

# Budget 1997-98 : More Woes than Welfare?

by Md Ayub Chowdhury, FCA

If the national revenue budget is to be one of surplus, estimated revenue receipts would surpass estimated revenue payments to contribute to ADP. It is customary that pressure on citizens (as payer) would be more than the comfort to citizens. Our indirect tax-tax revenue ratio (now about 80 per cent) being so high, any revenue surplus budget decision sends shocks to ordinary people. Ray of comfort lies on our changing this culture of disproportion. Our special need of allowing subsidy and dole in crores by every government and very thin return from giant SOEs worsen plight of tax-payers further. In the count of these fiscal facts, net impact of a surplus revenue budget will be one of more woes than welfare until a country finds itself developed in infrastructure, without much need of ADP, subsidy and dole.

In the known past, we never heard of any budget that was not alleged by many as anti-people, anti-development. This is more so because we tend to examine budget against the mere duty/tax-rise. There will be a definite tax rise or fall here and there which is to be appreciated, but people have the right to presume that the organs involved in budget preparation do play their role religiously to make it pragmatic for the country ensuring that added fiscal pressure is not put on citizens to support wasteful public spending, nor to fund ineffective, non-prioritised ADP which will not help develop physical and social infrastructure. Whatever is the symptom of acceptance to the budget, it gets passed by majority treasury bench members with or without a minor change and even a revised budget, often posing a further dismal picture, gets ratified. Every year government

ends up with a revised budget proposal with overrun revenue expenditure and unutilised ADP allocation; it is a syndrome of funding overrun revenue expenditure by receipts at the cost of development projects. For example, 1996-97 revised budget seeks approval to 432 crore taka net additional revenue expenditure while ADP is revised by Taka 800 crore downward; minus 574 crore increase in national savings deposit under domestic capital (net), revised non-revenue receipts of the republic is also effectively 120 crore less. Poor mass have no choice than absorbing mileage of fiscal incidence when leaving their fates to the hands of government planners every year; they have been for decades supporting every government by being underfed, in secondhand cloth, in expensive spending, in own subsistence produce, and in many other sacrifices which may be considered as a big invisible booster to every government to plan its actions towards growth.

Dwelling on the premise of 97-98 budget, beginning was unique in that NBR sought budget recommendations widely in press from public and also from various trade and professional bodies as usual. FM exchanged views with interest groups and himself confirmed to have written to politicians for the recommendations. To me, what is perennial in our fiscal decision is the increasing dependence on political environment than the calculation of economic merit: Country needs infrastructural development plan but not with an expansionary fiscal policy to check inflation and to provide more internal resource to ADP. We have priority to improve domestic savings-investment-income cycle which is again far-reaching if an expansionary fiscal policy is not pursued. It's a kind of tug-of-war with both ends of rope in one hand. At this critical juncture, it's a pity if national budget receipts to plan for financing wasteful public spending, bailing out losing SOEs and for funding payroll of public servants whose obligation and value-addition to the nation require mention by former finance minister.

On the Money Management Side, over Taka 150 billion overdue bank loans cast a gloom on the economy. Banks are pursuing a new loan classification system recommended by FSRP (Financial Sector Reform Project) which alerts borrowers and also helps banks check liquidity erosion. CIB (Credit Information Bureau) in Bangladesh Bank has been proved very useful checking default borrowers going for fresh loans; legal amendments done in Loan Court Act, Banking Company Act, New Bankruptcy Act should help plug in future acceleration of default culture. Government should also take stock that not all the borrowers turned willfully default. I know of few loyal-turned-overdue borrowers whose entire business, highly sensitive to political unrest, suffered loss in crores owing purely to 95-96 political deadlock not unknown to incumbent government. These business houses had to meet large fixed overhead bill with sporadic opera-

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tion leaving the consignments detained and expired, being time-sensitive, at godown and wharf. Many industries were at halt with inventory piled up. Bank's interest formula didn't, however, stop in strike! Overdues accrued in multiplicity. In the process, whatever available in till was spent to pay off current overhead bills including very little to bank. Many companies like these didn't fold but maintained large payroll which I strongly take as a contribution to poverty alleviation. Government should consider all these hard facts while chasing overdue borrowers with current measures.

When government would not question on the untaxed income source if invested by 1999, as majority of overdue bank borrowers are hopefully the would be investors under this scheme, an incentive towards cleaning 150 billion taka overdues could result greatly. We should not forget that entrepreneurs, who we brand as defaulters, still remain the investors; they take the risk and nurture employment even in an unfavourable investment climate. Any incentive package to these borrowers shall not be of less economic sense than unquestioning untaxed income.

