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Govt revenue raising drive rests on 3 critical areas

Inam Ahmed

The government's drive to raise revenue now rests on three critical components—reforms in direct taxes, harmonising duty structures and computerisation of the National Board of Revenue (NBR).

One of the important reforms in income tax is the provision for self-assessment. This system was introduced earlier, but tax officials had the right to accept or refuse the returns. In most cases, returns were refused. But next year, anybody submitting a self-assessed return would be deemed as the final settlement of his payables without any question.

"However, to ensure that people do not evade taxes, 20 per cent of the returns would be selected through a computer-generated random sampling and they would be audited. This would pose a threat to tax evaders," said NBR Chairman Abdul Mueyed Chowdhury.

However, if a taxpayer had shown 15 per cent higher income from the previous year, he would not be post audited even if his name comes up in random sampling.

The second reform is the deleting of the wealth tax system. This system resulted in arbitrary fixation of property value. One of the main problems of the wealth tax was that the prices of property used to be fixed on the basis of market value. A taxpayer who had bought an apartment for Tk 40 lakh was often challenged by tax officials and the value was raised irrationally. Moreover, unless a person sells his flat, he is adding value to his property.

Under the proposed system, a taxpayer would submit his asset-liability statement. If his assets at acquisition crosses Tk 10 lakh after excluding the value of the residence at which the taxpayer lives, he would have to pay a 10 per cent extra surcharge as income tax. This system would encourage taxpayers to disclose their wealth.

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Under the Exchange of Notes, Japan will provide Bangladesh with the grant to implement the project for supply of equipment and materials for the food disaster relief, said a Japan Embassy press release.

This grant will also be utilized to produce the construction and maintenance equipment for the rehabilitation of 1998 flood.

erment," said Chowdhury in an interview with the Daily Star. "Currently, big businesses used to set up a number of companies to split up their income. This significantly reduced their tax liabilities."

But under the new system, one tax official would look after all the companies of a group and check up both the VAT and corporate tax paid by the group. He would link the various taxes paid by the group to detect any leakage.

The government's tax collection drive would depend on computerisation of the NBR to a large extent. NBR is being computerised under a nine-year project funded by the World Bank, said Chowdhury.

"Once this is completed, all tax offices will be linked up through computers and officials would be able to check the imports and sales of a company and tally these figures to find out whether a company is evading taxes. In the next three years, Dhaka, Chittagong and Mongla offices would tie up."

"We have also brought about some small changes in the existing customs and duty practices to help individuals. For example, airlines cabin crews were previously allowed to bring goods worth Tk 1500 without paying any tax. But since this amount is very insignificant, we have raised the quota up to 100 US dollars. They are now also allowed to bring goods over this ceiling by paying duty."

"We have imposed VAT on electricity, but this would necessarily not make power consumption costlier," asserts Chowdhury. Currently, consumers pay Tk 0.15 duty on per unit of electricity consumption which is also applicable for those who use private generators. But under the new system, private generator users will not have to pay the duty and they will get VAT refund by factoring the VAT amount in his product price. As a result, manufacturers will get internal return of their VAT while exporters will get their return through the duty drawback system.

On the other hand, the Power Development Board (PDB) has to pay VAT on the gas it consumes and it does not get any refund. As a result, the consumers are getting the benefit at the cost of PDB.

"Since this is an unfair practice, we have decided to impose

VAT on a truncated basis for the private consumers so that the incidence of cost remains as near as to the current duty rate. We are yet to decide how much relief we would give to the consumers."

"Another big reform we have proposed is the reduction of dispersions in duty rates under various HS codes for imports," Chowdhury pointed out. "The existence of various duty rates for similar products under various HS codes paved the way for corruption by unscrupulous officials and businessmen. Since we have done away with the various duty rates, the government will save a lot of revenue."

He, however, admitted that there would be scopes for corruption in the proposed spot income tax assessment system. But the main reason for introducing it is to bring the thousands of shops and establishments in the cities which do not pay any tax.

NBR has also contemplated some ways of invigorating the tax officials. "To provide incentive to tax collectors, we will set a target for them and we will distribute say about 20 per cent of any extra collection among the collectors."

Bangladesh Garments Manufacturers and Exporters Association (BGMEA) yesterday expressed grave concern over port congestion causing delay in loading and unloading of goods, reports BSS.

BGMEA first Vice-President Alhaj Khalilur Rahman said 10 feeder vessels carrying goods of export-oriented garments industries were waiting at outer anchorage of the port. Unwanted delay of loading and unloading might result in cancellation of LC that would ultimately cause stock loss of crores of taka goods, he said.

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Japanese kids pose for pictures in front of new "Pokemon (Pocket Monsters) Jet" of Japan's All Nippon Airways (ANA) which begins its domestic operations Monday at Tokyo International Airport. The Boeing 747-400 bears the design of the first prize winner of the Pokemon design contest. Pokemon emerged in 1996 as Nintendo Gameboy software in Japan and soon captured the imagination of children across the nation. — AFP photo

New one-stop shop opens in city today

As markets continued to engulf the city amidst its growing population, country's "first" one-stop shop catering from poultry to cosmetics begins operation here today, says UNB.

