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DHAKA, TUESDAY, SEPTEMBER 15, 1998

APEC optimistic about liberalising nine sectors next year

KUANTAN (Malaysia), Sept 14: APEC officials were optimistic yesterday varying commitments to start lowering tariffs in nine sectors next year would be reconciled amid domestic concerns hindering further liberalisation pledges, reports AFP.

"I would say we've got breakthroughs already," said Abdul Razak Ramli, Chairman of a three-day meeting of senior officials, the third and final gathering ahead of this year's summit in Malaysia in November.

Abdul Razak said the group's latest free-trade plan, known as early voluntary sectoral liberalisation, had come a long way from the "political will" expressed by trade ministers at an earlier meeting this year. "We're now looking at working towards a packaged agreement, at participation in all the sectors and the other thing is we are now looking at working in flexibilities," he said.

At their last meeting in the Malaysian city of Kuching in June, senior officials got trade ministers to endorse the plan amid strong objections from Japan which is reluctant to liberalise trade in forest products and fish.

"I will not say that Japan is not working with us. Japan is working with us to look at flexibilities," Abdul Razak told reporters.

Reservations to liberalisation range from religious and moral grounds to highly domestic sensitivities, officials said.

Chile, which has deferred taking part due to its own unilateral moves to cut tariffs, reiterated that individual action plans, now in their third year of review, were the "central mechanism" to implementing APEC's free-trade goals.

"We also believe that APEC could have been better served if we had followed this path more vigorously," Ambassador Jaime Laogs said.

Edsel Custodio, the Philippine Chairman of the APEC trade and investment committee, said the absence of Chile as well as Mexico "cannot be considered non-participation."

"They have an alternative way of achieving liberalisation through a unilateral process and they are doing it," Custodio said.

The latest meeting takes place amid merging fears of protectionism in developing Asian economies, which expanded at furious pace with open-market policies before seeing the bubble burst last year.

The early liberalisation plan brings forward APEC's agreed goal of breaking down barriers to trade and investment by 2010 for industrialised economies and 2020 for developing economies.

"Our task is to develop a balanced and mutually beneficial package that advances, but provides for early voluntary sectoral liberalisation and to get that ready in time for the ministers to consider it and to consider the question of what to do with it if they present it to the leaders," said John Wolf, head of the US delegation.

Priority sectors for early liberalisation are chemicals, energy, environmental goods and services, fish, forest products, gems, medical equipment and toys. The ninth sector, telecommunications, is already settled.

Another report says, despite initial reservations, the Asia-Pacific Economic Cooperation (APEC) forum is confident of eliminating tariffs in the fisheries sector by the end of 2005, a Canadian official said yesterday.

"I am frankly optimistic that in November we will have in the fish sector a strong proposal that has a consensus worked out from member economies," said Marshall Moffat, director of economic analysis policy at Canada's fisheries and oceans department. "We have made some significant progress."

Canada, which is coordinating negotiations among APEC members for the fisheries sector, is one of the biggest exporters of fish, other major exporters are Japan, South Korea, New Zealand, Thailand, and the United States.

Mahbubur Rahman, president of ICC Bangladesh, addresses the ICC workshop on "Euro and its impact on the global trading system" at DCCI conference room yesterday. Jorg Volker Ketelsen, Charge d' Affairs, Delegation of The European Commission to Bangladesh, Kazi Abdul Mazid, Chairman of ICCB Standing Committee on Banking Technique and Practice and Managing Director of Prime Bank Limited, Samson H. Chowdhury, Member of ICCB Executive Board and Chairman of Square Group, are seen on his right. Latifur Rahman, Vice President of ICC Bangladesh, is seen on his left. **(Story on Metropolitan page)** — ICC photo

Illegal trade with India to get a boost

Nepal's slack tax grip seen as setback to revenue increase

by Deepak Gajurel

KATHMANDU, Sept 14: An agreement between the government and a prominent business chamber to loosen tax provisions is being seen as a setback to Nepal's efforts to increase revenue and stop clandestine entry of imported goods into India.