Willful borrowers who siphoned out money, who turned the account delinquent by political abuse, who resorted to overinvoicing of capital machines for personal gain should be, however, brought to

the job. But, our current fiscal incentives penalise him for his being at such a high height. For example, on average, a person of 20,000/- monthly salary pays taka 25,000/- annual tax and of 80,000/- monthly salary pays taka 195,000 tax a annually but fiscal incentives remain the same maximum for both. Latter's monthly tax is about equal to former's monthly salary. With pay rise by four times, tax rises about eight times. It's no justice to the person at the height. Shouldn't a higher tax payer have a higher living standard? A high child-rearing education? A better investment facility under fiscal measure? With the income progression, outlook of one for a better housing escalates but it is unjust that tax law limits 5,000/- maximum allowance for all. To maintain equity, law should provide for more allowances in proportion to the tax-payment level while keeping the tax rate progressive. Keeping maximum investment allowance at taka 15,000 for all tax payers, inclusion of savings certificate as investible instrument will not change tax payer's fate nor that of the government savings scheme.

On the Capital Market, government has boldly maintained a status quo on foreign funds albeit many corners blamed lock-in withdrawal by present government as major reason for stock market debacle. Increasing wage earners quota to 10 per cent of IPO, withdrawing all other quota are some timely decisions. We are yet to relish any better fruit from what FM pointed out as SEC reform. General people will miss SEC presence along timely disposal of complaints and quick release of IPO requests which are assumed to undergo fair examination. Time will say on the acumen and capacity of new set of SEC executives.

On the Fiscal Measures, revising lowest individual I/T rate to 10 per cent may save take 3500 annually to an assessee. This lowering of threshold rate coupled with measures to track tax-avoidance by bringing telephone/car/house owner in assessment bracket will definitely shoot up direct tax revenue ratio from the current level below 20 per cent. In our country of over 12 crore people, only about 6.30 lac including non-individuals reportedly pay tax. Of this, only about 17 per cent (1.10 lac) are salaried individuals. Paltry 1700 persons (0.26 per cent of total tax payers) report annual income over taka ten lacs and about 5 per cent of total tax payers report income between 1-10 lac; 94 per cent of this small tax-payer size report annual income below one lac taka. This is, of course, dismal.

Hard hit are salaried assesses in the high income/tax bracket. This sandwiched class pay high taxes disproportionate to their income. If social justice and equity is to be maintained, government should look at those hapless salaried high income tax payers. A person does not acquire a high-yielding job by windfall or by a favour but through his perseverance which attained him high education and quality required for

the job. But, our current fiscal incentives penalise him for his being at such a high height. For example, on average, a person of 20,000/- monthly salary pays taka 25,000/- annual tax and of 80,000/- monthly salary pays taka 195,000 tax a annually but fiscal incentives remain the same maximum for both. Latter's monthly tax is about equal to former's monthly salary. With pay rise by four times, tax rises about eight times. It's no justice to the person at the height. Shouldn't a higher tax payer have a higher living standard? A high child-rearing education? A better investment facility under fiscal measure? With the income progression, outlook of one for a better housing escalates but it is unjust that tax law limits 5,000/- maximum allowance for all. To maintain equity, law should provide for more allowances in proportion to the tax-payment level while keeping the tax rate progressive. Keeping maximum investment allowance at taka 15,000 for all tax payers, inclusion of savings certificate as investible instrument will not change tax payer's fate nor that of the government savings scheme.

On the Corporate Front, the revision of tax rate to 40 per cent from 45 per cent coupled with FSRP reforms shall benefit banks. Lowering doubtful provision allowance to 3 per cent for banks could be deferred for another year after evaluating upshot of current reform measures. Number of private companies paying correct tax are only 8-9 per cent which is against the spirit of tax base expansion. I find major three reasons behind private companies not displaying facts: (1) tax fear and rent seeking, (2) assessing officer's inadmissibility to many bona fide business expenses that could be clubbed under omnibus clause of Section 29 and (3) maximum limits to some bona fide business expenditure. In recent years, Tax Commission, a brainchild of former government, elevated image of tax administration and tax fear is slowly eroding. Why an assessing official grossly disallows payments is, in part, found in the ignorance of the official on the multifaceted business ventures and nature of today's fast changing commercial world. For example, business of forwarding and shipping are not same and so, while assessing a forwarding unit, knowledge of shipping assessment should not be resorted to. Entertainment and business gifts in a shipping company are as good as basic raw material of a manufacturing unit. Raw material consumed are fully tax allowed whereas entertainment and business promotion expense of shipping companies face standard limits and arbitrary cuts. It is not smart to prescribe a medicine in same doses to patients of different age group. It is about time to also think over applying varying tax

