

CONTINUED FROM PAGE 6

Tk 20 lakh in current year's revised budget and Tk 2.25 crore in FY 1998-99 revenue budget.

35. The freedom fighters are the source of pride for Bangladesh. Father of the Nation Bangabandhu Sheikh Mujibur Rahman established Freedom Fighters Welfare Trust for rehabilitation and maintenance of wounded freedom fighters. Unfortunately, this trust has turned out to be an unprofitable organization owing to past mismanagement. All welfare activities of the freedom fighters are now dependent on government grants. For a long time the rate of allowances for freedom fighters remain unchanged. In order to raise the rate of allowance of freedom fighters from 1st July 1998, I am proposing to increase allocation under this head from Tk 6.6 crore to Tk 9.0 crore.

36. The members of the defense forces are indefatigable sentinels of our freedom and sovereignty. It is our moral duty to provide adequate resources for national defense. In the original budget of FY 1997-98 net allocation for defense was Tk 2457.53 crore. In the revised budget for FY 1997-98, it was increased to Tk 2600.8 crore. In FY 1998-99, I propose to raise it to Tk 2786.43 crore. However, it may be mentioned that the total budget for Ministry of Defense stands at Tk 2902.27 crore including allocations for Department for Meteorology, Survey Department, SPARRSO, Freedom Fighters' Welfare Trust, Cadet Colleges and Defense division. This increase in the defense budget is essential in national interest. Total defense expenditure constitutes about 1.8 percent of GDP in FY 1998-99. Human Development Report, 1997 indicates that the average defense spending in all developing countries in 1995 stood at 3.1 percent of GDP. Defense expenditure as share of GDP in Bangladesh is less than that of India (2.5 percent), Pakistan (6.5 percent) and Sri Lanka (4.9 percent).

37. Internal security is specially important for economic development. The allocation for police force has been significantly increased since the assumption of office by the present government. In the revised budget for 1995-96 total allocation for police was Tk 518.67 crore. In the revised budget for 1997-98 it has been raised to Tk 646.11 crore. I propose to raise this allocation to Tk 675.46 crore in the budget for FY 1998-99. The annual budget for police has been raised by Tk 156.79 crore since the assumption of office by the present government. Compared to allocation in the revised budget of 1995-96, it has been raised by about 30 percent. We hope that with the additional resources the Bangladesh Police will be able to successfully complete its arduous task.

38. The appointment of a Pay Commission to review the pay scales of the public employees was an election commitment of the present government. Taking into account the recommendations of the Pay Commission a three-phase programme for new pay scales was introduced with effect from 1st July 1997. As a result of the implementation of this new scale, additional expenditure to the tune of Tk 888.41 crore including Tk 793.07 crore in revenue budget and Tk 95.34 crore in development budget was incurred in FY 1997-98. This will involve further additional expenditure of Tk 495.14 crore including development expenditure in FY 1998-99 and Tk 691.32 crore in 1999 - 2000. In total a sum of Tk 2074.87 crore will be spent for pay hike in three stages including pay rises in development projects. The total requirement of new pay scale has been included under respective heads in the budget allocations of the ministries. No new pay scale is equally beneficial for all groups. Benefits vary in the process of pay fixation. However, the Government is sympathetically considering the demands of various groups, and a block allocation of Tk 110 crore has been proposed for this purpose in the budget of FY 1998-99. The expenditure on salaries has increased by 1334.64 crore in the revenue budget and Tk 158.91 crore in development budget in FY 1998-99 over the expenditure prior to implementation of new pay scale.

39. Environment pollution in Bangladesh is not a mere threat for the future generation. Polluted environment is already a serious threat to present generation. All-out efforts will be made for the protection of environment. A project for the preservation of bio-diversity in coastal areas and wetland has already been launched. Another project with the assistance of UNDP has been undertaken for integrated information management on environment. A ten year master plan for forestry has already been approved. Measures have already been taken for the intensification of social forestry.

