

Honourable Speaker,

16. The main objective of the proposed amendments in the income tax law in this year is to contribute to the growth of mutual trust between the tax payers and the tax administration, to create a conducive environment for investment, to widen the tax base and mobilise domestic resources at an accelerated pace by making the income tax law modern and tax payer friendly. I hope that in the new environment tax payers will come forward to pay their taxes voluntarily and contribute to make income tax play a more substantial role in the mobilisation of domestic resources.

INDIRECT TAXES

Import Duty

Honourable Speaker,

- 17. I would now like to highlight the salient features of the customs duty related proposals for the FY 1997-98. Competition is the soul of the market economy. One of the major advantages of international trade is its favorable effects on competition. Competition increases efficiency in local production, enhances quality of products and enables consumers to buy better quality products at a cheaper price. To achieve these goals our neighboring countries have reduced their top customs duty rates. To maintain competitiveness of our economy we have to take similar measures. But we have to prepare our local industries gradually to face international competition. So, instead of a drastic reduction of customs duty as was done in the past, I propose to reduce the highest rate of customs duty from 45 to 42.5 percent. We will incur substantial revenue loss due to this reduction, but such tariff reduction is essential to lower the average tariff rate in keeping with the global trend of trade liberalisation and to promote efficiency in the economy.
- 18. Transport sector plays a vital role in our national economy. Due to lack of a co-ordinated policy, modernization of this sector could not be done in the past. As a result, traffic congestion, environment pollution and road insecurity has become a day to day feature of our transport system. Bearing in mind the limited availability of resources, we have to assign top priority to the development of a rapid mass transport system. With this objective in mind, customs duty on double decker bus was reduced from 30 percent to only 2.5 percent in the FY 1995-96 budget. While retaining this concession, I further propose to reduce the customs duty on completely built up (CBU) bus, minibus and truck from 30 to 22.5 percent. To promote competitiveness of the local assembling industries, I also propose to reduce customs duty on the import of completely knocked down (CKD) bus, minibus and truck from 15 to 7.5 percent.
- 19. In addition to lowering the cost of mass transport vehicles like bus, minibus and truck, we would also like to encourage the local production of parts and accessories of these vehicles. At the initial stage, it will not be possible to manufacture all the parts and accessories locally as huge investment will be required for this purpose. Therefore, to encourage the motor vehicle assembling industry in producing vehicles with both imported and locally manufactured parts, I propose to reduce the duty on most of the auto parts from 30 percent to 22.5 percent. In addition to providing adequate incentive to the assemblers, I believe this will also make auto parts easily available, thereby promote road security, improve the standard of vehicles and reduce pollution on the street, through lower maintenance cost.
- 20. An important feature of every modern city around the world is an efficient taxicab service charging moderate fare. There were attempts in the past to introduce taxicab service through special tariff incentives. Some unscrupulous persons with a view to evade tariffs imported vehicles as taxicab and later converted them into personal car. Now, in the light of the experiences of the past, by bringing about adequate changes in the law and procedure, we would like to re-introduce the taxicab scheme. Under the proposed system, only a registered private or public limited taxicab company with a tax payers identification number (TIN) and a paid up capital of at least Taka 10 lakhs will be allowed to import vehicles up to 1600 cc, on payment of 7.5 percent customs duty in place of 45 percent customs duty at present, and without payment of supplementary duty. Any abuse of the concessional facility will be seriously dealt with within the existing legal framework.
- 21. In order to facilitate the expansion of the Dairy sector, I propose to reduce customs duty on insulated road milk tanker from 45 percent to 2.5 percent. Various facilities extended to the transport sector will result in a revenue loss of Taka 20 crore approximately. This estimate of loss is exclusive of the tax rebate proposed for the import of taxicab. However, I believe that despite the loss of revenue, facilities provided to the transport sector would result in remarkable improvements in this sector and would benefit people of lower and middle income groups.
- 22. Electronics sector has tremendous potential as an export industry. We would like to take appropriate steps to encourage this sector. At present all electronics parts are subject to 30 percent import duty. To encourage assembling of electronics products, I propose to bring proper amendment of the existing SRO related to electronics sector allowing import of certain electronic parts and accessories at 15 percent customs duty instead of 30 percent at present.
- 23. We firmly believe in the basic principle of free market economy. But we are not indifferent to the legitimate protection needs of our local industries. On the basis of the recommendations of the Bangladesh Tariff Commission and demands from various Chambers to provide due protection to local industries and rationalization of the tariff structure, I propose to reduce customs duty on computer accessories like toner cartridge and ribbon from 30 percent to 15 percent, on all other parts of battery except plate and grid from 30 percent to 22.5 percent, on plastic and paper made diagnostic agents (strip) from 45 percent and 30 percent respectively to 15 percent, on mercury, potassium iodide (feed grade) and natural rubber from 22.5 to 15 percent, on M.S. wire above 10 mm from 45 to 30 percent and on gypsum anhydrite (other) from 7.5 to 2.5 percent. In addition, to support domestic cement industry I propose to reduce customs duty on limestone from 15 percent to 7.5 percent and withdraw 5 percent supplementary duty on paper bags and sacks