Under the agreement with the Federation of Nepalese Chambers of Commerce and Industries (FNCCI), the threshold for compulsory registration of traders for Value Added Tax will be raised to 4.5 million rupees ($70,000).

Observers say the new threshold will exempt from VAT a majority of people suspected of being involved in illegal trade of luxury consumer goods, especially with neighbouring India.

Economists here estimate that billions of dollars worth of luxury items and other goods are currently being illegally imported into Nepal and then exported to the Indian market. The traders manage to stay out of the government's records due to the clandestine nature of the business and the country loses out on millions in revenue. Besides, economists here point out, this trade has a direct and adverse effect on domestic Indian industry.

In a bid to tackle this problem, the government here implemented the VAT from July 17 and stepped up monitoring at customs points. When the measures were announced, a large section of businessmen expressed opposition to it and claimed that VAT would be "against consumers' interests."

Many businessmen also protested the new requirement of compulsory book-keeping and auditing by firms with annual transactions of more than Rs. 4.5 million. The government's decision to set up a revenue police division and give discretionary powers to tax officers was also widely criticised.

Though the FNCCI, the apex business body in Nepal, has reached an agreement to end the confrontation, a tug of war over VAT is still on between the government and businessmen under the Nepal Chamber of Commerce (NCC).

NCC's members have been demanding a complete withdrawal of VAT and had organised a ten days' closure in July to protest the tax, bringing about a loss of about Rs. 110 million ($1.61 million) a day.

"If VAT is fully and effectively implemented and a monitoring system is set up at the customs points, illegal trade will largely be checked," says economist Bhogendra Prasad Singh.

The media has also been sharply critical of the traders. "In the name of consumers' interest, the tax evader businessmen want to continue unwanted trade," one leading Nepali daily said.

The government however insists that its agreement with the FNCCI has not compromised on its resolve to rein in tax evaders and stop illegal trade.

— India Abroad News Service

FAO predicts

World rice demand to surge over next 25 years

CAIRO, Sept 14: The United Nations Food and Agriculture Organisation (FAO) said on Sunday that world rice demand will surge over the next 25 years, reports AFP.

"Based on 1997 estimated world production of 570 million tons FAO predicts that an additional 350 million tons will be required in the year 2025," the FAO's International Rice Commission said.

Most of the increased demand will be required in developing countries, especially Asia, where there is little potential for expansion of area under cultivation.

It said a slowdown in production growth especially in Asia was a cause for concern in terms of world food security "and called for efforts to expand production of higher yielding hybrid rice.

Cotton cultivation being hampered in Pabna

PABNA, Sept 14: Cotton cultivation in nine units of the district is being hampered due to rain and on-rush of hilly waters, reports UNB.

Some 224.62 hectares of land have so far been brought under cotton cultivation this year as against the target of 1,500 hectares. Cotton plants were damaged due to natural calamities, official sources said.

Of the units, 16 hectares of land at Muladuli and 09 hectares at Awatapara in Iswardi thana were cultivated as against the target of 200 and 150 hectares respectively.

Fifteen hectares of land at Tebunia, 78 hectares at Hemayetpur and 12 at Kotwali in Sadar thana were cultivated as against the target of 150,300 and 100 hectares respectively.

China plans new securities law

SHANGHAI, Sept 14 : China is working on a new securities law that could be announced by the end of the year or early 1999, the state-run newspaper China Securities reported Monday, reports AP.

The report did not give any details, but brokers said they expect the law to standardize regulations for China's two stock exchanges, possibly attracting more foreign investors by creating a clearer regulatory framework.

Securities trading in China is overseen by the China Securities Regulatory Commission, but exchanges in Shanghai and Shenzhen also issue regulations, meaning investors in the markets can face different conditions.

The US dollar against Japanese yen rebounded strongly on the Tokyo Foreign Exchange Monday morning. The dollar rose over 132-yen level but swung in a wide range amid speculation about whether the US would abandon its strong dollar policy. — AP/UNB photo

HK won't lower currency rate in six months

HONG KONG, Sept 14: Hong Kong's central bank on Monday reassured foreign exchange investors by renewing its pledge not to convert the territory's currency at a lower rate to the US dollar for at least six months, reports AP.

