

Full Text of Finance Minister's Budget Speech

From page 9

Duty benefit will be given in phases for other items needed by the hotel industry after protecting the interest of local industries producing such items.

Honourable Speaker,

43. At present voluntary pre-shipment inspection (PSI) system is in operation in the country. As a consequence of this, an importer employs a PSI company for his personal interest. But if the PSI company is employed and paid for by the government, then they will be answerable to the government. For various reasons introduction of mandatory pre-shipment inspection system is justifiable excluding imports of government and autonomous organizations, relief goods and some other cases including defence imports. Different reports show that revenue loss occurs on account of misdeclaration of price. Allegations are there that price is often declared less than the actual to evade duty and the balance amount is usually unauthorisedly transmitted out of the country. It will be possible to enforce correct declaration of price, quantity and quality of imported goods under mandatory PSI system. Thus it will be possible to prevent fraud in import trade and also introduce the promised "green channel" system for quick clearance of goods. After considering the view of different chambers and local and foreign experts' and on the basis of the experiences of more than forty countries using PSI system, I propose to introduce mandatory pre-shipment inspection system as a temporary measure. It will be possible to prevent system loss in revenue collection once mandatory PSI system is introduced. I hope additional Tk. 550 crore revenue will be collected through this measure. In this system importers can get rid of harassment presently faced by them at the point of clearance of goods. I also propose to introduce transaction valuation system simultaneously with the PSI system. To cover the costs of mandatory PSI and other relevant activities, a maximum of one percent service charge will be levied on the value of imported goods which will come under PSI.

44. In the last few years the volume of import and export through LC stations has tremendously increased. For proper revenue collection from increased trade, to intensify anti-smuggling activities and to increase revenue by collecting Value Added Tax properly, it is necessary to improve the efficiency and accountability of the revenue administration. To achieve that goal, I propose to recognize the customs and VAT administration by creating a Commissionerate covering the whole of Khulna and Barisal divisions and separate Customs Houses at Mongla and Benapole. This will involve creation of a new commissionerate. There is a great possibility to increase balanced trade with eastern states of India. To implement this, it is necessary to increase facilities for assessment and clearance of goods in that region. Arrival of international passengers has increased at Sylhet Osmani Airport since direct operation of international flight has been started by Biman using airbus. It has now become imperative to establish proper customs facilities in that area. Considering all these aspects, I propose to establish a separate Commissionerate in Sylhet. There is a huge number of bonded ware-houses in the country. This numbers are progressively increasing due to development of export trade. Bond license facilities have been misused in the past by some unscrupulous persons/agencies taking advantage of inadequate supervision. To ensure proper control and management in this area I propose to establish a separate Bond Commissionerate for the whole of the country. For proper implementation of transaction value and for ascertaining actual transacted price to create and maintain a data base, a powerful valuation department is a must now. To achieve the goal of organizing an efficient and effective valuation department I propose to restructure the Customs Valuation Department under a Director General of the rank of a Commissioner. I hope efficiency of customs administration will increase and around Tk. 100 crore additional revenue will be collected through this restructuring and reorganization measure.

45. Import through LC stations has increased manifold but with the exception limited facilities at Benapole, there is no arrangement for storage and preservation of imported cargo in other LC stations. It is time consuming, expensive and inadvisable to embark on building by the government infrastructure. As such to remedy the existing situation permission to establish public bonded warehouses in the private sector will be given in different LC stations.

Value Added Tax and Supplementary Duty

Honourable Speaker,

46. I would like to highlight some of the steps taken during the current (1998-99 FY) fiscal year for the promotion of local industries :

(a) I am pleased to note that we have successfully met the challenge thrown up by last year's devastating flood, the worst in this century. In order to rehabilitate the flood-affected handloom industries, the Government have exempted all excise duty on handloom industries for the period of July-September, 1998. In addition, deferred-payment facility for excise duty for September-December, 1998 period was extended to the weavers. These beneficial measures have reduced the tax burden of the poor weavers and helped them recover from the losses suffered due to flood.

(b) Entrepreneurs of export-oriented industries in our country are working hard to boost up exports. The present government is determined to help such entrepreneurs. In order to encourage the export of finished leather products customs duty and VAT on imported pickled, wet blue and crushed leather have been withdrawn. Moreover, all services related to export have been exempted from VAT. This step will free the exporters from the hassle of obtaining drawback under the existing Duty Draw Back system.