used by this industry. Similarly, in the interest of domestic industry I propose to reduced customs duty on silico manganese steel bars from 45 percent to 30 percent.

- 24. In order to promote local production of hydrochloric acid, I propose to reduce the duty on its raw materials heavy normal paraffin and liquid chlorine from 45 and 30 percent respectively to 15 percent. In addition, I also propose to withdraw 15 percent supplementary duty on heavy normal paraffin, reduce customs duty on the irrigation pump's raw materials ERW pipes and stainless shafting from 45 to 30 percent, on raw materials for razor blade industry, perforated one half inch stainless steel blade, from 45 to 22.5 percent, on raw materials for woolen blanket industry, wool waste from 30 to 15 percent. It is hoped that because of these concessionary measures, local industries will become more competitive and the tendency to misdeclare goods to evade tariffs
- will also be discouraged. 25. Without mordernising our physical infrastructure we will not be able to achieve the ultimate goal of poverty alleviation through rapid economic growth. In fact, our people are deeply interested in the development of physical infrastructure especially in building up of the rural infrastructure. Honourable members of this Parliament frequently raise demands for building roads, culverts and bridges in their constituencies. Present government is making all out efforts to attract foreign investment in this sector and has attached high priority to allocation of resources for the modernisation and upliftment of this sector. In spite of the allocation, the widespread demand for rural infrastructure remains largely unfulfilled. Honourable members of the Parliament are unable to fulfill these development needs essential for the improvement of standard of living of the people of their constituencies. I have already mentioned in the first part of my speech that there is a deficit of about Taka 2800 crore in our investment to this sector. To fulfill the aspiration of the entire nation we have to allocate additional resources for the development of physical infrastructure and we have to raise additional revenue for this purpose. Therefore, I propose to introduce a separate infrastructure development surcharge at a rate of 2.5 percent. The proposed surcharge will be applicable on all imports except on defence stores, imports for diplomatic and privileged persons, imports for blind-deaf and dumb and other handicapped persons, relief goods imported for disaster management, and imports for export purposes. Apart from the imported goods the proposed surcharge would also be levied on certain locally produced goods and services as may be notified.
- 26. At present, many goods are exempted from customs duty under various notifications. As explained earlier, this type of unjustifiable zero rated imports were allowed to satisfy vested interest groups. Zero tax rate narrows the tax base, loosens administrative control and creates opportunity for rent-seeking. For the sake of efficiency all types of imports should be subject to a minimum rate of customs duty. As a modest beginning, I propose to impose 2.5 percent customs duty on some mineral products, diesel engine (3 to 45 Hp), aircraft, ocean going vessels above 3000 DWT, testing equipment, laboratory equipment's, some medicine and their raw materials, raw cotton and cotton waste, and 7.5 percent customs duty on textile airconditioner and textile machinery.
- 27. Adequate quantity of syringe and saline giving sets are now being produced in the country. There are 15 to 45 percent customs duty on the raw materials of these products but the duty on the finished product is zero. Local producers are facing uneven competition due to the above tax anomaly. Therefore, on the basis of the recommendation of the Bangladesh Tariff Commission I propose to impose 15 percent customs duty on the import of syringe and saline giving sets.
