest possible time.

## SECOND PART FISCAL MEASURES

### Honourable Speaker,

The Honourable members of this august Parliament regularly plead for building of new roads, hospitals, schools, colleges, telephone and electricity services, repair and maintenance of the existing infrastructure and also ask for doctors, teachers, and other personnel and materials for the proper use of these facilities in their respective constituencies. These are legitimate demands from the elected representatives. Being a government elected by the people we are also committed to meet these genuine demands. Unfortunately we are not always able to meet these demands. Resource constraints and in some cases waste of limited available resources are the main reasons for such a situation. In the first part of my budget speech I have explained the principles of the utilization of the scarce resources available to us. At the beginning of the second part I would like say a few words about our internal resource mobilization efforts.

to unnecessary haste in the pace of reduction of customs duty in the past, many industries are now in serious distress. In the light of those experiences and based on recommendation of the Bangladesh Tariff Commission, we have proposed appropriate changes in customs duty on some items to provide legitimate protection to domestic industries. To achieve a broad based tax system, I have proposed various steps including amendment of existing Acts and Rules, administrative reorganization and withdrawal of duty and tax exemptions.

5. As a government accountable to the people, we had extensive pre-budget consultation with representatives from all relevant sections of the society. I have personally written to the major political parties inviting them to a dialogue. Unfortunately, I did not get favourable response from all the parties. We received a large number of proposals from different Chambers, trade bodies and professional groups and held detailed discussion on their proposals. I have also met and exchanged views with my Economic Advisory Council and gave special considerations to their recommendations. Suggestions with positive developmental implications have been accepted in spite of potential revenue loss. Steps have been taken to incorporate the suggestions on which there was consensus. In a number of cases we had to establish a balance among divergent and multi-dimensional interests of trade and industry. Consumer's, trader's and producer's interests are at times conflicting. We have tried to balance their divergent interests and tried to establish an equilibrium acceptable to all. We have accepted most of the recommendations made by the Tariff Commission after holding public hearing. With these preliminary remarks, I would now like to place before this august Parliament the important tax proposals for the fiscal year 1997-98, which reflects the need for enhanced revenue, national priorities, international economic context and public opinion.

### DIRECT TAXES

#### Honourable Speaker,

6. Income tax is the principal source of our revenue among direct taxes. This year a good number of changes have been proposed in respect of income tax with a view to reduce the tax rate, widen the tax base, check tax evasion, encourage investment, reduce the complexities of tax law - in short to make the income tax system modern and realistic. I now present the income tax related proposals:-

## Text of Budget Speech

2. Compared to our neighbouring South Asian countries, we are lagging far behind in our revenue mobilization endeavor. Our revenue-GDP ratio is only 12 percent, compared to the revenue-GDP ratio of 20, 19 and 18 percent respectively in Sri Lanka, India and Pakistan. This weakness in our revenue mobilization efforts has not only resulted in shortage of funds to finance our development needs but has also become an impediment to the rapid economic growth. Given the reality of declining availability of foreign aid, without augmenting revenue from its own resources, the government will not be able to meet its recurrent and development expenditures. Maintenance of macroeconomic stability and keeping the inflation under control through prudent budgetary management are the two principal objectives of the economic policy of the present government. Therefore, our revenue mobilization efforts have to be strengthened further to make any meaningful development efforts. Considering all these factors, the revenue target for the National Board of Revenue (NBR) for the FY 1997-98 has been fixed at Taka 15,000 crore which is Taka 1960 crore higher than the revenue target of the last year. If we fail to mobilize these additional resources, development activities and macroeconomic stability may be hampered, pace of economic development cannot be sustained and the goal of achieving a society free from hunger and poverty will remain elusive.

3. We have inherited an exemption-ridden tax system. A large part of our economy is outside the purview of our tax system. The rest of the economy within the tax network is also subject to numerous exemptions. While some exemptions are sound enough, governments in the past often granted exemptions to serve the different vested interest groups and classes, and at times to gain cheap popularity. These exemptions have weakened and distorted our tax system. Tax holiday in many forms in case of direct taxes, zero rates of customs duty and different exemptions from the VAT have substantially eroded our tax base. There is no room for such elaborate tax exemptions in any meaningful resource mobilization endeavor, and we have to abolish these exemptions gradually.

