

## Budget text

## Full Text of Finance Minister's Budget Speech

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joy and pride to people of all walks of life. By attaining world standard, they honoured their motherland. I would like to convey to them our sincerest greetings and felicitations. Since the assumption of office, the Prime Minister herself is providing guidance for improving various games in Bangladesh to international standard. The recent strides in sports and games is the direct outcome of her ebullient enthusiasm and eagerness. In order to encourage cricket, football and other sports, I propose to make a block allocation of Tk. ten crore in the revenue budget for promotion of sports and games. The total allocation for sports and culture in the revised development budget is Tk. 52.45 crore. In 1999-2000 it has been proposed to raise it to Tk. 72.25 crore. The empowerment of women is one of the objectives of the present government. I, therefore, propose to raise the allocation for Women's Affairs Department in the development budget to Tk. 54.57 in FY 1999-2000 from 37.58 in FY 1998-99.

38. Environmental degradation in Bangladesh is not a distant threat in the far-off horizon, it is a stark reality in day to day life. Various species of animals and plants are disappearing fast. Surface water and ground-water is polluted in many places. In the metropolitan areas, polluted air is a major threat to public health. Poverty has further compounded environmental problems. We will have to restore environmental equilibrium gradually. A survey on arsenic poisoning in ground-water is in progress. An investment project at a cost of Tk. 178.92 crore has been undertaken with the assistance of World Bank. Under this project, safe water supply will be developed in 4000 rural and 64 semi-urban areas. A sum of Tk. 38 crore has been allocated for this project in the ADP for 1999-2000. The Sundarbans has already been declared a world heritage site. A project at a cost of Tk. 382.29 crore for preservation of biodiversity in the Sundarbans has been undertaken with the assistance of Asian Development Bank. Furthermore, Environment Department has undertaken a project at a cost of Tk. 30.25 crore for the management of air quality.

39. There was a clear commitment in the election manifesto of Awami League in 1996 that the Army, Navy, Airforce and Border Security Forces will be appropriately equipped so that they can fully perform their assigned roles. In accordance with the election pledge, adequate allocation has been provided for the defence forces keeping into account the limited resources of the country. In FY 1998-99, total allocation for defence forces was 2772.42 crore. It has been raised to Tk. 2878 crore in the revised budget to meet the increased costs of revised pay-scales and pension. I propose to allocate Tk. 2996.72 crore for the defence forces including block allocation for revision of allowances. The proposed allocation is 8 percent higher than that of FY 1998-99 and the increase in allocation is in line with the expected rate of inflation.

40. Good governance is one of the main objectives of the government. In 1996 election manifesto it was clearly announced that Bangladesh Awami League will attach highest priority to overall improvement in the law and order situation with a view to materializing nation's yearning for a terrorist-free secure society. In the light of this commitment, the police force is being reorganized. In order to increase the effectiveness of the police, allocation for police has been gradually increased. In the revised budget for FY 1995-96, total allocation for police was fixed at Tk. 518.67 crore. In the original budget for FY 1998-99, it was fixed at Tk. 646.11 crore. In the revised budget for 1998-99, it has been raised to Tk. 687.18 crore (excluding ration). In FY1999-2000, I propose to raise this allocation to Tk. 829.6 crore (including ration). After the assumption of office by the present government, the annual expenditure for police (excluding ration) has been raised by Tk. 283.89 crore. This proposed allocation for police in revenue budget for FY 1999-2000 is 54 percent higher than the revised budget allocation in 1995-96.

41. It is one of the sacred duties of the government to ensure the welfare of the valiant freedom fighters who made supreme sacrifice for the liberation of this country. Unfortunately, freedom fighters were neglected in the past owing to mismanagement of Freedom Fighters Welfare Trust and indifference of the previous governments. With a view to increasing the facilities for freedom fighters, the allocation for the welfare of the freedom fighters was raised from Tk. 6.60 crore to Tk. 9 crore in 1998-99. In the budget for FY 1999-2000, I propose to raise this allocation to Tk. 14.51 crore. I hope that more resources would be mobilized for the welfare of freedom fighters through better utilization of assets of Freedom Fighters Welfare Trust.