- 28. Bangladesh Tariff Commission has recommended to increase customs duty on scrap vessels to provide support to the billet based construction materials manufacturing industry. This will discourage production of lower quality rods produced by re-rolling or melting scraps. Agreeing with the recommendation of Bangladesh Tariff Commission, I propose to increase customs duty on scrap vessels from 7.5 to 15 percent. Despite the possibility of mild price effects on construction materials, this measure should improve quality of construction and is desirable in the greater interest of the country.
- 29. Bangladesh Tariff Commission has also made several other recommendations of tariff enhancement for the purpose of rationalization of tariff structure and protection of local industries. In line with their recommendations I propose to enhance import duty on crown cork, crude china clay and quartz from existing 7.5 to 15 percent, on rice huller parts from 2.5 to 15 percent, on writing and printing paper from 15 to 22.5 percent, on bicycle and cycle rickshaw chain from 30 to 45 percent, on bicycle and polymethyl mythacrylate, reed wire and other photographic film from 22.5 to 30 percent; and to enhance customs duty on tractors from 2.5 to 7.5 percent, and allowing import of CKD tractors at 2.5 percent import duty.
- The black smoke emitted by three wheeled vehicles poses a serious threat to the health of both our present and future generations. Roads of Dhaka metropolitan city have become a serious threat to the public health of its residents. Environmental scientists consider vehicles with two stroke engines especially responsible for such pollution. Different organizations and the concerned Ministries have urged to ban or at least discourage import of three wheeled vehicles. Therefore, I propose imposition of 25 percent supplementary duty on the import of completely built up (CBU) three wheeled vehicles, enhancement of customs duty on CKD three wheeler from 15 to 22.5 percent along with imposition of 25 percent supplementary duty.
- 31. Import of automotive vehicles have gone up substantially as a result of continuous reduction of import tariff over the past few years. For the sake of additional revenue, I propose imposition of additional supplementary duty of 25 percent on all kinds of cars, station wagons and jeeps.
- 32. After presenting the tariff adjustment proposals, I now would like to propose a few significant amendments to the Customs Act and procedure. In order to provide protection to the local industries from the foreign goods, I have proposed suitable amendments in the Customs Act for the introduction of Safeguard duty.
- 33. At present, only the Commissioners of Customs have the right to appeal to the Appellate Tribunal against imports under preshipment inspection scheme. For the sake of natural justice, I propose to allow any person aggrieved by any decision relating to preshipment inspection imports to appeal to the Appellate Tribunal. At the same time, I also propose to constitute a Committee to be formed in different import stations for making quick decision on the PSI consignments. Apart from representatives of the government, the Committee will consist of a member from the Bangladesh Federation of Chamber of Commerce and Industry and a representative of the PSI company. Necessary amendments in the Customs Act and existing PSI rules is being made to bring about transparency in this regard.
- 34. After reviewing the outstanding arrears, it has been found that some arrears payable to the govt. are being accumulated for decades without any realistic hope of their realisation. Therefore, I propose amendments to the Customs Act enabling the government to write off those irrecoverable amounts due to the government.