(c) To promote the growth of computer industry in Bangladesh, we have withdrawn customs duty on import of computer hardware last year. Subsequently, VAT on import as well as local production of computer software was also withdrawn. Such incentives are expected to create a large pool of young skilled manpower in our country and expand the scope of computer related activities in Bangladesh.

47. Based on the four basic principles of this year's budget which I have mentioned at the beginning of my speech, I now place before this august my proposals for Value Added Tax and Supplementary Duty :

(a) At present Turnover tax applies to the producers/suppliers of taxable goods or services with yearly turnover of less than Tk 15 lac. This ceiling has not been changed since 1994-95. In view of the growth in national production and price index during the past few years I propose to raise this upper limit from Tk 15 lac to Tk. 20 lac. This enhancement will lessen the tax burden for a large number of small indigenous producers. This will further rationalise tax structure and stabilize prices of goods and services. On similar grounds I propose to raise the ceiling for plants and machinery from 3 lacs to taka 5 lacs and yearly turnover from 15 lacs to Tk. 20 lac for cottage industries. We hope that these measures will encourage establishment of new cottage industries and generate employment in the country.

(b) Since VAT is included in the government approved price of natural gas, petroleum products and furnace oil used in various industries, the same is eligible for tax credit as per VAT law. But at present industries are not being able to take tax credit for those inputs because VAT is not shown at the retail stage. To remove this difficulty, the sale/purchase receipts of natural gas, petroleum products and furnace oil at government approved price, shall be treated as VAT challan after 1st July 1999.

(c) In recent time Poultry, dairy and fish firms have been growing all over the country. These sectors are providing self employment opportunities for the educated young people in our country. In order to help the growth of these industries, I propose to withdraw VAT on inputs and equipment such as

All members of a club having VAT registration will be required to submit income tax return. A person engaged in the business of real estates will be required to furnish TIN number when applying for the approval of plans of proposed buildings.

various chemicals, poultry keeping machines etc. used in these industries.

48. Large number of imported goods and raw materials are now exempt from VAT. But local manufacture of similar goods pay VAT and are therefore, facing an uneven competition. In order to protect the local manufacturer from this uneven competition as well as to enhance government revenue earning, I propose to withdraw VAT at the import stage for the following products :

(a) A section of our population is engaged in the production of raw silk yarn. As there is no import duty on raw silk yarn, quantities much in excess of our demand is being imported. On the one hand, it hampers rural employment and economy by discouraging backward linkage of silk industries and on the other, there is a drainage of our hard earned foreign exchange due to smuggling of silk yarn. To rectify this situation, I propose to impose VAT on the import of silk yarn.

(b) Household plastic products such as plastic bowls, mug, jugs, glasses, net, buckets/tubs and covers are produced by small industries in our country. In order to encourage such industries, I propose to withdraw VAT exemption at import level on such products.

(c) Production of ball point pens in our country is quite satisfactory. With a view to saving foreign exchange and encouraging local industries, it is proposed to withdraw the exemption of VAT enjoyed by ball point at import stage.

Honourable Speaker,

49. Globalization of international trade is causing increased integration of our national economy with the global economy. As a signatory to many international trade agreements, we are committed to systematic reduction of import tariffs. Inspite of substantial loss of revenue, import duties on a large number of raw material and intermediate products have been reduced. At the same time, to discourage spending on luxury goods and to reduce revenue deficit, I propose to impose supplementary duty at the import stage at different rates on the following items :

(a) A 2.5 percent supplementary duty is proposed on those importable finished goods which have no import substitute and on which the present rate of Customs duty of 40% will be reduced to 37.5%. The existing supplementary duty rates on importable goods shall also be proportionately revised upward. Tariff value on 2200 items shall cease to exist from the date on which compulsory Pre-shipment Inspection System comes into force in the fiscal year 1999-2000. There was a gap between the international price and the tariff value but in most cases tariff value fetched higher revenue for the government. To forestall the sudden loss of revenue, it is proposed to impose 10 percent supplementary duty on 272 items from the date of introduction of the mandatory PSI System. It is to be noted that all goods attracting 5% or less import duty rate shall be excluded from this list of 272 items.