Investors had reacted nervously earlier Monday to an interview published in a local paper with Joseph Yam, chief executive of the Hong Kong Monetary Authority.

Yam told the Hong Kong Economic Journal that the guaranteed level of convertibility for all banks would "shortly and suddenly" move to the weaker level of 7.80 Hong Kong dollars per US dollar.

Banks rushed to buy US dollars early Monday at the current rate of 7.75 Hong Kong dollars, draining local currency liquidity from the banking system and sending interest rates soaring.

After a rate change to 7.80, banks could convert the US dollar back to the Hong Kong currency, making a 0.05 Hong Kong dollar profit for every US dollar.

A statement issued by the authority later said it would guarantee the 7.75 per dollar exchange rate to "remove market uncertainties." "An immediate move to 7.800 may be misunderstood as a devaluation of the Hong Kong dollar," it said.

The overnight Hong Kong Interbank Offered Rate climbed above 7.0 per cent early Monday, but dropped to 5.5 per cent shortly after the authority released the statement.

The benchmark three-month interest rate, which hit a high of over 12 per cent, dropped to 11.5 per cent.

NCBs to assess needs of flood-hit industries

The nationalised commercial banks (NCBs) will assess needs of the worst affected industries for their operation in full gear.

Senior bankers indicated that the process will take at least two months.

"We will send out four teams from Dhaka by September 20 for on-the-spot assessment," a senior official of Sonali Bank told UNB by phone on Sunday.

He said: "We are expecting to complete the preliminary assessment by September 30 and then take the matter to the Board meeting."

The bank official replied in the negative when asked if the government had instructed the NCBs to provide immediate funds to the worst flood affected mills and factories.

"We only know about the government decision to defer repayment of loans of the last quarter. That too from the newspapers," he said.

Finance Minister SAMS Kibria, after visiting some affected industries in Narayanganj on Saturday, assured the owners of liberal bank loans for going into production.

"We have already instructed the banks... You will definitely get help from them," the finance minister was quoted to have told the mill owners.

The Sonali Bank official said their loans to the industries, affected by the flood, will be determined in accordance with the availability of funds.

Another senior banks indicated that it would take at least two months for streamlining fresh loans to the affected industries if funds are available.

SB opens L/C for import of 129,000 tonnes of foodgrains

Sonali Bank has opened letter of credit for import of 129,000 tonnes of foodgrains in August and till date. The currency value in the import will be around 161 lakh US dollar, says a press release of the bank issued in city yesterday.

Out of the total import, letter of credit has been opened by the government for 1.20 lakh tonnes of wheat and 8952 tonnes of rice by the traders.

The import of foodgrains has increased manifold due to the devastating flood hampering production of foodgrains in the country.

The traders in the private sector is likely to open more letter of credit for import of substantial quantity of foodgrains in the next few weeks.

Taxing of diversified income of an individual

By Mahbubur Rahman

Of all the direct taxes, income tax ranks foremost. It is not only an important source of revenue, but it also plays a crucial role in ensuring a social and economic justice. The impact and incidence of income tax, being a direct tax, befall on the person on whom it is levied. By nature and heritage, many of us tend to be "freeriders" in the society. We are little emotional in demanding more and more state services without having the mentality to discharge our citizen's duties to yield due share towards the cost of the exchequer. Tax laws and the personnel connected therewith are many often thought to be inimical by the tax payers. But it's a reality that people have to pay tax to the Govt. to keep the state craft running for the very existence of the people themselves. However, this short write-up aims at only to throw some light on the taxability of an individual with different sources of income. The tax payers and their income may be of diversified nature as per Income-Tax Ordinance, 1984. Tax payers may be—individual, firms, companies etc. And their income as well may be from different sources as will be evident from discussions below. Income has been defined by law in its different perspectives. But simply to say that—anything and everything that comes in either in cash or in kind except those which have been exempted by the Government U/S 44. I have sought to workout below the total income and the tax payable thereon by an individual who has more than one source of income. It is for general information that tax is payable for every year on the total income comprising of all sources of income wherever and whenever it is received or accrued within or outside the country. The following example will show —

(1) What are the components of basic pay for salaried persons ?
(2) How much of perquisites are taxable?
(3) What are the areas of approved investments and how much is the tax benefits for investments?
(4) How to compute total income taking all the sources of income?
(5) How to calculate tax rebate on taxed income?
(6) What are the implications of tax on tax ?