rate on the same approach of value-addition instead of just using one rate for all companies because G/P and N/P ratio of one industry may far differ from that of another; even the companies in same industry do not achieve a close ratio. There is nothing kept in budget for non-banking private companies which are going to be affected by government pay revision. Ten per cent growth conditioned in self-assessment scheme does not tally with government GDP target below 6 per cent.

New Section 83AA providing for self-assessment option to private companies, deletion of 84A striking off presumptive assessment and deletion of Section 136 waiving interest on delayed payment will make tax assessment process more simplified and friendly.

On the Customs Act, 1969, inclusion of section 18E providing likelihood of a safeguard duty, on imports, to secure domestic industry, poses a threat to companies with imported trading as core interest. Visionless defence of local consumer industries is an economic folly; condition must be created where only competents survive and only then we remain subscribing to WTO agreement. When the border and baggage traders shake hands with wholesalers everyday, which government machinery utterly failed to nail, why then are so much of fiscal batons behind the importers?

Intelligent revision of highest import duty to 42.5 per cent and again adding DSC of 2.5 per cent thought to be a wash in importer's book. But these changes with proposal to calculate supplementary duty on 'Duty Paid Value' will make cost of import up by 8 per cent of an existing item, say, of invoice value taka 100, with 45 per cent duty and 20 per cent supplementary. This will definitely increase already-alarming border trade. Government should maintain a status quo on supplementary duty. Good proposals are made on PSI. Five-member Review Committee including members from PSI company and FBCCI is expected to earn name as Tax Commission under I/T ordinance. Some priority imports, on experimental basis, have been proposed for self-assessment. These steps, if worked as planned, would reflect good governance.

A basketful concessions for taxicab import with only 7.5 per cent duty is proposed. If customs and BRTA act on the spirit, it will give a sure booster in our living and supplement gradual elimination of polluting three wheelers. This will ease up movement of office goers including females if those run on meter or on a given fare chart.

On Foreign Investment and Export, we should not remain complacent on the number of FDIs registered in BOI but weight should be given on size of foreign capital flow, employment generation and reporting transparency by the unit. Ratio of foreign expatriate to local employees is a folly unless it is made bearing to cost of expatriate and that of local employees. Country should not

be made to pay high cost for an OGL on this front. Foreign investment proposal in services unit and in import substitution unit must be carefully examined from the context of comparative cost sense. Presence of every foreign investment should also be linked to its contribution to exchequer. Absence of any incentive or revision thereof in budget for export sector frustrated people. Negative B/P position with all SAARC countries and huge recent settlement to ACU that dwindled the forex reserve to paltry 1.70 billion dollar should be immediately attended to before allowing to accrue one more settlement to ACU.

On Value Added Tax, wide gap between VAT and turnover tax leaves scope for tampering turnover. Increase of turnover tax to 4 per cent is a step towards sealing the manipulation. VAT remains at the top of all tax and non-tax causes items with about 14 per cent growth projected for budget year. There is no VAT exemption list in budget proposal. This should not mean that some anomaly/inconsistency of previous year would not be addressed. NBR heard it and VAT on shipping agent's commission introduced last year under headline S035 proved inconsistent. The inconsistency should have been proposed for deletion. Commercial documents as alternative to VAT register will simplify life.

Bottomline: Blaming the 97-98 budget proposal as having no direction for export and industry is not unfounded but budget is not also a panacea to all economic ills in one year. An industry hit by fiscal measure may benefit more from another government decision affecting that industry. For example, allowing 3/4 phone companies brought competition in cellular phone service which already began generating cost savings to the user. T&T is heard of having given connections without rent-seeking in recent months. We have to look at decisions in its totality. Careful cabinet decisions, bills in Parliament throughout the year, import/export/industrial policies do equally have bearing. As the revenue budget is to be one of surplus with additional commitment for food subsidy and other allocation for other target-oriented poverty alleviation programmes, this budget is not an exception from any budget with more tax rise than fall but the simplification and process changes attempted in this budget should be minded too. With 145 billion revenue expenditure budget, 18 per cent and 20 per cent up from revised and original 96-97 numbers respectively, budget plans to fund 47 per cent internally to taka 128 billion ADP which could be more had not 700 crore been there for pay revision. We should not have one more waste year with non-prioritised ADP outlay, nor with a revised revenue budget in deficit. Facilitating government organs and a political consensus are need of the time which government employees and treasury bench members should first lead by actions.

