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proposed to increase the existing rate of collection from six percent to nine percent and also to consider this as the final settlement of tax liability. It may be mentioned that this provision will be applicable for land situated in the city and municipal areas. Agricultural land situated in rural areas will remain outside the scope of this provision.

It is expected that final settlement of tax liability on the basis of the tax deducted at source will make the tax system free from hassles as well as reduce undesirable and unnecessary contacts between tax payers and collectors. I am confident that the tax payers will welcome these steps.

e) I propose to bring within the scope of withholding tax, the compensation money received from the Government for acquiring immovable property within the limits of a city or municipality. In fact there is an amount of capital gain included in the compensation received for any acquired property. Therefore, the proposed collection of tax may be considered as payment of advance tax and that can be adjusted with the tax payable on capital gains. The rate of deduction is proposed to be six percent.

f) I propose to bring income from professional services and technical services fees under the purview of deduction of tax at source and fix the rate of deduction at ten percent. However, income upto first sixty thousand Taka will be exempt from such deduction at source.

15. At present tea plantation or replantation cost is allowed as an admissible expense. To provide similar incentive to rubber plantation I propose to allow rubber plantation and replantation cost as an admissible expense. I hope that in response to this incentive rubber plantation will increase and the supply of rubber will also be ensured.

16. Existence of several provisions for depreciation reduces the calculation of depreciation, written value of assets as well as computation of total income complex. There is no justification for retaining so many depreciation allowances. So, I propose to delete the provisions for initial and extra-shift depreciation allowances. At the same time I propose to enhance the general rate of depreciation by twenty percent in the case of assets eligible for initial and extra-shift depreciation. The proposed amendments will remove complexities in keeping accounts of depreciation and computation of income will become easier.

17. Existing law provides for accelerated depreciation allowance on plant and machineries used for the protection of environment. This, however, failed to evoke desirable response and as a result no plant worth mention for environmental protection has so far been installed. But protection of environment is accorded the highest priority throughout the world and in Bangladesh. In consideration of this I propose to allow one hundred percent accelerated depreciation on plant and machineries engaged in the collection and processing of bio-degradable wastes.

18. Under the existing law tax exemption is allowed to capital gains arising from the transfer of land or buildings if invested in construction of single or multi-storied house for residential purpose. On the other hand, such exemption is allowed only if the capital gain is invested in the purchase of one apartment. The practice is not logical and is also discriminatory. Therefore, I propose to extend tax exemption to the capital gain from such transactions if invested in the purchase of more than one apartment.

Honourable Speaker,

19. Under the existing law a mandatory notice is required to be issued under section 83(1) mentioning the defects of the return submitted. In practice the existing provision slows down the assessment procedure. I, therefore, propose to delete the requirement.

20. The main objective of the proposed amendments in the income tax law and rules is to contribute to the growth of mutual trust between the tax administration and the tax payers, create a conducive environment for investment, widen the tax base and accelerate mobilisation of domestic resources by making the income tax law transparent, simple and modern. I hope that in the new environment tax payers will come forward to pay their taxes voluntarily and the role of income tax will be strengthened in mobilization of domestic resources.

INDIRECT TAXES

Import Duty

Honourable Speaker,

21. I would now like to highlight the important features of the customs duty rates related proposals for FY 1998-99. In last year's budget speech I mentioned that we should pursue a tariff policy consistent with the international and regional trend. We favour gradual and moderate adjustment rather than rapid and extensive changes in customs duty rates so that the development of local industry is not constrained. In continuation of the process, I propose to reduce the highest rate of customs duty from 42.5 percent to 40 percent. We will incur a revenue loss of 121 crore Taka due to this reduction in customs duty on a large number of commodities covering 2325 H.S Codes. The commodities covered by duty reduction include prepared food, fruits, used clothes etc. It is expected that due to reduction of the highest duty rate the consumers will get their products at a lower price. Local industries will develop the quality of their products and make efforts to reduce their cost of production in the face of increased competition.