Mr. Speaker,

40. The budget is not about numbers. The budget is prepared for the welfare of the people. Our budget is a people-oriented budget. It is a budget based on social justice. We want to empower disadvantaged groups. We want to remove the despair of the unemployed. We want to provide minimum safety to helpless elderly. We want to remove the shadows of hunger and terror from the faces of the innocent women and children. We know that all this could not be accomplished in one go. We are, therefore, constructing social safety net in a planned way. We have introduced monthly allowance for four lakh elderly poor people in current fiscal year. Honourable Prime Minister inaugurated this programme on 31st May, 1998. We have enacted legislation for setting up Employment-Generation (Karma Sangsthan) Bank. This Bank will commence operations within this month. A sum of Tk 50 crore has been provided in the current year's budget as government contribution to the Bank's capital. I propose to provide Tk 25 crore additional allocation to this Bank next year. A Trustee Board under the Chairmanship of Honourable Prime Minister has been set up for operating the Housing Fund. It has started operation with a capital of Tk 50 crore. I propose to provide additional Tk 8 crore to this fund in next year's budget.

41. We want to include those who are outside the mainstream of economic activities. We want to empower them so that they can act on their own initiative. We want to eliminate the oppression of women and children from this land forever. We intend to create opportunities for the disabled to take part in the economic and social activities. For this purpose

## Tax on Tobacco Enhanced

I am proposing to establish a Social Development Fund of Tk 18 crore in FY 1998-99. Grants from this fund will be used for providing shelter to shelterless women and children. In many cases women and children cannot approach courts for justice for lack of funds. Grants from this fund will be provided for legal aid for women and children. Grants will also be provided to encourage innovative projects for disabled.

42. On the job training is essential for generation of employment. This kind of training is essential for new entrants to the labour market. Furthermore, it will be difficult for many of those workers who availed of voluntary retirement to find new jobs. I propose a special allocation of Tk 15 crore in the next budget for encouraging on the job training. We welcome private initiatives for similar training.

43. Poverty is our most difficult, yet the most pressing problem. There is no instantaneous solution for this, it will have to be resolved through a long-drawn process. We are following a three-fold strategy in poverty alleviation. First, we are directly transferring resources to target groups. Total resources to the tune of Tk 1579 crore has been earmarked in the revenue and development budgets for Food for Works, VGD, relief and pension for the elderly in FY 1998-99. Secondly, allocation for sectors contributing to poverty alleviation have been increased. In FY 1998-99 a total sum of Tk 5116.2 crore has been allocated to heads and sub-heads related to poverty alleviation such as agriculture, rural development, rural electricity, primary and mass education, health and family welfare, women and youth development, district council, thana development assistance, Chittagong Hill Tracts etc. Total allocation for poverty alleviation in FY 1998-99 is Tk 6695.2 crore which is 4.1 percent higher than comparable allocation last year. Third, micro credit programmes are being encouraged to promote self-employment for the poor. Eleven divisions and ministries have already undertaken 25 projects for distribution of micro-credit from the exchequer. A sum of Tk 387.86 crore has been earmarked for distribution of micro credits through these projects. Palli Karma Shahayak Foundation which was set up by the Government with the assistance of the World Bank has distributed credit to the tune of Tk 933.76 crore through its associates in the first nine months of FY 1997-98. The Grameen Bank with the assistance of the government have disbursed Tk 1446.94 crore as micro credit. Other NGOs have delivered credit of more than Tk one thousand crore to the poor. These micro credit programmes have rapidly created opportunities for self-employment.

Mr. Speaker,

44. The invisible hand of the market cannot alone ensure development. The foremost requirement for development is good governance. The urgency of good governance is not a theoretical postulate for us, we realized in the hard way its imperativeness through a process of protracted democratic struggle. The present government is, therefore, determined to establish good governance and transparency in all walks of life. Important measures have already been undertaken for administrative reforms. Initiatives have already been undertaken to appoint Ombudsman under Article 77 of the Constitution of the People's Republic of Bangladesh. We hope that the Ombudsman will play a significant role in establishing transparency in our administration.