Honourable Speaker,

50. The retail sale of about 80 items have been brought under VAT net since fiscal year 1996-97. For establishing an ideal VAT system it is necessary to gradually bring the retail sale of all goods under VAT. With this objective in view, I propose to bring 31 new retail items including the following under VAT:

spectacle lens, frame and mounting, goggles and sunglasses, view cards, invitation cards, greeting cards, tier and tubes of vehicles (excluding bicycle), storage battery (except dry cell battery), aluminum rod, profile, street, plate and aluminum fitting, glass sheet, electric motor, ballast, capacitor, registor, circuit breaker, fuse, relay, switch, plug and socket, lamp holder and electrical wire and all types of granite and marble stone.

51. One major objective of our tax policy is to collect increased revenue by expanding the tax base rather than imposing new taxes. Due to increased investment and employment in the service sector the extent of value addition has also increased there

It is proposed to introduce the system of compulsory display of TIN certificate by taxpayers having income from business or profession at a conspicuous place of his office or shop.

side by side with the expansion of VAT in retail sector it is necessary to gradually bring maximum types of services under VAT. On this consideration, 14 services including the following are proposed to be brought under VAT during this fiscal year : Specialist doctors, lawyers, health club and fitness centers, sale of tickets for international sports events, engineering firms, architect/interior designer/decorator, rent a car service (excluding taxi cab) air-conditioned railway service, sound and light equipment renting establishments, participation in Company Board Meetings, seller of land, satellite channel distributors, advertisement in the satellite channel programmes and electricity distribution. Definition of services like warehousing, air-condition ready made garments sales outlets, air-conditioned buses and launches, insurance, hotel and restaurants and procurement providers has also been rationalized.

52. At present all hotels, restaurants, decorators and caterers outside the metropolitan areas and district towns and "tin-shed" hotels and restaurants located in the metropolitan cities and district towns are exempted from VAT. A large number of restaurants are taking undue advantage of the term "tin-shed". Just as many hotels and restaurants outside the metropolitan cities and district towns have annual turnover in excess of Tk 20 lacs so also many tin-shed hotels and restaurants within the metropolitan cities and district towns have annual turnover exceeding Tk 20 lacs. With the increase in our population and the development of transport facilities, the food service sector has expanded phenomenally. In order to raise revenue from the hotel and restaurants, all types of hotels and restaurants excluding those without walls/fencing, electric fans and not using more than two electric lights are proposed to be brought under VAT.

53. On public health ground I propose to withdraw cottage industry facilities from chewing tobacco (Jardha) producing units. At present the rate of excise duty on Biri is Tk 25.00 per 1,000 sticks which has not been changed during the last two years. But administrative cost of printing and supplying band rolls has increased during the same period. Hence I propose to increase rate of excise duty on Biri from Tk 25 per 1,000 sticks to Tk 30. To maintain the uniformity and balance between low-priced cigarettes and Biri, supplementary duty on low-priced cigarettes is proposed to be enhanced from 32 percent to 35 percent.

54. At present the rate of VAT on buildings and flats constructed by real estate developers is 1.98 percent of the total value. The same rate for construction firms is 4.5 percent. In view of the identical nature of service in these two sectors, it is proposed that VAT at an uniform rate of 4.5 percent be imposed for both the sectors.

Honourable Speaker,

55. Now I place before the parliament some proposals relating to the reforms of our tax system. Taxpayers incur financial losses when seized vehicles and goods are held up for the purpose of adjudication of cases relating to evasion of VAT. Inspite of the present system of releasing goods and vehicles against of undertakings, it is reported that the business community is still facing various difficulties in this regard. In order to further simplify the system measures will be taken to release seized goods and vehicles instantly by issuing case slips.

56. A taxpayer paying at least 20 percent more revenue in a fiscal year as compared to the revenue paid by him during the preceding fiscal year, would be exempt from all preventive activities and inspection by the VAT officials. This will enhance government revenue and reduce harassment of the taxpayers. In case of installation of new machinery or BMRE, the tax payer may avail of the same opportunity by agreeing to pay increased VAT on the basis of the revised/additional capacity.

57. At present an aggrieved person is required to deposit 20 and 50 percent of the involved revenue in advance to file an appeal against the decision of a VAT official before the Commissioner (Appeal) and Customs and VAT Tribunal respectively. This imposes financial burden on many taxpayers wanting to avail of the appeal facility. To simplify appeal procedure it is proposed to reduce the above mentioned rate of advance deposit to 10 and 25 percent respectively. In consideration of the taxpayers demand,



The premier closely following the budget speech.