42. In the economic sphere, there are three main objectives of the government : acceleration of economic growth, establishment of social justice and alleviation of poverty. The private sector and not the government would be the engine of growth in economic sphere. The role of the government would be limited to create a congenial environment for growth. However, the government has to play a direct role in ensuring social justice and in alleviation of poverty. The invisible hand of the market will not wipe off the tears of the distressed, the government will have to intervene directly to address this problem. The present government is determined to play this role. This is why in ADP for FY 1999-2000, a sum of Tk. 5313.42 has been provided for activities directly related to poverty alleviation. Furthermore, in the revenue budget for FY 1999-2000, a sum of Tk. 3439.17 is proposed to be allocated to poverty alleviation programmes (such as gratuitous relief, FFW, VGD, VGF, housing for the poor, pension for elderly, primary education and health care in rural areas etc.). In other words, the combined allocations in the revenue and development budgets

for poverty alleviation is Tk. 8752.59 crore. It constitutes about 26.28 percent of total allocation of revenue and development budgets. However, projects in ADP which are not classified as direct poverty alleviation projects will also contribute to poverty alleviation indirectly. According to estimates of NGO Affairs Bureau, NGOs have spent about Tk. 925 crore in poverty alleviation projects during the period July 1998 to May 1999.

Mr. Speaker,

43. Scholars disagree as to shape of things in the world economy one hundred years hence. However, there is no disagreement on the fact that changes in the realms of knowledge and technology will be faster in the coming century. The distinguished economist Paul Romer rightly observed, "... The realm of possible things is incomprehensibly larger than the realm of actual things. We will never run out of things to discover, a reassuring fact since the process of discovery is the mainspring of economic growth". In the world of rapid technological change, the capacity of the people to apply new knowledge is the greatest asset. Inadequate natural resource and large population will not impede development in Bangladesh in the twenty-first century. Only by ensuring the proper development of human resources, a new horizon for economic development in Bangladesh will be opened. Bangabandhu rightly said, "Golden men are needed for building Golden Bengal". We will have to invest all our resources for making 'golden men' in the future. That is the surest way of realizing Bangabandhu's dream of "Golden Bengal" in the 21<sup>st</sup> century.

**Ready made garment industry (RMG) . . . Existing 2.5 per cent infra-structure development surcharge and 3 per cent advance income-tax on cotton is proposed to be withdrawn completely. Existing 15 per cent value added tax and 2.5 per cent infra-structure development surcharge on synthetic staple fiber, a raw material for synthetic yarn and fabrics is also proposed for withdrawal. I propose to reduce the duty rate of polyester yarn from 30 per cent to 15 per cent, POY [Partially oriented yarn] from 30 per cent to 5 per cent. Zari [lumi lurex yarn] from 7.5 per cent to nil, all sorts of dyes used in the textile industries from 7.5 and 15 per cent to nil and pigment titanium dioxide from 15 per cent to 5 per cent, Sizing material sago, maize starch, fixing material and gum used in textile industry from 40 and 30 per cent to 5 per cent, soda ash and hydrogen peroxide from 25 and 30 per cent to 15 per cent. I propose to reduce the duty rate of rags of woolen blanket and fabrics used as raw material for woolen blanket industry from 40 per cent to 15 per cent.**

## FISCAL MEASURES

Honourable Speaker,

In the first part of my speech I have discussed the principles and strategies adopted by the government for our socio-economic development, and for alleviation of poverty. In this part I want to inform the august parliament of the revenue collection efforts of the government. In my previous budget speeches I had highlighted the basic principles for formulating a just, equitable and simplified tax policy free of harassment and hassle. The revenue proposals for this year have also been based on the same principles. I now place before the parliament the basic features of our tax programme for fiscal year 1999-2000 with the objective of setting up a modern and simplified tax system in the country :

- To encourage and support local industries ;
- To simplify the tax system and reduce the tax burden of the citizens ;
- To contain smuggling ; and
- To Increase revenue through rationalization of the tax system.

Honourable Speaker,

02. Famous economist Richard Bird has said " Indeed, the central problem of tax policy in developing countries is how to obtain the necessary revenue while at the same time providing some correction for a typically high degree of inequality in the distribution of income, but without interfering unduly with private saving and investment". Globalization of international trade in recent times has made the formulation of tax policy in a country like ours more difficult and challenging. Our tax policy needs to be formulated in such a way that the benefits of globalization are captured in the tax policy and at the same time our domestic

<sup>11</sup> Richard M. Bird, "Income Redistribution, Economic Growth, and Tax Policy," *Proceedings*, Columbus: National Tax Association, 1969.

industries are protected from uneven competition from abroad. Consequently, we should gradually move from an import trade-based tax-system to a consumption-based one and make our tax system more efficient and effective. In fact, it is not possible for us to remain isolated from the present trend of globalization. In the present context we have to gradually reduce our tariff barriers.