45. Economic growth is necessary but not a sufficient condition for development. Growth is a means and not the end of development. Development in the true sense implies the enlargement of the capacity of the individuals so that everybody could grow on one's own. The poor do not want compassion, they want opportunities to change their fate through hard work. We will have to compete not only within the country but also in the wider world, to occupy our rightful place in the comity of nations. In this globalized world it is not possible to bury ones head like the ostrich. We will not be able to survive in the globalized system if we want to remain confined to our traditional world. We will have to think anew. It is not sufficient to do what we are doing, we will have to solve many problems innovatively. As the distinguished philosopher Francis Bacon has rightly said, "He that will not apply new remedies must expect new evils, for time is the greatest innovator."

### SECOND PART

#### FISCAL MEASURES

Honourable Speaker,

In the first part of my speech I have explained the strategies and principles of socio-economic development of the present Government. I have also informed this august Parliament of the various steps taken by the Government to eradicate poverty and attain other policy goals. In this part I will highlight our revenue efforts for FY 1998-99. In last year's budget speech I had outlined the basic principles of our tax policy. We have followed the same principles in formulating the revenue proposals for FY 1998-99. In an article on development published in 1755 the renowned classical economist Adam Smith wrote:

"Little else is requisite to carry a state to the highest degree of opulence, from lowest barbarism, but peace, easy taxes, and a tolerable administration of justice, all the rest being brought about by the natural course of things."

Thanks to the farsighted leadership of Prime Minister Sheikh Hasina, we have been able to put an end to the insurgency in Chittagong Hill Tracts by signing the historic Peace Accord. As a result peace has been established throughout the country. Our commitment and unrelenting efforts in establishing justice and good governance are well known. Therefore, now we should strive to fulfill the remaining pre-conditions for development through the introduction of a modern and pragmatic taxation system.

2. Keeping this goal in mind and following the principles of free market economy we have continued the trade liberalisation process. At the same time I have also proposed measures to provide reasonable protection to domestic industries. In fact, in last year's budget also we

took effective steps to meet genuine protection needs of local industries. To achieve this goal, this year also I have attempted to rationalise our tariff policy without causing economy-wide distortions. I have proposed measures to expand our tax base and simplify the tax payment procedure. I have also proposed practical measures that would reduce harassment in the tax collection process.

3. Instead of providing fiscal incentives in a haphazard manner, as was done in the past, we have carefully selected the sectors for incentives after detailed scrutiny. Factors like export prospects, national priorities, backward linkage, and employment generation potential of the sectors were considered in the selection process. Based on these considerations I have proposed special fiscal incentives for computer software and data processing, agro-based industries, solar power, plastic and plastic products, leather, textile and ready-made garment industries.

4. As a government accountable to the people, we had extensive pre-budget consultation with representatives from all relevant sections of the society. I wrote personally to the major political parties in the Parliament inviting them to a dialogue. Unfortunately, I did not get favourable response from the major opposition party in the Parliament. We received a large number of proposals from the different Chambers, Trade Bodies and professional groups and held detailed discussions on their proposals. Suggestions with positive developmental implications have been accepted inspite 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 conflicting interests of trade and industry and tried to establish an equilibrium acceptable to all. I am grateful to all of them for their suggestions. With these preliminary remarks, I would now like to place before this august Parliament the important tax proposals for the fiscal year 1998-99 which reflect the need for enhanced revenue, national priorities, international economic context and public opinion.

#### Direct Tax

Honourable Speaker,

5. Of all the direct taxes, income tax ranks foremost. Income tax is not only an important source of revenue, but it also plays a crucial role in ensuring social and economic justice. This year I have proposed a number of changes in respect of income tax with a view to making the tax system more realistic, rational and modern. With your permission I would now place before this Parliament the proposals related to income tax.

6. At present, we have five-tier tax rates for individual tax payers which are zero, 10, 15, 20 and 25 percent. In order to make the tax system simple, I propose to introduce four-tier tax rate structure for personal income tax. The revised tax rates will be zero, 10, 18 and 25 percent. The existing rate of 20 percent will be reduced to 18 percent and the rate of 15 percent will be aligned with the proposed rate of 18 percent. At the same time I also propose to restructure the existing income slabs for the different tax rates. This will benefit tax payers in the lower income bracket. For example, earlier a person having a total income of Taka 1,20,000 was required to pay an amount of Taka 7,000 as tax, under the proposed revised income slab the same tax payer having the same total income of Taka 1,20,000 will be required to pay Taka 6,000 only as tax.