— Star photo

the present requirement of keeping VAT records for a period of 6 years is proposed to be reduced to 4 years.

58. A taxpayer under Turnover Tax pays 4 percent tax on his total turnover. Truncated base for assessment of VAT has been introduced in a few cases. But if this method is applied to a Turnover taxpayer, the rate of tax falls much below the noted 4 percent. Hence it is proposed that truncated base method of VAT calculation shall not be available to the Turnover taxpayers. This will because the tax burden of VAT and Turnover taxpayers.

59. VAT officials can now impose fine not exceeding Tk. 1,00,000 or double the amount of VAT, whichever is higher in tax evasion cases. In order to remove discretionary power of the adjudicating offices in this regard, I propose to introduce a fine of two and a half times of the chargeable revenue. Under current VAT

system a producer is entitled to take credit for the VAT paid earlier at the import stage for imported inputs. But there is no time limit for availing of such facilities. This sometimes creates confusion in accounts keeping. To rectify this situation I propose to make provision for claiming input credit within the same tax period under VAT.

60. In case of a number of goods and services falling within the ambit of VAT, law empowers government, semi-government, autonomous bodies, private organizations, banks, insurance companies, NGOs and limited companies to deduct VAT at source. But it has been observed that many such organizations keep the deducted VAT in their own accounts instead of depositing the same to the government treasury in time. This affects collection of government revenue. To address this problem I propose to make provision for depositing such VAT revenues within 2 (two) months from the date of deduction at source. In case of failure to comply with the above provision, I propose to introduce system of personal liability by introducing penalty for the persons responsible for deducting and/or depositing the government revenue in to the treasury.

61. A lease holder is entitled to turnover tax facility if the value of his lease is less than Tk 15 Lac. But this facility is being widely abused by the lessees in connivance with leasing authorities. In some cases, it has been reported that the bid value was kept at Tk 14,99,999/99 i.e. just one paisa less than taka 15 Lac. All lease holders irrespective of their turnover will now be under VAT.

62. Circle office headed by a Superintendent is now the lowest collection unit under VAT system. In this system it is not possible to fix up responsibility of an Inspector for a particular tax area. This impedes accountability in tax administration. To ensure accountability it is proposed that one VAT circle shall be divided into a number of tax areas and an inspector be given overall responsibility of tax collection of an area. The Divisional officer shall decide the number such areas and arrange work distribution amongst the Inspectors working out of the Circle Office.

63. Present VAT system requires submission of a price declaration to the Divisional officer before the commencement of production of goods/services by the taxpayer-producer. The Directorate of Drug Administration is responsible for fixing prices of medicines. The existence of two authorities in determining prices in the medicine sector create problems. Hence, I propose that prices approved by Drug Administration shall be accepted by the VAT authority for the purpose of input assessment. This will remedy a long standing anomaly in the pharmaceutical sector.

64. Grant of exemption of indirect taxes for international organizations and under avoidance of double taxation treaties are often required. At present no provision exists in VAT law to cover such cases as such I propose introduction of a provision in the VAT law in this regard.

65. Our forest resources are quite meager in relation to our national needs. To protect the environment and encourage afforestation I propose to withdraw VAT from all imported timber and wood.

66. The government of Prime Minister Sheikh Hasina has taken many steps to support agriculture. Improved quality seed is a very important input for increased agricultural yield. At present seeds imported in packets are subject to payment of VAT. I propose to waive VAT on all imported seeds subject to the submission of certificates of quality and quantity from a recognized agency of the exporting country in this regard.

Honourable Speaker,

67. Many cases of evasion involving huge amount of duty and taxes are detected by VAT administration. Information supplied by informers sometimes lead to successful detection of tax evasion. VAT officials and staff through their application of mind and honest effort also detect cases of VAT evasion. To encourage such activities, I propose to make provision in VAT law to allow a portion of the recovered revenue to be distributed as reward among the informer and the VAT officials/staffs.