- 35. Steps are also being taken to modernize the custom valuations system to suit the needs of the 21st century by introducing the transaction value under the GATT Valuation Agreement. Proposed changes in the Customs Act. will bring about transparency in the valuation system and also contain provision for scrutiny and verification of all information and documents related to customs valuation by the concerned authority.
- 36. Local manufacturers complain that they are facing uneven competition from the imports under PSI scheme at a price much lower than the international market price. Such imports have eroded the competitiveness of local industries and deprived the government of its due revenue. Different Chambers and industrial manufacturers have requested for the withdrawal of PSI on all finished products except primary and intermediate raw materials, capital machinery and packing materials. After a thorough examination, in the interest of domestic industry and to prevent leakage of revenue, I propose withdrawal of PSI system on all items attracting highest effective rate of customs duty and a few other selected items.
- 37. To ensure that importers do not face difficulties due to withdrawal of PSI facilities, two new schemes are being introduced. Firstly, a special scheme is being introduced for the reputed leading foreign exporters. Under the proposed system the foreign exporters will register value, H.S. Codes, description etc. of their exported goods with the National Board of Revenue before actually exporting their goods. After verifying these information NBR will direct Custom Houses/Stations for the quick clearance of such consignments on the basis of the declaration. Secondly, self-assessment system for certain class of imports and exports is being introduced on an experimental basis. Under the new system importers and exporters or their clearing and forwarding agents will be allowed to assess consignments and pay duties on the basis of such assessment. Government revenue will be safeguarded through appropriate physical examination at the time of delivery.

Honourable Speaker,

38. Present Non-Tourist Baggage Rules allow passengers to import gold and silver of not more than 2 kg on payment of duties and taxes irrespective of duration of stay abroad. In order to liberalize the import of gold and silver through authorized route, I propose amendments in the Baggage Rule allowing import of gold upto 5 kg. and silver upto 15 kg. on payment of duties and taxes. However, in the interest of the local jewelry sector, I propose that the Baggage Rule be amended curtailing male passengers duty free entitlement from 200 gm. to 50 gm. only.

Value Added Tax and Supplementary Duty

Honourable Speaker,

- 39. In the last fiscal year (1996-97), the Value Added Tax (VAT) network was extended upto retail level only on ten items. It will be possible to reap the benefits of VAT if it is applied in a simple and smooth manner to all levels of retail transactions. That is why, a phased expansion of VAT network upto retail and wholesale level is required to be carried out. In view of this, I propose the expansion of VAT on some more electronic, electrical, sanitary items and three wheeler and motor cycle upto their wholesale and retail levels. This measure will not require, with the exception of a few, fresh and new registration for payment of VAT. For, registered businesses that sell the items brought under VAT network upto retail level last year generally sell the items, proposed for retail VAT this year. Besides, Value Added Tax on footwear and condensed milk is proposed to be imposed on retail price at production stage. Taking the growth of service sectors into consideration, Air conditioned Bus service and Air conditioned Launch service, procurement provider, cultural entertainment organiser with the participation of foreign artists and satellite cable operator have been proposed to be brought under the purview of VAT. However, the taxpayers of such goods and services will pay turnover tax at the rate of 4 percent whose turnover is less than Taka fifteen lakh a year.