7. The existing law allows tax credit for investment at the rate of 15 percent to an individual tax payer on 20 percent of the total income or a maximum of one lac Taka, whichever is less. With a view to encouraging the tax payers to make investments, I propose to enhance the upper limit of investment from one lac Taka to one lac fifty thousand Taka.

8. Under the present arrangements taxes due on the salaries of government servants are deemed to have been paid by the government. There is a misconception among certain sections of people that all income of government servants are exempt from tax and they are not required to submit income or wealth tax returns. However, the fact is that the government servants like all other taxpayers are required to submit income tax return and pay taxes on all income other than their salaries. The government pays taxes on the salary part only. Therefore, those who have taxable income or wealth are required to pay taxes according to the provisions of the Income and Wealth Tax Acts. The National Board of Revenue will strengthen their monitoring efforts in this regard and take necessary legal actions, if required.

9. The existing Income Tax Rules provide for tax on perquisites received by a salaried person. We made some simplification last year. There is further scope to make the rules more rational and simple. To this end I propose the following measures:

a) In some cases, the employer pays income tax payable by an employee in respect of the salary income. The amount of tax paid by an employer is an expense of the employer. On the other hand, the amount of the tax paid by the employer is an income of the employee but does not form part of the taxable income of the said employee. In view of this, I propose to introduce a provision under which tax paid by the employer shall be included in the taxable income of the employee and tax in respect of salary shall be assessed on such income inclusive of the amount of tax so paid.

b) At present if an employee is provided free furnished or unfurnished accommodation the taxable salary income is adjusted upward at rate of 25 and 20 percent respectively. It is not easy to determine at the stage of assessment whether the accommodation is furnished or unfurnished. Besides, the tax payers also face difficulties in establishing the correct position in this regard. To make the provision more rational and its implementation simple, I propose that taxable income on account of salary be adjusted at 25 percent for accommodation provided by the employer, whether furnished or unfurnished.

Honourable Speaker,

10. The role of capital market in industrial and economic development of the country is undeniable. In order to stimulate the capital market I propose some amendments in the existing income tax law. The following are the proposals:

(a) I propose that no question would be asked if any income not taxed earlier is invested in purchase of shares in the primary and secondary market, subject to the condition that the investor pays tax at the rate of seven and a half percent thereon. Further, the shares, have to be retained at least for one year from the date of acquisition.

(b) At present, income from mutual fund of the companies issuing such fund is not exempt from tax. In order to stimulate the capital market, I propose to exempt from tax income from mutual fund accruing to the issuing companies. It may be mentioned that the mutual fund issued by the ICB currently enjoys such exemption. The same benefit shall be extended to all mutual funds established and operated in the private sector.

(c) At present we have two rates for corporate income tax; publicly traded companies are taxed at the rate of 35 percent

and non-publicly traded companies at 40 percent. Whether publicly traded or not, banks, insurance companies, financial institutions and non-resident companies, are taxed at the rate of 40 percent. There are some banks, insurance companies and financial institutions which are listed with the stock exchange, but they are not getting the benefit of the lower tax rate applicable to other publicly traded companies. With a view to removing the discrimination in tax rates between publicly traded financial institutions and non-financial business or industrial enterprises, I propose 35 percent tax for banks, insurance companies and other financial institutions which are listed with the stock exchange and incorporated in Bangladesh. It is expected that a large number of banks and financial institutions will be encouraged to list themselves with the stock exchange as a result of this measure.

(d) Industries enjoying tax holiday are statutorily required to invest 30 percent of tax exempt income in government securities or in the same industry. To stimulate the capital market I propose that dividend declared by companies enjoying tax holiday will count towards the statutory requirement of investment. In addition, I also propose that the statutory investment be made either during the tax holiday period or within one year from the expiry of the tax holiday period.

(e) In respect of dividend income derived by individual tax payers I propose that the tax be deducted at source at the rate of 10 percent on the amount of dividend and this will be treated as the final settlement of tax liability. This will encourage the companies to declare dividend and is expected also to have a positive impact on the share market.