68. Value Added Tax is collected on Water and Gas. But Electricity till now remains outside the VAT net. Presently, Electricity duty at the rate of fifteen paisa per unit of power is being collected. To streamline tax collection system it is proposed to withdraw Electricity duty and replace it by Value Added Tax. Hitherto there was no provision for tax refund or input credit on account of electricity consumed by any industry including export oriented industries. Under the new system of VAT input credit facility will be available to them. Besides, they will also be entitled to exemption on electricity duty on power privately generated by themselves. Inputs such as gas, other fuel etc. used in generating power are now subjected to VAT. But it will be practical problems to extend credit facility on these input to a state owned enterprise like PDB. Therefore, in keeping with the principles of Value Added Tax it is proposed to allow the credit facility to the ultimate consumers by adopting a truncated-base for assessment of VAT. Thus individual/household level consumers of electricity will not be subjected to any undue increase of expenditure on this account.

Honourable Speaker,

69. I would now like to say a few words about the revenue collection efforts of FY 1998-99. A total receipt of Taka 15,700 crore was estimated from taxes administered by National Board of Revenue which was 14 percent higher than the actual collection for FY1997-98. The devastating flood, severely affected our industry and trade and thus the total economic activities which affected the revenue collection. Besides, hundreds of writ petitions filed by the importers and industrialists before the Honorable Supreme Court are yet to be decided. This has stalled collection of approximately Taka 550 crore of revenue. In view of these realities the revenue target for taxes under National Board of Revenue was revised at Taka 14,850 crore which is 7.6 percent higher than the actual collection of the previous year.

Honourable Speaker,

70. I have placed the major tax proposals for FY1999-2000 before the parliament. Now I would like to state the overall revenue implication of these proposals. The revenue estimate for NBR has been fixed at Taka 17,500 crore in FY 1999-2000. Because of the adjustment of the personal income tax rates and slabs, and various measures to support health service, industry, export and capital market, there will be a revenue loss of Taka 48 crore. On the other hand, due to expansion of tax base there will be a revenue gain of Taka 253 crore. Consequently, there will be a net increase of Taka 205 crore under this head. Implementation of proposals for reduction of customs duty is expected to result in a revenue loss of Taka 166 crore and there would be a gain of Taka 650 crore for the introduction of Compulsory Pre-shipment Inspection and other measures under customs account. Consequently, there would be a net gain of Taka 484 crore. Expansion of VAT and several proposed procedural reforms would raise an additional revenue of Taka 361 crore. Net increase in revenue due to expansion of tax base, rationalization of tax rates and procedural improvement will be Taka 1050 crore. The remaining Tk 1600 crore will come from autonomous growth of revenue.

Honourable Speaker,

71. The last decade has witnessed significant changes in the world economic arena. While we were amazed at the spectacular development of the Newly Industrialized Countries of Asia (NICs), the recent Asian crisis has also taught us the lesson that uncontrolled industrial and trade credit, unrealistic export policy and exchange rate, not in conformity with the demand and supply and shortage of skilled manpower may halt the economic growth of a country. Hence, we need to exercise utmost care in the formulation and implementation of policies for economic development. In the words of famous economist Joseph Stiglitz "we have learned during the past half-century that development is possible, but development is not inevitable. Indeed, it seems remarkably hard to achieve. Slowly we progress, and is rather based on pragmatic economic principles." Hence we have no room for complacency with the progress achieved so far. We have to unitedly work hard with honesty and steadfastness to fulfil the dream of the father of the nation, Bangabandhu for a prosperous Sonar Bangla by achieving economic prosperity.

Honourable Speaker,

72. Before I conclude, I want to reiterate that despite huge revenue needs for development works, we have refrained from imposing new taxes in the immediate interest of the citizens. Instead drastic duty reduction has been proposed to give incentive to our export and industrial growth. Emphasis has been on the expansion of the tax base through reformation and rationalization of tax system as well as through administrative improvement. Self assessment procedure of Income Tax has been further simplified and the tax exempt limit has been raised. To eliminate corruption from the tax system, proposals have been made to reduce the discretionary powers of tax officials. Moreover, we have proposed to adopt measures to reduce the interface between tax officials and taxpayers as much as possible. I hope all these measures will contribute in making our tax system suited to the needs of the coming 21st century and for the on going globalization.

2 Stiglitz, Joseph E. "Have recent crises affected the state-market debate", Public lecture, organized by Bangladesh Economic Association, Dhaka, March 14, 1999, p.