- 40. At present, in case of imported goods, import duty is not included in the assessable value for supplementary duty. But the local manufacturers pay supplementary duty on the sum which includes the import duty. This result in higher tax incidence on the local manufactured goods than on the imported ones. It is necessary to remove this prevailing inconsistency and to enforce identical tax treatment both for the locally manufactured and imported goods. In view of this, it has been proposed to assess supplementary duty on the sum of assessable value and customs duty for imported goods. This measure will ensure legitimate protection for local industries.
- 41. Presently, businesses whose yearly turnover is less than 15 lac Taka pay turnover tax at the rate of only 2 percent. But the taxpayers whose turnover is 15 lakh Taka or more pay VAT at the rate of 15 percent. On the one hand this encourages declaration of incorrect turnover and the manufacturers of the same type of product encounter uneven competition due to the gap of rates between turnover tax and VAT, on the other. Considering this, I propose that the rate of turnover tax be increased from 2 percent to 4 percent.
- 42. Business units that enjoy cottage industry-benefit under VAT system are exempt from tax liability but the manufacturers of the same type of products are liable to pay either Value Added Tax at the rate of 15 percent or turnover tax, as the case may be. With a view to rationalising the tax imposition, it has been proposed that the manufacturers of PVC pipe, metal container, the body and chassis of motorised vehicles, soap, electrical bulb, battery and wires & cables will no more be entitled to cottage industry benefit. Manufacturers of these products will, however, be entitled to turnover tax facility, if otherwise eligible.
- 43. With a view to extending and strengthening the scope of the Value Added Tax, the existing exemptions need to be curtailed in phases. This measure is essential in order to bring those who do not pay tax to the same footing of those who pay. In view of this the withdrawal of exemptions from slippers made of rubber and plastic, nails, non-agricultural insecticides and germicide has been proposed.
- 44. At present, The tax payers are required to maintain a number of forms and registers in order to comply with the legal provision of the Value Added Tax. As a result many tax payers need to maintain a number of registers in addition to their own. Representatives of industry and commerce have long been demanding for an alternative method of keeping accounts. Accepting their demand, from now onwards, the "Established VAT registered persons" will be permitted to use their commercial documents as alternatives to VAT registers. This measure will meet one of the long cherished demands of businessmen and industrialists.
- 45. In cases where vehicles and goods are seized for violation of certain legal provision of the Value Added Tax Act, hence forth, the seized goods and vehicles will be released on interim basis against bank guarantee immediately after the seizure so that the goods and vehicle remain in the owner's custody and the case may be quickly disposed off on the basis of the documents available. The normal period for submission of VAT return is one month. But considering the business nature of the construction firms, hundred percent export oriented industry, C & F agents, consultancy and supervisory firms, procurement provider, cultural entertainment organiser in participation with foreign artists, Ijaradars, the period of submission of VAT return will be six months basis; for shipping