The "Stop N Shop" at city's Dhannondi road number 27 offers the consumers 4,000-5,000 items of different categories to buy in a single shopping from one building at fixed price.

"The department store will help reduce consumers' time and toil, and rid them of the hazards to run from one market to another," said Nazmul Haq Khan, one of the owners.

Addressing a press conference today (Monday), he said their main priority will be consumers' interests. "Fair price and the comfort of shoppers will be our main concerns, not the blind pursuit of profit."

"Profit can be made even with lower price... things depend on your sale, if it goes unabated, then it's OK. So, our concentration will be on huge sale. For

which, we have a plan to expand the project in other parts of the city," he said.

Khan said their main target is the middle and upper middle classes of the society and hoped that they would be attracted as the "Stop N Shop" ensures them comfort in shopping at fair price.

He claimed that the shopping mall is the first of its kind in the country as no other such shop offers kitchen market items like "Stop N Shop".

Khan along with his friends — Akil Akter Chowdhury, Abidur Rahman and Rezaul Haq Siraji — all architects, have launched the project alongside their real estate business.

The shop in fact is a sister organisation of their Suvastu Development Ltd, which is known for providing small-size apartments to middle class families at a comparatively lower cost.



Akil Akter Chowdhury and Nazmul Haq Khan, managing partners of Stop N Shop, a one-stop shop, address a press conference in the city yesterday on the occasion of its opening today. — Stop N Shop photo

BGMEA expresses concern over port congestion

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Dhaka, DPRK sign deal on investment

Bangladesh and North Korea have signed an agreement for promotion and reciprocal protection of investments, says UNB.

State Minister for Foreign Affairs Abul Hasan Chowdhury and ambassador of North Korea Ri Sang Il signed the agreement in the city yesterday on behalf of their respective governments, said a press release.

After signing the agreement in an informal ceremony, they exchanged views on ways and means to further expand trade and economic relations between the two countries, especially on enhancement of North Korean investments in Bangladesh.

The state minister suggested for exchange of visits of business delegation of the two countries for promotion of friendly relations.

Polao delicacy becomes a costly affair

By Reaz Ahmad

The ghee-rice delicacy is now-a-days a costly affair as supply shortage has resulted in a steep rise in prices of polao rice in the city markets.

The non-boiled polao varieties — Chingura and Kalizira — both registered price hikes to the extent of Tk 300 per maund over the last few days. According to market sources, local polao varieties were selling at Tk 1,200 per maund barely two weeks back. The prices of the varieties have shot up to Tk 1,450 to 1,500.

Rice traders said the price hike was a fallout of last year's deluge. Besides, last year's low price discouraged growers from cultivating the finer quality grains as extensively as they did in previous years.

Polao or ghee-rice is a delicacy that every Bangali cherishes if the perfect brand of rice is fried with proportionate blend of ghee. Thanks to the burgeoning dining business in the capital, on polao rice Dhakaites, along consume 100 tons of the fine rice each day, said wholesalers at the Mohammadpur Krishi Market in the city.

"We are selling Chingura at Tk 40 per kilogram now against the previous rate of Tk 32," said a retailer at the city suburb shopping place. He mentioned the supply shortage for the price hike.

The polao rice varieties grow once in a year during the aman season. Last year's worst flood, responsible for a huge aman crop loss also had its toll on Kalizira and Chingura varieties.

Market sources further explained that since early '90s farmers got discouraged in growing polao varieties because of low price in every alternate season.

"In 1995, they (farmers) grew a bountiful of polao rice and suffered miserably as they got a throw-away price for the produce. But prices soared to Tk 1,700 per maund in the next year when farmers grew less," explained Syed Md Obaidur Rahman, proprietor of Nababi Traders, one of the largest supplier of polao rice in Dhaka.

Violating government ban

On the import of polao rice, some wholesalers tried to market smuggled polao rice from India to meet the short supply. However, their business idea did not click as Govindabhog, the Indian version of Kalizira, failed to satisfy the local consumers, because of its reddish hue.

To sustain a steadfast growth in Kalizira and Chingura production, search for export markets could be a best solution, expressed some traders. Some rice merchants have already exported Bangladeshi polao varieties to US markets in recent times.

No bank fully ready for Internet quake: PWC

LONDON, June 21: No major bank has fully prepared for the impact of the Internet on the banking industry, a report published today by accountancy and consulting firm PricewaterhouseCoopers (PWC) said, reports Reuters.

The report, produced with the Economist Intelligence Unit (EIU), says that banks have failed to grasp the size of change required to handle the Internet's impact.