4. I would now like to highlight before this House some of the basic principles of the tax policy pursued by the present government:

- i. A progressive tax policy that ensures social justice and equity;
- ii. A broad based tax system, in which existing tax exemptions will be gradually eliminated and every well-to-do person in the country will be brought under the tax net;
- iii. Moderate tax rates and simple collection procedure;
- iv. A tariff policy in line with its international and regional trend.

The tax proposals for the year 1997-98 have been formulated keeping the above principles in mind. In many cases tax and tariff reduction have been proposed to reduce the burden of taxes and to promote economic activities. We have tried to keep the tariff reduction measures in conformity with the stage of industrialization of our country. In this connection, I have to note with regret that due

7. At present, we have four-tier tax rates for individual tax payers of which the lowest is 15 percent. In order to reduce the tax burden of the low income group, it is proposed to reduce the lowest tax rate from 15 percent to 10 percent and introduce five-tier tax rates for individuals. I also propose to reduce the amount of minimum tax from Taka 1200 to Taka 1000. As a result, it is expected that the tax payers will voluntarily submit their income tax returns showing taxable income.

8. According to the existing law, non-resident Bangladeshi tax payers are treated differently from the resident individual tax payers. This is discriminatory to non-resident tax payers. Therefore, I propose to introduce the same tax rate based assessment system for both the resident and non-resident Bangladeshi individual tax payers.

9. Most of the countries in South and South East Asia have lowered their corporate income tax rates to attract foreign investment. To attract foreign investment we have to provide similar incentives. At present, publicly traded companies and non-publicly traded companies are taxed at the rate of 35 and 40 percent respectively, while the banks, insurance companies, financial institutions and non-resident companies are taxed at the rate of 45 percent. To rationalise as well as to make the corporate tax structure more equitable, I propose a uniform tax rate of 40 percent for non-publicly traded companies, banks, insurance companies, financial institutions and non-resident companies. It is expected that this two-tier corporate tax rate structure will attract foreign investment in Bangladesh.

10. Contribution of the private limited companies to our tax revenue is less than 10 percent of the realisation from this sector. The number of private limited companies showing income in their returns is only 8.9 percent, which is very negligible. Considering this dismal and frustrating state of affairs, it is proposed that the taxes department will accept the return of a private limited company without any question if it files a return showing ten percent higher income over the last assessed income and pays tax on the basis of such income or pays tax which is not less than ten percent of the equity or two and a half percent of turnover and shows income which is proportionate to the tax so paid. However, the minimum amount of tax under this procedure shall be Taka 25,000. Amount of income thus shown in the return shall be highest of the incomes computed in the manner mentioned above.

11. In our country a huge amount of income remains outside the tax net and being untaxed this income does not come into investment flow. In view of this, it is proposed to exempt such untaxed income from tax if it is invested in setting up new industries within the period from 1st January, 1997 to 31st December, 1999. However, an industrial unit set up by such investment will not be eligible for tax holiday. Alternatively, tax holiday will be available to such an industrial unit on condition of payment of tax at the rate of seven and a half percent on the investment. Tax department will accept the investment in both cases without raising any question.

12. In order to induce tax payers to pay more taxes

voluntarily, it is not sufficient to reduce the tax rates; it is also essential to simplify tax assessment and payment procedures. With this end in view, some amendments in the Income Tax Rules have been proposed for making self assessment more attractive. It is proposed that a new assessee shall be allowed to disclose his initial capital up to the amount of Taka 25 lakh without any question being asked as to its source provided that one-fourth of this amount is shown as his income in the concerned year. Submission of wealth statement will be required once in every three years if the total income exceeds two lakh Taka, but does not exceed five lakh Taka and every year if the total income exceeds five lakh Taka. This provision shall also be applicable to other individual assessee.