22. Multiple duty rates or wide differences in customs duty rates for similar goods encourage misdeclaration of goods as well as their value. If the duty rate is simplified through rationalization assessment will be transparent, opportunity of misdeclaration or wrong classification will be minimised and discretionary power of the customs officials will be reduced. As a result assessment will be simplified and clearance of imported and exported goods will be expedited after realization of revenue due to the government. In the last two budgets I introduced various measures for speedy and hassle-free clearance of imported and exported cargo by reducing discretionary power of customs officials. These steps have yielded some benefits. In this budget also I propose to take a few steps in continuation of this policy. With this in mind, I propose adjustment of duty rates for items covered under 107 H.S codes at the same level. In most cases these adjustments have been made with the lower rate of duty. The items covered by the measure include benzene, toluene and xylene, liquid lustre and glass frit, stone, bolder, pebbles and gravel, manganese di-oxide, iron oxide and lead oxide, phenolic resin, melamine resin, polyurethane and other amino resins, plasticizer, compound plasticizer and phthalic plasticizer etc. In pursuance of the policy of reduction of the number of duty rates for rationalization, simplification and consolidation as well as reduction of discretion any power of customs officials, I propose to abolish the duty rate of 2.5 percent. Most of the commodities including pace maker, heart valve, kidney dialysis machine and artificial respiratory machine previously subject to 2.5 percent customs duty will now be charged zero duty rate. I propose to re-fix the customs duty on the remaining items at 7.5 percent. These items include raw silk, testing and other electro-medical equipment etc. At present two duty rates of 22.5 percent and 30 percent are applicable to similar intermediate raw materials. To reduce the difference I propose to reduce the customs duty on several commodities from 30 percent to 25 percent. To reduce the number of customs duty rates, I propose to slash the 22.5 percent duty rate.

Following these adjustments, the number of customs duty rates will be reduced to five from the existing six rates. If the aforementioned proposals are implemented, these five rates will be 7.5 percent, 15 percent, 25 percent, 30 percent and 40 percent.

23. Industrial investors and entrepreneurs often complain that customs duty on raw materials and intermediate products are rather high. As a result their cost of production is high, they face uneven competition which makes their investment unprofitable and discourage further investment. To mitigate their problems, I propose to reduce customs duty rates ranging from 2.5 percent to 22.5 percent on large number of raw materials and intermediate products covering 852 H.S Codes. I shall mention these items while discussing different classes of goods.

24. One of the basic problems of our agriculture is fluctuation in production due to dependence on weather. If agricultural output increases, prices fall owing to lack of facilities for preservation and processing. As a result our farmers do not get proper price. Development of a modern agro-based industry is essential to stabilise the price of agricultural products in these circumstances. Such an industry will increase farmers' income and create employment opportunities. In addition, this sector has an enormous potential for export due to high value addition in agricultural products. Generally, development of agro-based industry with its backward linkage can give a significant boost to our agricultural sector. In consideration of these factors, I propose to reduce duty rate of food flavour, tin can, crown cork and lug cap from 30, 22.5 and 15 percent to 7.5 percent and that of glass bottles and jars from 22.5 to 15 percent. Further, for development of shrimp cultivation, poultry, bakery etc.-- which fall within agriculture sector broadly defined -- I also propose reduction of duty rates on a wide range of raw materials and intermediate goods used in these industries. The items covered under the proposal for reduction of duty include: active yeast from 30 to 7.5 percent; Vitamin B and its derivatives from 22.5 to 7.5 percent; and animal and vegetable fat and oil used as fish feed from 42.5 to 30 percent. The Government will incur substantial revenue loss due to these measures but we must make such sacrifices to stimulate industrialization, promote exports and provide assistance to the agricultural sector.