Honourable Speaker,

11. Last year we introduced a provision that investment of untaxed income in 'new industry' will not be subject to any question. The response from the tax payers was not satisfactory presumably because investment was limited to only 'new industry'. No - it is expected that expansion of the ambit of investment will generate better response to this provision for investment. To this end, I propose to include purchase of shares from primary and secondary market, BVIRE of the existing industrial unit, expansion of the existing unit and repayment of industrial loan in the meaning of the term investment for the purpose of this provision. The condition that tax be paid at the rate of seven and a half percent will continue. It is expected that the tax payers will avail themselves of this opportunity and come forward to contribute to economic development of the country by productive use of their hitherto untaxed income, otherwise, penal provisions under the income tax law will be effectively enforced against them.

12. The provision for filing return under self-assessment scheme by a private limited company is subject to manifold conditions such as the company has to show ten percent higher income over the income assessed last year, the tax for the relevant income year must not be less than ten percent of the turnover and must be proportionate to the tax paid and, finally, the minimum tax shall be Taka 25,000. It has been gathered that the multiplicity of conditions has discouraged the tax payers from taking advantage of this scheme. In consideration of this situation, I propose to retain only two of these conditions relating to ten percent higher income over the assessed income of last year and minimum tax of Taka 25,000 and to delete the two other conditions. Initially the system was schedule to remain in force for FY 1997-98 and FY 1998-99; now I propose to retain the system beyond FY 1998-99. I hope that a larger number of tax payers will avail themselves of the self-assessment scheme.

Honourable Speaker,

13. At present public limited companies and multinational companies are allowed to submit return under self-assessment scheme on the basis of financial statements audited and certified issued by Chartered Accountants. This provision was introduced to simplify the tax payment procedure for the recognized companies. Unfortunately, this procedure is being abused by some companies which submit questionable returns for previous income years showing losses and claim refund on the basis of such returns. As a result, the Government is deprived of its due revenue. To restrict the misuse of the existing provision I propose amendment of the respective section of the law introducing time limit for submission of returns and also imposing the condition that income less than the previous year or loss cannot be shown in the return or refund shall not be claimed thereon under this particular self-assessment scheme. Furthermore, I propose that ten percent of the returns based on accounts certified by Chartered Accountants be subjected to audit and that the cases for such audit shall be chosen on a random basis.

Honourable Speaker,

14. At present, there are provisions for advance deduction of tax at source in certain cases. It is necessary to expand the scope of withholding tax at source in order to widen the overall tax base and check tax evasion as well as to prevent harassment and corruption. Such steps will help increase tax handles, expand the tax net and make tax payment free from hassle. Besides, it is also necessary to treat in certain areas tax so withheld as the final settlement of tax liability and to revise the existing rates for withholding taxes. There is also a long standing demand from the tax payers for such a dispensation. I would now like to mention the proposals briefly.

(a) In the case of contractors and suppliers it is proposed that the tax deducted at source will be treated as final settlement of their tax liability. The existing rates of tax deduction under this provision are proposed to be increased from one percent, two percent and two and a half percent to one and a half percent, two and a half percent and three percent respectively.

(b) Substantial profits are made from manufacturing and sale of biri. But in the case of biri manufacturers collection of tax through the normal assessment procedure is very difficult. To tackle this problem and to bring biri manufacturers within the purview of withholding tax, I propose that tax be collected at the stage of purchase of banderols at the rate of one-tenth of the value of the banderols.

(c) I propose to treat the tax collected at source from the importers as the final settlement of their tax liability. In view of this convenient procedure extended to importers, I propose to enhance the rate of tax collected at source from the importers from two and a half percent to three percent.

(d) The existing law provides for collection of tax at source at the rate of six percent from the sellers of immovable property. But generally the real value of the property is not reflected in the sale deed. For land acquired by the Government the owner of the land receives compensation at a rate fifty percent higher than the price at which land is sold as reflected in the registered deeds of transfer. This implies that the real value of land is fifty percent higher than the value shown in the registered deeds of transfer. As a result of undervaluation the real tax liability on the capital gains is not reflected by tax collected at source. Besides, the tax payers also various difficulties at the stage of computation of capital gains. To remove all these complexities and to keep the tax burden in line with the tax collected at source