Comprehensive example of calculation of total income

Professor Sharma had the following income for the assessment year 1998-99 (income year 1997-98)

SALARY U/S 21

A.1.	Basic pay Tk. 10,000 pmx12	=Tk.120,000
1.1	Bonus-Festival and incentive, equivalent to two months pay	= Tk. 20,000
1.2	Dearness allowance : 10% of pay	=Tk. 12,000
1.3	Special allowance for overtime work	=Tk. 12,000
1.4	Remunerations for examining scripts, setting of questions, invigilations, tabulations etc.	=Tk. 12,000
	Basic pay plus its components	Tk.176,000

Some employment related benefits known as perquisiteds are also included in the calculation of total income as quoted below ---

2.	Entertainment allowance @ Tk. 1000 pm x12	=Tk. 12,000
2.1	Conveyance allowance Tk. 500 pm. x12=6000 Less maximum allowable exemptions : 5,000 for a year	=Tk. 1000
2.2	House rent allowance @ 60% of the basic : 72,000 Less exempt (50% of the basic) or Tk. 5,000 per month, whichever is less 60,000	=Tk. 12,000
2.3	Medical allowance Tk. 1000pm.x12 = 12,000 Less actual expenditure as per vouchers =7,000	=Tk. 5,000
2.4	Employers contribution to recognised Provident Fund @ 10% of the basic pay	=Tk. 12,000
2.5	Pension from earlier employment Tk. 5000 pm (totally non-assessable)	Nil
	Income from salary	=Tk.21,8,000

Income from house property U/S. 24:

	He owns 02 houses. First house was constructed 03 years back and let out @ Tk.10,000 pm x 12	=Tk 1,20,000
	Less allowable exemptions : Non assessable rent for the 04th year:	=Tk 36,000
	(initial exemption of Tk. 36,000 for the first 05 years only for one house). @ one fifth for repairs, collection charge lift man,	=Tk 84,000
	electrician etc.	=Tk 16,800
(b)	Municipal Tax, Land revenue, fire insurance against the house etc.	=Tk 5,200
(c)	Interest on House Building loan	=Tk. 36,000
(d)	Vacancy allowance for 02 months for the house remaining vacant	=Tk. 20,000
	Income from the first house:	=Tk. 6,000
	Income from the 2nd house: Rent per month Tk. 25,000 The House is newly contracted and was let out for 08 months only during the income year Tk. 25000x8	=Tk. 2,00,000
	Less exemptions @ 20% for repairs etc. (it can be even 25% on production of expenditure vouchers):	=Tk 40,000
b)	Municipal and other taxes	=Tk. 10,000
	(No loan was taken for building this house)	=Tk. 50,000
	(This house will get initial exemption only for 03 years after completion of 05 years for the first house)	=Tk. 50,000
	Net income from 2nd house:	=Tk. 1,50,000
	Total income from the two houses:	=Tk.156,000

Agricultural Income : U/S. 26.

He owns 03 acres of land of double crop yield per acre 40 mds. of paddy. Total production 40x3x2=240 mds x 350 per md. = Tk. 84,000

Less 60 per cent of the price being the statutory allowance Tk. 50,400

(In case, the assessee does not have any other =Tk. 33,600

Source of income, another Tk. 40,000 has to be allowed as exemption, in addition to 60 per cent cost of production as above): If there be any income from Tea/Rubber plantation, 60 per cent of the agricultural income determined in the same way shall be taken as agricultural and 40 per cent as business income.