25. Computer software and data processing have been identified as promising export sector next to our ready-made garments industry. I have already announced various benefits including exemption of all import duty and taxes on software. I propose to expand these benefits further and exempt computer and parts used exclusively with computer from the entire applicable value added tax and from the currently prevailing customs duty of 2.5 percent and 15 percent respectively. One unit of Uninterrupted Power Supply (UPS) imported along with a computer will also get this benefit. In case of more than one UPS imported along with one computer or UPS imported separately, I propose to reduce the duty rate of UPS from 30 to 15 percent. These measures would cause a revenue loss of approximately Taka 20 crore. I hope this revenue loss will be more than offset by generation of employment opportunities for our educated young men and women. This will enable us to assemble computer and develop software for export. Some of our neighbours have achieved commendable success in this field. I am proud to say that the intellectual ability, creativity and technical knowledge of our young generation is in no way inferior to that of the young people of those countries. I firmly believe that use of these opportunities will help our country make progress in this modern field of knowledge.

Honourable Speaker,

26. Plastic industry has a vast potential. Many articles of everyday use are manufactured from plastic in small, medium and large industries. I propose to reduce customs duty rates on primary polymer which is the basic raw material for this industry from 30 to 25 percent. The items for which duty reduction has been proposed include: polypropylene, polyethylene polystyrene, polyvinyl acetate, polyvinyl chloride, polyacrylic and alkyd resins.

Honourable Speaker,

27. Solar electricity is not only an alternative to conventionally produced electricity, its potential for expansion is also unlimited. Use of solar electricity is increasing in many countries which helps overcome electricity crisis and power supply constraints. Solar electricity can play an important role in meeting demand for electricity in our country. Therefore, in order to encourage extensive use of solar power, I propose to exempt photovoltaic generator from the whole of customs duty and value added tax. Exemption of wind generator from customs duty and value added tax now in existence will continue.

28. Now I would like to propose a few measures designed to support the leather industry. Duty on various types of raw and processed hides and skins had been reduced from 2.5 percent to zero in the last year for a limited period. Frequent change of duty rate is not congenial to an industry. Therefore, I propose to continue this facility to help development of leather industry. In addition, I propose to reduce the duty rates on various pigments used in this industry from existing 15 percent, 22.5 percent and 30 percent to a uniform rate of 15 percent. This will simplify assessment process for dyes used in leather industry. In addition to lower duty, I have provided other benefits to leather industry in terms of access to credit.

29. Textile industry is one of the vital sectors of our economy. A large number of workers are engaged in this sector. This sector plays an important role in producing import substitutes for local use as well as export oriented garment industry. To consolidate and protect the competitive position of our export oriented garment industry, we have to increase value addition which can only be achieved through use of locally produced fabrics. In view of these considerations, I propose to reduce duty on synthetic fibre from 2.5 to zero percent, vat dyes from 15 percent to 7.5 percent, pigment -- a raw material of textile, leather and paint industry -- from 15, 22.5 and 30 to 15 percent, and some spares and components of textile industry from 30 to 25 percent. There will be substantial loss of revenue due to the proposed duty reduction. However, I hope that our textile industry will become competitive due to the impetus given and will be successful in meeting local demand and increasing our exports.

30. Ready-made garment has assumed the position of our biggest single export commodity. This sector contributes significantly to export promotion as well as employment generation of women. To consolidate the competitiveness of this sector, 25 percent cash incentive is provided. The Government has to incur an expenditure of about Taka 200 crore per annum on this facility. Despite heavy burden on the exchequer, I propose to continue this 25 percent cash incentive for another year i.e. in fiscal year 1998-99.

Honourable Speaker,

31. To consolidate the competitive position of local industries, I propose reduction of customs duty rates on important raw materials covered under 190 H.S. Codes, such as graphite electrode, synthetic and other natural rubber, beadwire, refractory bricks, blocks, tiles and similar refractory ceramic, sulphonic acid and magnesium chloride etc. Following the principle of consolidation of customs duty rates on similar goods, I propose to merge the duty rate of lac from 15 to 30 percent to 30 percent, increase customs duty rate of parts of rice huller from 15 to 25 percent and re-fix the rate of duty on soap noodles or palmitic acid at 40 percent. These goods or their substitutes are produced locally and hence the revision of duty rates will provide protection to the local industry.