13. To mobilise more internal resources it is necessary to widen the tax base. It is true though unfortunate that out of the total population of twelve crore in Bangladesh, the number of tax payers is under seven lakh which is less than half of one percent of our total population. Out of these even smaller percentage of assessee actually declare taxable income. In order to widen our tax base, it is proposed that --

a) a person, residing in the area of the metropolitan cities of Dhaka, Chittagong, Rajshahi & Khulna, divisional towns of Barisal and Sylhet and in other district towns and owns a building which is more than one storied and plinth area of which exceeds 1,600 square feet or owns a motor vehicle or subscribes a telephone must file his/her income tax return, whatever his/her income is during the relevant income year. If the person fails to file the return voluntarily, legal steps will be taken by the Tax department for non-submission of return. These persons may also file their return under self-assessment scheme.

b) In order to identify new assessee and to ensure collection of tax from them, it is proposed to introduce the system of submission of TIN certificate to the concerned authority at the time of opening letter of credit for the purpose of import, renewal of trade license and submitting tender documents by the contractors / suppliers.

c) At present Bangladesh Bank Bills are exempt from tax deduction at source, but all other government securities are subject to tax deduction at source. To remove this discrimination and to expand the tax base it is proposed to deduct tax at source from discount on the real value of Bangladesh Bank bills at the rate applicable to government securities.

14. Now I am proposing some changes and amendments in respect of certain provisions and procedures regarding income tax law:-

a) At present the amount of actual provision for bad debts or a sum equal to 5 percent of the total outstanding loan including interest thereon whichever is less, can be shown as business expenditure by a scheduled bank. Alternatively, banks can take the option of showing interest income from classified bad and doubtful debts on actual receipt basis. In view of the overall situation prevailing in the banking sector, it is proposed to extend both these facilities to the scheduled banks. But I also propose to reduce the rate of provisioning from 5 percent to 3 percent. This facility will be available up to the assessment year 1999-2000.

b) Under the present law, a tax payer at the time of appeal to the Appellate Tribunal is required to pay 40 percent of the tax payable by him. Considering that payment of this amount of tax, in many cases, creates hardship for the tax payers, I propose to reduce the amount from 40 percent to 30 percent.

c) Under the existing law, time limit for disposal of appeal cases varies from one to two years. To remove this discrepancy and expedite the disposal of appeal cases, it is proposed that the cases in appeal should be completed within one year from the date of filing of the appeal.

d) Under the existing law, there is no time limit for sending the order passed by the Appellate Tribunal to the assessee and the Commissioner of Taxes. It is proposed that the order of the Tribunal should be sent to the assessee and the Commissioner of Taxes within 120 days from the date of passing the order.

e) At present, a tax payer is required to file returns for a period of five years after closing of business. This requirement is proposed to be reduced to 3 years.

f) Presumptive taxation is a difficult process as under the system taxpayers are issued notices based on some estimated income and the taxpayers are asked to provide evidence to the contrary. This process is arbitrary and causes difficulties for the taxpayers. Because of the expanded scope of self-assessment, section 84A of the Income Tax Ordinance has lost its usefulness. I, therefore, propose to delete the section.

g) At present there is a provision for charging simple interest for delayed payment of tax. Because of the complexities in counting the period of delay, this provision cannot be enforced. Therefore, I propose to delete this provision.

h) It is proposed to introduce the system of serving notices under registered post in order to ensure the service of various notices on the assessee.

i) It is proposed to consider purchase of saving certificates as allowable investment for giving tax credit within the prescribed limits of the Income Tax Act.

### Wealth Tax

15. Now I propose the following amendments in the Wealth Tax Act:-

a) At present there are provisions in Wealth Tax Act to initiate proceedings for the assessment of wealth tax cases which have escaped assessment or have been under-assessed but no time limit has been set for completing these assessments. I therefore propose to amend the relevant section of the Wealth Tax Act by setting a time limit for such cases.

b) For the benefit of the tax payers and for greater compliance, self-assessment procedure in the Wealth Tax Act is proposed to be introduced this year. Taxpayers are expected to avail themselves of this simplified procedure and pay due taxes along with the return.

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