agents, brick and indenting firms the period will be three months basis. The declared price of the registered person will be deemed to have been accepted if the same is not contested by the concerned VAT authority within ten days of declaration or of application. Turnover enlisted persons will declare their yearly turnover in a prescribed manner to the respective office. Efforts to make the Value Added Tax system more dynamic, transparent and trade-friendly will be pursued on a continuous basis.

46. In addition to adjustments of duty and tax rates steps are being taken to reorganise National Board of Revenue, Customs and Value Added Tax Commissionerates to strengthen our revenue mobilisation efforts. The reorganisation proposals include: placement of a separate Commissioner each for budget preparation and monitoring in the three wings of NBR, computerisation program at the National Board of Revenue, supervision of exports and export related imports in Dhaka and Chittagong Custom House; upgradation of Benapole Land Customs Station into a full fledged Custom House, and the office of the Controller of Customs Valuation and creation of a separate Customs, Excise, and VAT Commissionarate at Sylhet divisional Head quarters. In reorganising the NBR and its departments we were careful not to increase the size of the government and we have asked for the minimum essential new posts. As a result of the proposed reorganisation it is hoped that our revenue collection efforts will be strengthened and the public will be able to receive quick decisions.

Honourable Speaker,

47. I have placed the major tax proposals for FY 1997-98 before the Parliament. Now I would like to state the overall revenue implications of these proposals. Because of the adjustments of personal income tax tiers, extension of graduated tax rate based assessments to non-residents, reduction of company tax rates for banks, insurance companies and financial institutions and other measures there will be a revenue loss of Taka 50 crore. Due to the expansion of self assessment scheme, introduction of self assessment scheme for private limited companies and expansion of the tax base there will be a revenue gain of Taka 32 crore. Implementation of customs duty reduction proposals is expected to result in a revenue loss of Taka 250 crore and there would be gain of Taka 100 crore from customs duty enhancement proposals. Net outcome of customs duty related proposals would be loss of revenue of Taka 150 crore. Proposed infrastructure surcharge is expected to yield an additional Taka 350 crore. Revenue will increase by Taka 130 crore due to rationalisation of supplementary duty. Additional Taka 70 crore would be realised through expansion of VAT, removal of VAT exemptions, and procedural reforms. Taking into account the growth of the economy, normal inflation, and growth of imports on the basis of prevailing tax rates, it is estimated that revenue collection in FY 1997-98 will increase by Taka 1360 crore over that of FY 1996-97 target and reach Taka 14,400 crore. Net increase in revenue due to the proposed tax measures will be Taka 382 crore. Revenue will increase by another Taka 218 crore because of administrative reorganisation, intensive monitoring and supervision, and procedural improvements. It is thus expected that in FY 1997-98, the total collection of revenue from different duties and taxes under the National Board of Revenue will be Taka 15,000 crore which is Taka 1960 crore higher than FY 1996-97 targets.

Honourable Speaker,

48. In the past three decades tremendous changes have taken place in the world economy. During this period some East Asian Economies joined the league of the developed nations. The spectacular growth in these countries did not only bring about prosperity in the life of their citizen but has also shaken the foundations of the present development thinking. Under the present development paradigm capital and natural resources are the two major driving forces behind economic development. These countries defied the scarcity of natural resources and capital as the major impediments to economic development. Development of human resources turned out to be the key factor behind the double digit growth in these countries. Classrooms rather than the industries and fields were proven to be the stepping stone to development in these countries. With the globalisation of entrepreneuship a formidable obstacle to the development efforts of the developing countries has been removed. With the expansion of international trade, reduction in transportation costs, and improvements in telecommunications, an entrepreneur in Europe or the United States can engage a small supplier anywhere in the world to produce goods in his behalf. He can assist the producer by providing necessary capital, raw materials and marketing support. Therefore, by developing its human resources, a country can easily overcome other obstacles to development

49. In the new development thinking the role of the government in economic development has also been re-evaluated. The role of government in activating the "invisible hand" of the market economy has turned out to be of critical importance. Joseph Stiglitz, a renowned economist, while evaluating the development performance of the East Asian countries has recently written that "Their governments helped to guide and create markets rather than completely supplanting or surrendering to them". We have tried to use some of these recent development thinking in preparing our budget. Therefore, in allocating resources, we have assigned high priority to development of human resources and physical infrastructure. In realising revenue we have emphasized competition, development of markets and removal of discrimination. We have intervened in the market only to address its imperfection and designed policies in a way so that benefits exceed their costs.

Honourable Speaker,

50. Following statesman Adlai Stevenson I would like to say "That which unites us as citizen is far greater than which divides us as political parties." Despite differences in our political views there can be no disagreement as to our goals as a nation. There is hardly such a homogeneous nation like the Bengalees from the point of view of language, history and heritage. We want to be liberated from the curse of poverty. We want to achieve fast economic growth and ensure social equity and leave behind for our future generation a healthy and clean environment. We want to develop our human resources through spread of education and health care and strengthen the foundation of the rule of law. We want to eliminate corruption, terrorism, plunder, and politics of conspiracy from the soil of Bangladesh. We want to explore and participate in the tremendous progress in knowledge and science in today's world. We know that these goals can not be achieved by any government alone. All men and women belonging to this generation, irrespective of their political affiliation must face this challenge. It is as clear as broad daylight that we can reach our destiny only through consensus. People in this country do not want politics of vengeance. They want politics of co-operation and consensus. Realising this Prime Minister Sheikh Hasina gave the call for politics of consensus. It is not desirable to limit consensus to formation of the government or to confine it within the boundaries of this Parliament. Let this consensus be reflected in all our national efforts, in our dreams and endeavour and our daily activities. With this expectation I place the budget for the year 1997-98 for the consideration of this august

Khoda Hafez

Joy Bangla, Long Live Bangladesh.

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