Honorable Speaker,

03. The present democratic government always stands for an accountable and participatory tax policy. In accordance with this principle I have exchanged views with honourable members of the parliament, different chambers, trade bodies, NGOs, economists and journalists in revenue pre-budget meetings. Their suggestions with positive developmental implications have been considered. In addition to this, for the first time in the budget preparatory process, separate task forces on Customs, VAT and Income tax consisting of the representatives of FBCCI and National Board of Revenue have thoroughly discussed and examined the budget proposals given to the Government through the FBCCI- the apex body of Chambers and numerous Trade Associations. I sincerely express my gratitude and thanks to all the participants in this regard. I am very sorry to say that the main opposition party refrained from taking part in the pre-budget discussion inspite of my invitation for a dialogue.

Honourable Speaker,

04. Present government is determined to establish a modern, simple and taxpayer-friendly system as a prerequisite for economic growth of our country. Let me quote from the words of Justice Oliver Lendel Holmes : "Taxes are what we pay for a civilized society". I want to emphasize again that no new taxes have been proposed in this budget. Tax rates have been drastically reduced to help the local industries even at the risk of a reduction in government revenues. In some cases tax rates have been unified and tax base expanded. Now I place the tax proposals for 1999-2000 before this parliament.

## Direct Taxes

Honourable Speaker,

05. Of all the direct taxes Income tax is the principal source of our revenue. This year a good number of changes are proposed in respect of income tax to widen the tax base, check tax evasion and reduce the complexities of tax law. It is pertinent to mention that the number of tax payers in Bangladesh is negligible as compared to other Asian countries. Despite various measures taken in the past increase in the number of tax payers and their contributions to the total tax revenue is not commensurate with economic growth, as in other countries. Expansion of the tax base is an utmost necessity to ensure social justice. Against the backdrop of these realities I seek your permission to place before this august Parliament my proposals related to income tax.

Honourable Speaker,

06. Considering the increase in the cost of living and also with a view to reducing the tax burden of the low income group, it is proposed to raise the exemption limit in respect of individual class of assesses from Tk. 60,000/- to Tk. 75,000/-. In keeping with this measure, I propose to restructure personal income tax rates as follows :

On first Tk. 75,000/- of total income	-	Nil
On next Tk. 50,000/- of total income	-	10%
On next Tk. 1,25,000/- of total income	-	18%
On the balance of total income	-	25%

07. For salaried persons, it is proposed to delete the provision of treating the tax paid by employers as income of the employers.

Honourable Speaker,

08. In order to develop modern treatment facilities in the country, by encouraging investment in the health sector it is proposed to exempt income of a hospital established during the period 1st July, 1999 to 30th June, 2005 subject to certain conditions. The main condition is that such hospitals will be required to keep ten percent of this total beds for the treatment of

on his investment at a fixed rate on the basis of measurement, then no question will be asked about source. The rate of tax will be Tk. 100 per square metre where the plinth area does not exceed 140 square metres, Tk. 150 per square metre where the plinth area does not exceed 230 square metres and Tk. 200 per square metre where the plinth area exceeds 230 square metres. This provision will be optional and will not be applicable to persons who are willing to explain the source of their investment.

Honourable Speaker,

13. In our country a large part of the untaxed income is invested in the transport sector. To bring such untaxed income into the tax net I propose the following :

a) Existing presumptive tax system on road transport vehicles will be applied to inland water transports. Inland water transports having carrying capacity upto 150 passenger the rate of tax per year will be Tk. 7500, those having carrying capacity of more than 150 persons but not exceeding 400 persons the rate of tax will be Tk. 30,000 and those having passenger capacity of more than 400 persons the rate of tax will be Tk. 80. Inland water transports like coasters, cargoes and barges engaged in carrying of goods will be required to pay tax at the rate of Tk. 10,000 where loading capacity upto 100 tons, Tk. 25,000 where loading capacity above 100 tons but not exceeding 350 tons, Tk. 60,000 where loading capacity above 350 tons but not exceeding 1000 tons and Tk. 1,00,000 where loading capacity is above 1000 tons. Apart from this an additional amount of twenty five per cent of the tax mentioned above for each category will have to paid as tax at the time of first registration of all transports as tax on investment.