Interest from securities U/S. 22:

He had invested Tk. 500,000 in approved securities out of bank loan for which he paid bank interest of Tk.10,000. He received interest on securities and debentures Tk. 40,000 for the year. Taxable income :

Income from Securities	Tk. 40,000
Less interest on bank loans	Tk. 10,000
Net interest	Tk. 30,000
General exemptions (maximum)	Tk. 20,000
Net income under this head	Tk. 10,000

Interest on securities alone is exempt upto Tk. 5,000 only.

Capital gains U/S : 31

He sold a land property at Savar and earned therefrom a capital gain of Tk.40,00,000. He bought this land six years back and he again bought/ cons-tructed a residential house costing Tk.35,00,000 within two years of such sale.

Capital gains :40,00,000	
Less reinvestment in residential house	Tk 35,00,000
Net capital gains:	Tk. 500,000

[Capital gains within 05 years shall be taxed at normal rate along with other income and beyond that, at the normal rate or 15 per cent of the capital gains only, whichever is beneficial for the tax payer].

Income from other sources U/S. 33.

(a) Interest on Fixed Deposit or any other bank account ---- (no exemption)	Tk. 25,000
(b) Income from Divident	Tk. 50,000
Less general exemptions	Tk. 30,000
	Tk. 20,000
Less interest on bank loan for investment in such shares)	Tk. 5,000
Net income from other sources : (15,000+25,000)	Tk. 40,000

Calculation of total income of Prof. Sharma - --

1) Income from salary	Tk. 218,000
2) House property income	Tk. 156,000
3) Agricultural income	Tk. 33,600
4) Interest from securities	Tk. 10,000
5) Capital gains	Tk. 500,000
6) Income from other sources	Tk. 40,000
Total Income :	Tk. 9,57,600

Tax calculation : 1998-99 Rates.

First	Tk. 60,000 @ Nil
Next Tk. 60,000 @ 10% =	Tk. 6000
NextTk.1,40,000 @ 18% =	Tk. 25,200
Balance	Tk. 1,97,600
@ 25% =	Tk. 49,400
Tk. 4,57,600	Tk. 80,600

(In this case, capital gain should be taxed at 15 per cent which will be beneficial for Professor Sharma)

Total income = Tk. 9,57,600-capital gains 500,000 = Tk. 4,57,600 on which tax comes to Tk. 80,600 as above)

Tax @ 15% on capital gains of	Tk. 500,000 = Tk.75,000
Total tax comes to	Tk. 1,55,600

Prof. Sharma invested Tks 350,000 in approved savings certificates, IPO (Shares) of a Public Ltd. Co., Zakat Fund, Aga Khan Foundation etc. for the year concerned. His investment for calculation of investment tax credit -

a) Investment as above :	Tk.350,000
b) Contributory Providend Fund (both employer & mployee)	Tk. 24,000
	Tk.3,74,000

It is limited to 20 per cent of the total income minus the employer's contribution (9,57,600-12000) or Tk.150,000 whichever is less. Here it will be Tk.1,89,120 or Tk.150,000. He will get investment rebate

@ 15% on Tk.150,000

Tk. 22,500

Net Tax Payable Tk (1,55,600-22,500)=1,33,100

Suppose, he has a share income from a firm on which tax has been paid by the firm and also on his salary income, tax has been paid by the employer. These are non taxable income. These will be included in the total income and a tax rebate at an average rate shall be allowed. Rebate shall be calculated as under. Total tax payable on total income (after investment credit etc.) including the taxed income is to be divided by the total income and multiplied by the taxed income (non-taxable).

$$\frac{\text{Net tax payable}}{\text{Total income}} \times \text{Taxed income.}$$

Tax on Tax was withdrawn in 1992 and reintroduced in 1998. When the tax burden of an employee is borne by the employer, the amount of tax so paid by the employer is deemed to be a perquisite and added back to the total salary income received from employment. Naturally, the total income for the second time will be higher as it would include the tax paid by the employer. Tax calculated on this revised total income shall be also higher. The difference between original tax and the revised tax on total income including the tax (borne by the employer) shall have to be paid by the employees. The government officials and the employees of the state-owned enterprises will have to pay the differentials this time.

The writer is a former Commissioner of Taxes and now a teacher of the Department of Accounting, Dhaka University.