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## Tom and Jerry



## James Bond



## Metropolitan



British High Commissioner David Walker with representatives of 7 local NGOs at the High Commission premises in the city yesterday after handing over cheques to them amounting to Tk 48.09 lakh for programmes on small scale development activities. The NGOs are: Bangladesh Centre for Development Journalism and Communication, Gandhi Ashram Trust, Mouchak, Desher Jannya Kaj, Uttaran, Women Job Creation Centre and Come to Work.



Dhaka Sheraton Management recently bade farewell to the outgoing Charge d'Affaires of Hungary I B Buday and Mrs Buday. As a token of remembrance, a silver coaster was presented by K S Alam, Acting General Manager. Picture also shows M H Khan, Director Sales and Marketing.

## 'Consensus among political parties must to better Indo-Bangla ties'

By Staff Correspondent

Speakers at a seminar in the city yesterday stressed the need for consensus among mainstream political parties in order to improve Bangladesh's relationship with India.

They said political leaders should accept that India is a geographical reality for Bangladesh and try to work with the larger neighbour on major political and economics issues. The seminar organised by Uchhata Manabhin Gabsahan Kendra (Centre for Higher Humanitarian Studies), was addressed by Dr Abdur Rab Khan of the Bangladesh Institute of International and Strategic Studies (BISS), Dr K M Mohsin of History Department, Dhaka University, Dr Monowaruddin of Economics Department, and Dr Razib Humayun of Linguistics Department. Dr Anisuzzaman presided.

The speakers agreed Bangladesh needed a national consensus to create a better policy on relations with India, but were divided on how to reach the goal.

Md Nuruzzaman of the Department of International Relations, DU presented the keynote paper, titled 'Redefining Bangladesh's India Policy'.

Nuruzzaman said since the assassination of Bangabandhu Sheikh Mujibur Rahman in 1975, almost all governments used propaganda and Islam for attack on India policy. He said the present Awami League government reached agreements with India on important issues such as water sharing.

Discussing the paper, Abdur Rab Khan said Bangladesh should not tailor its foreign policy to India demands. He also said the country should not get involved in any confrontations with India, either. 'We should seek something between these two ideas,' he said.

Anisuzzaman said democratic practice among the parties was a precondition to reach any consensus. Others in the audience suggested more concrete action. Kazi Shahidullah, a History Department teacher, participating in the debate said the government should build a memorial to commemorate the Indian soldiers who died during the Liberation War in 1971.

## Indian donation for cyclone relief

Corrugated steel sheets worth over Tk one crore for cyclone relief activities have been donated by India to Bangladesh, says a press release.

A representative of the Indian High Commission in Dhaka handed over the consignment to a representative of the government of Bangladesh at Benapole.

## Housing & city dev project at Ctg area: review demanded

CHITTAGONG, June 25: The Housing and City Development Project at Kalibollyadham has run into trouble with about 250 families opposing its implementation, reports UNB.

Inhabitants of Jonarkhill, adjacent to the project site have demanded that the project plan should be reviewed and revised before starting the construction work.

Representatives of the 3,000 people submitted a memorandum to City Mayor A B M Mohiuddin Chowdhury at his office on Tuesday demanding passage and link road from Jonarkhill area through the housing project.

Ward Commissioner Nurul Bashir Miah said Jonarkhill residents would be stranded if a passage to the Paharali main road was not included in the plan.

After the completion of the project, funded jointly by World Bank, UNDP and the government with approximately Tk 24.67 crore, housing facilities will be created for 24,000 low income group of people.



Yoshikazu Kaneko, Ambassador of Japan to Bangladesh exchanged grant contract with the representations of the Association of Medical Doctors of Asia, Bangladesh (AMDA), Bangladesh, Development Organisation of the Rural Poor (DORP), ACTIONAID and Rakhaing Development Foundation (RDF) on Japanese contribution for recent cyclone affected people.



Bangladesh Sangjukta Tanti Samity brought out a procession demanding realisation of its various demands, including withdrawal of VAT from yarn and cotton, in the city Yesterday. — Star photo