32. Our newsprint industry was viable and full of promise. We even exported newsprint after meeting the local demand. But during the last few years the newsprint industry has been facing crisis owing to various reasons. Duty free importation of newsprint started from 1994-95. To protect the legitimate interest of local newsprint industry 15 percent import duty was imposed in 1996-97. But duty free import facilities for the newspapers and periodicals remained unchanged. It may be mentioned that the value of newsprint import during 1994-95 and 1995-96 was 17 crore and 75 crore Taka respectively. In 1996-97 the total import increased to 144 crore Taka, out of which duty free import was 136 crore Taka and 15 percent dutiable import was only 8 crore Taka. In 1997-98 the duty free import of newsprint by the newspapers and periodicals was made conditional, duty free import was limited to the quantity determined on the basis of the report of the Audit Bureau of Circulation. During July-December of 1997-98 duty free import was 37 crore Taka and 15 percent dutiable import was Taka 20 crore only. Locally manufactured newsprint could not be sold due to duty free import of large quantity of newsprint. The business community has complained that they are discriminated against and are incurring losses. A large number of workers make their living from this sector. To protect the domestic newsprint industry, I propose that the newspaper and periodicals will be allowed to import newsprint free of duty equal to the quantity of domestically produced newsprint purchased by them. However, their total requirement of newsprint will be determined on the basis of the reports of the Audit Bureau of Circulation. I firmly believe that the owners and the intelligentsia associated with the newspapers and periodicals will recognise the need for this measure for domestic industry and the economy as a whole.

33. Government advertisement is one of the important sources of revenue for the newspapers. Rate of government advertisement has not been increased by the previous governments in last 11 years. But in the meanwhile cost of production in the newspaper industry has gone up. Considering all these, I propose to increase the rate of government advertisement by 30 percent.

34. It is the policy of the present Government to reduce the cost of public transport and to make it easily available. Therefore, I reduced the customs duty rate on double-decker bus and taxi-cab in the last budget. In continuation of this policy, I propose zero customs duty on double-decker bus. I also propose to reduce the duty on other types of bus and trucks from 22.5 percent to 15 percent. The proposed duty reduction will lower expenditure on initial capital and will increase profit. The entire transport sector, especially the public will benefit due to this measure which will add a new dimension to our transport system.

35. Construction of roads is part of infrastructure development. Dumper and tipper trucks are used effectively in construction industry. Therefore, I propose to reduce customs duty rate on these two types of vehicles from 22.5 and 15 percent to 7.5 percent. If this proposal is implemented, local contractors who participate in international tenders -- especially in aided projects -- will have relief from uneven competition with the foreign contractors.

36. Pulses are essential food item for the common people. Dunpeas (motor dal) and chickpeas (chhola dal) attract 42.5 and 30 percent customs duty at present. I propose to reduce and align these customs duty rates at 30 percent. Lentil and other pulses are chargeable to 7.5 and 15 percent customs duty at present. I propose to align them at 7.5 percent. These measures will lower incidence of tariff on different types of pulses. Moreover, difficulties in identification of various types of pulses and assessment of duty will be eliminated.

37. In addition to these proposals for rationalization of duty rates I would like to propose introduction of a 'rapid clearance system' for imported goods, similar to green channel facility for passengers. I hope this will prove to be an effective measure to reduce the discretion of the customs officials. Under the proposed system usual formalities at the assessment stage will remain unchanged but at the time of delivery a few category of goods and all the commodities imported by selected groups of importers will be released and 'outpassed' without physical examination. In addition, I propose to reform the present physical examination system. At present, up to 100 percent of each consignment of imported goods can be subjected to physical examination. Henceforth, if there is no reasonable doubt, a proportion not exceeding 10 percent of the total consignments will be examined. Consignments for examination will be selected randomly on the basis of a computer generated sample. I also propose to amend a few sections of the Customs Act to strengthen and simplify bonded warehouse administration.