b) The provision of collection of presumptive tax at a fixed rate in the case of buses, minibuses, trucks and tank lorries was introduced in 1986. The tax rates have not been changed in the last thirteen years. (It is also proposed that a fixed tax on investment of such vehicles will be required to be paid by the owner of such vehicles at the time of registration and no question will be asked about the source of such investment.) It is therefore, proposed to raise the rates. The new rates will be Tk. 7,000 for an air conditioned luxury bus or a double decker, Tk. 6,000 for other buses, Tk. 5,000 for an air conditioned minibus/coaster, Tk. 4,000 for other minibuses/coasters, Tk. 7,000 for a prime mover used in pulling container, trailers, Tk. 6,000 for a truck/tank lorry having capacity above 5 tons, Tk. 4,000 for a truck/tank lorry having capacity above 1.5 tons but not exceeding 5 tons and Tk. 1,000 for a truck having capacity below 1.5 tons and on motorized three wheeler goods carriers. Apart from this an additional amount of twenty five per cent of the tax mentioned above for each category of road transport will have to be paid as tax on the investment at the time of first registration of such road transports. Under this system the investment will accepted by the department without questions about source.

14. To widen the overall tax base and to improve collection I would now like to mention the proposals in brief :

a) Advance income tax at the rate of ten percent will be deducted at source from interest on savings certificates and will be treated as the final settlement of tax liability. For the benefit of small investors such interest income up to Tk. 25000 will be exempted from payment of tax and from deduction at source. This new measure will be applicable in respect of savings instruments purchased after June 10, 1999.

b) Advance income tax will be deducted at source on bonus shares just like dividend.

c) Producers of feature films will be required to deposit an amount equal to five per cent of the estimated cost of the film or Tk. 2,00,000, whichever is higher, as advance income tax to the government treasury before submission of the film to the Censor Board.

d) The owners of brick fields will be required to deposit an amount of five thousand taka as advance income tax before applying for permission from the Deputy Commissioners.

e) Fees for services rendered by doctors for treatment or operation or for diagnostic work in a private clinic or hospital shall have to be deposited in the hospital account and the hospital authority shall make the payment to the doctor through account payee cheques after deducting advance tax at the rate of ten per cent on such payments.

f) Companies engaged in real estate business will have to pay advance income tax as final discharge of tax liability before submission of building plans for approval of the concerned authorities. For Dhaka and Chittagong City Corporation area, the tax rate will be Tk. 200 per square metre for both residential and commercial buildings. For municipal areas of other districts, the rate is Tk. 50 per square metre.

g) Advance income tax will be deducted at the rate of five per cent on the commission income of all scheduled banks for opening of letters of credit (LCs).

h) Advance tax will be deducted at the rate of three per cent by the lessors at the time of repayment of lease money to a leasing company.

Honourable Speaker,

15. Along with the expansion of the scope of advance income tax it is also necessary to restructure the existing rate of deduction and to delete the provision of advance income tax deduction in certain areas. With this end in view I propose :

a) to reduce the rate of deduction of tax from ten to five per cent in the case of professionals. At the same time I propose to withdraw the existing exemption limit of Tk. 60,000/-.

b) to abolish advance income tax at source at the rate of 0.25 per cent on exports to encourage the export business.

c) at present there is a provision of deducting tax at the rate of ten per cent from dividends as discharge of final tax liability. But this provision does not apply to individual tax payers having dividend income upto Tk. 10,000. On the other hand dividend income upto Tk. 30,000 paid by a company listed with the stock exchange is tax exempt. To remove this anomaly I propose to raise the exemption limit for deduction of tax at source in case of dividend to Tk. 30,000 and also propose to abolish the system of treating such tax payment as final discharge of tax liability.

Honourable Speaker,

16. Now, I am proposing some changes and amendments in respect of certain provisions and procedures regarding income tax law:-

a) Tax payers are required to pay 15 per cent of the tax demand as a precondition for filing appeal against assessment orders. Tax payers face difficulties on this account. As such it is proposed to reduce the payment requirement from 15 to 5 per cent and to withdraw the discretionary power of the Commissioner to waive such payment.

b) Similarly, a tax payer is required to pay 30 per cent of the tax at the time of appeal to the Appellate Tribunal. For the benefit of the tax payers, I propose to reduce this payment requirement to 20 per cent.

c) In view of the existence of various penal provisions for concealment of information, it is proposed to abolish the

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