Value Added Tax and Supplementary Duty

Honourable Speaker,

38. To take full advantage of the VAT system, it is essential that Value Added Tax (VAT) be gradually extended to wholesale and retail levels. Representatives of the business community have been demanding that the presently established standard of record keeping be dispensed with in order to make the payment of VAT at retail level by small traders simple and free from hassle. In view of our socio-economic scenario, the rationale of the demand cannot be denied though recognizing that records are an integral part of the ideal-type VAT system. One of objectives of the tax administration is to increase the numbers of taxpayers by making the VAT system simple, free of complexities and more acceptable to the tax payers. Such measures will encourage more taxpayers to come under VAT coverage voluntarily. In order to do justice and to collect more tax in a simpler manner, I propose introduction of a participatory system for determining annual sales volume of small traders and retailers by a Committee comprising representatives from trade associations, different Chambers of Commerce and Industry and the taxation authority. The proposed arrangement will facilitate voluntary compliance by taxpayers and collection of taxes without harassment at the retail level. This will help establish a system based on mutual exchange of opinion between taxpayers and tax collectors. An assessment made on the basis of collective decision and consensus will be just, minimize harassment and enhance transparency in tax administration. The National Board of Revenue has discussed the matter with the representatives of different Chambers of Commerce and Industries during consultative meetings prior to budget formulation and received encouraging response.

39. I will now propose some expansion of the value added tax system based on the above principles. During FY 1996-97 and FY 1997-98 about seventy items were brought under VAT network at retail levels. In continuation of this practice, it is proposed that the following nine more items be included in VAT net at retail level: fire arms, carpet, watches, cement and MS products, ceramic crockery, glass, crystal, pyrex and melamine, household decoration pieces made of ceramic, silver, brass, bronze, and crystal glass, CI sheet and foam.

40. Significant progress was made in assessment of VAT on the basis of retail price at production level during FY 1997-98. Collection of VAT on retail price at production stage began with footwear and condensed milk in 1997-98, on both the items considerable increase of revenue was registered in the last financial year compared to previous year's collection. To continue this trend and to simplify tax collection procedures, it is proposed that the following class of goods be assessed on the basis of retail price at production stage: cosmetics, toiletries, detergent, disinfectant, soft drink, tissue paper, paint, varnish, aerosol and air-freshener.

41. Expansion of tax base rather than enhancement of tax rate is generally considered to be a better method for augmenting revenue. Recently, there has been considerable expansion of a number of service sectors in the country. Hence, the following five new services are proposed to be brought under the purview of VAT: security service, pathological laboratory, automatic or mechanized saw mill, air-conditioned garments shop and trade service i.e. wholesaling by importers and other domestic traders. It may be mentioned that in case of firms with turnover less than Taka. 15 Lac, the turnover tax will apply to all these items and services.

42. A procedure for interim release of vehicles and goods seized for violation of VAT law or rules against bank guarantee was introduced in the last fiscal year. From discussions with entrepreneurs and business representatives it is learnt that due to some practical problems they could not take advantage of this procedure. In order to make the procedure more 'industry friendly' the requirement for bank guarantee will be replaced by a new procedure under which seized conveyances will be released on an interim basis prior to adjudication against the owner's personal undertaking and seized goods will be given to the personal custody of the VAT registered units on a personal undertaking. Administrative measures will be taken to ensure release of goods and vehicles within three working days.

Honourable Speaker,

43. Too many exemptions in the VAT system deprive manufacturers, service renderers and traders of the real benefits of the system. If the input is liable to tax and the output is exempt, the manufacturer cannot get the credit on the tax paid on the purchase of inputs. Besides, in order to expand the tax base, a general policy of reducing exemptions in phases is being pursued to remove the existing discrimination in tax incidence among different items. It may be mentioned here that services similar to travel agency such as freight forwarding and shipping agency are subject to VAT. Travel agency had been subject to VAT from 1991 to 1994; then it was exempted from VAT in FY 1994-95, which created an inequitable incidence among similar sectors of services. To remove this anomaly, I propose to withdraw exemption of VAT from travel agency in order to bring it at par with entities rendering similar service.

44. During our discussions with representatives of different Chambers, Industry and Trade Associations, it was reported that they often face problems in getting credits for VAT paid on inputs, especially manufacturers who do not import their inputs find it difficult to take credit of VAT paid for inputs purchased locally. The system of issuing supplementary invoice by commercial importers eased the problem to some extent. But the small and medium scale manufacturers most often do not purchase inputs from big commercial importers; instead they buy it from small unregistered wholesalers. To resolve the problem, I propose to treat commercial importers as renderers of trade service. On their sales they will issue VAT Chalan instead of supplementary invoice. Similarly, wholesalers will also be required to issue tax invoices (VAT Chalan) for their sales. This will enable all manufacturers to take tax credit for their inputs and on the other hand the VAT system will also be improved.

45. A large share of domestic indirect tax revenue is collected from domestic cigarette industries. At present there are four rates of supplementary duty against four price-slabs on cigarettes manufactured in the country. The rates are 30 percent, 48 percent, 49 percent and 51 percent. The production cost of one packet of machine produced cigarettes cannot be less than Taka 2.49, but due to faulty declaration of prices supplementary duty collected is far less than the assessed duty on correctly declared price amount. Based on consultation with cigarette manufacturers and in order to safeguard government revenue, I propose a slightly upward revision of supplementary duty at the production stage and some readjustment of price-slabs for cigarettes. The revised rates of supplementary duty are 32 percent, 49 percent, 50 percent and 51 percent. Since smoking is injurious to health, the resulting price-increase will also discourage smoking to some extent.

Honourable Speaker,

46. In the last two fiscal years some qualitative changes were brought in the Value Added Tax system which will also be pursued in future. With a view to making the tax system more transparent and friendly to trade and industry, some amendments to the VAT Act and Rules have been proposed. Besides, some new rules indicating operational guidelines such as Interim Release Order, VAT Consultant Licensing Rules and Turnover Fixation Rules will be introduced.

Honourable Speaker,

47. I would now like to present the supplementary duty related proposals. Customs duty reduction on dried milk from 42.5 percent to 40 percent will cause considerable loss of revenue. In order to offset the loss, I propose to impose 2.5 percent supplementary duty on dried milk. This measure will keep the tax incidence on imported dry milk unchanged; therefore, its market price will not be affected.

48. At present different rates of supplementary duty are imposed on imported cars and jeeps, depending on their engine capacity and type of fuel used. This creates difficulties in assessment. In order to do away with the various rates, I propose to impose supplementary duty on the basis of engine capacity irrespective of type of fuel consumed and the type of vehicle. Further, to encourage use of small cars and discourage use of bigger and luxurious cars, I propose to reduce supplementary duty on cars up to 1000 cc. At present there is no supplementary duty on jeeps of the same capacity. I propose to impose supplementary duty on jeeps at the same rate as applicable to cars for removing this anomaly. The existing rates of 35 percent, 40 percent and 45 percent supplementary duty on jeeps and cars of the capacity from 1000 cc to 1300 cc will be merged at 45 percent. I also propose to increase supplementary duty on cars and jeeps above 1300 cc at progressive rates. Due to this restructuring of supplementary duty the price of small cars will decrease and the price of the luxurious cars and jeeps will increase to some extent which the better-off consumers can afford.

49. Importation of reconditioned cars have increased substantially. Maintenance of relatively old cars is economically expensive and they are detrimental to environment also. In order to discourage importation of old cars I propose to reduce the maximum depreciation allowed on assessment of old cars from 60 percent to 40 percent.

50. In the big cities pollution has increased to a dangerous level. Three wheeler (auto rickshaw) is one of the major sources of environmental pollution. But such vehicles are used by the common people and hence its use cannot be stopped suddenly. Specially in the rural areas where roads are being constructed these are the only mechanised speedy vehicle. In small towns there is a high demand for these vehicles. Therefore, we have to discourage the use of three wheelers (auto rickshaw) in stages. In order to facilitate public transportation some alternative measures have already been taken to make bus and taxi cab easily available. In view of this and to discourage use of three wheelers, I propose to increase the supplementary duty on three wheelers from 25 percent to 50 percent. To achieve the same goal I propose to impose 50 percent supplementary duty on two stroke engines.

51. Augmentation of revenue is essential for development of the country. While keeping the common and poorer section of population free from onerous tax burden and imposing tax on the relatively prosperous section of the population, I propose the following measures to increase revenue.

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