"Most banks mistakenly see the Internet as just a futuristic delivery channel," said Angus Hislop, senior banking partner at PWC who collaborated on the report — Creating Tomorrow's

Leading Retail Bank. "What we are talking about is a paradigm quake that we believe will rattle the entire banking industry."

He noted that consumers seem very receptive to trading on the internet and are likely to find it more acceptable to be offered financial products in this way then, for example, on the telephone.

Hislop warned that European banks are generally behind their US counterparts when it comes to espousing the internet and its potential for electronic commerce of all kinds but may have some time to prepare.

Training course for Mercantile Bank officers begins

A month-long basic training course for the probationary officers of Mercantile Bank Limited began yesterday at the Bangladesh Institute of Bank Management (BIBM), a press release said here, reports BSS.

Inaugurating the course, Chief Advisor of the Bank, L R Sarkar underscored the need for imparting training to the new bankers to equip themselves with modern knowledge and skills for serving their clients efficiently.

He said only learners will survive in the coming century, expressing the hope that this training course would help them work as a team to transform this new bank into a professionally excellent bank in near future.

In his presidential speech, Director General of BIBM, Dr Mutul Islam said the bank officers should attain high degree of professionalism for most efficient discharge of banking services which are undergoing considerable changes with the introduction of new laws and regulations and innovative financial techniques.

Thailand opens new bourse

BANGKOK, June 21: Thailand formally launched a new stock exchange for small and medium enterprises Monday, but not a single company was listed, says AP.

Though hundreds of business people showed up for the opening ceremony, presided over by Finance Minister Tarin Nimmanhaeminda, no companies have formally applied for a listing on the new Market for Alternative Investment, or MAI.

Direct taxes in proposed budget: A critical analysis

By M Tafazzal Hossain

The Finance Minister SAMS Kibria has just placed the annual budget before the Parliament. The proposed budget underscores the need for huge revenue collection. It envisages massive tax collection through reforms in tax administration and widening the tax net. So, torrential spate of amendments has been proposed on the tax laws in order to realise the objectives set in.

The Finance Act levies tax each year for that year. The Income Tax Ordinance has no operative effect except so far as it is rendered applicable for the recovery of tax imposed for a particular fiscal year by a Finance Act. Consequently the provisions of the Income Tax Ordinance applicable to a given case include the amendments incorporated therein before the finance proposals are passed. It follows that, except, where it is laid down in terms of the contrary, all amendments made during that financial year.

Finance Acts, though annual, are not temporary Acts. They often contain provisions of a general character which are of permanent operation. The provisions of Finance Act under which additional tax is proposed to be levied do not operate to impose a valid charge, if such additional tax is unrelated to the "total income."

The general scheme of the Income Tax Ordinance is to search for income wherever it is found and to collect tax on it at the earliest possible stage. The tax is on the "total income" of the assessable entity. The income should be chargeable un-

der the appropriate heads and should be computed in accordance with and subject to the provisions of the Income Tax Ordinance after making the allowances and deductions provided for different heads of income. The income tax is, of course, an annual tax, not only in the sense that it is annually imposed by the Finance Act, but in the sense that it is annual in its structure and organisation.

Lord Macnaghten remarked, "Income tax, if I may be pardoned for saying so, is a tax on income. It is not meant to be a tax on anything else. It is one tax, not a collection of taxes essentially distinct... One man has fixed property, another lives by his wits, each contributes to the tax if his income is above the prescribed limit. The standard of assessment varies according to the nature of the source from which taxable income is derived. That is all... in every case the tax is a tax on income, whatever may be the standard by which the income is measured..."

The Finance Minister has raised the income tax exemption limit to Tk 75,000 from the earlier Tk 60,000 in his budget proposal. He has granted exemption to hospitals established within the period of July, 1999 to June 2005 subject to certain conditions. A 50 per cent exemption has been allowed to ships registered in Bangladesh. For filing appeals before the Commissioners of Appeals assesses will now require to pay only five per cent of the tax demand against 15 per cent of the past. To go for further appeal before the Income

Tax Appellate Tribunal a taxpayer will now have to clear twenty per cent of the 'difference'.

For non-submission of Tax Return, mandatory payment of Tk 500 has been proposed along with Tk 250 for every subsequent month of continued default. Discretionary authority of the Deputy Commissioner of Taxes for imposing penalty has been done away with. Arrear tax demands due before 1988 and with no 'appeal tags,' would be written off in order to free the Tax Department from bearing the burden of apparently uncollectable demands.

Self assessment scheme has been further liberalised. Evidence of submission of return under the said procedure would be treated as final disposal of such cases. However, twenty per cent of such cases would be subjected to post audit on the basis of computer generated random sampling. "Spot assessment" system has been introduced. Under the said system taxing officers would collect tax instantly if the assessee agrees and then new file will be opened in his name.

Car owners have been made to suffer tax at the prescribed rates. The said taxes would be collected at the time of renewal of fitness of the vehicles. Members of VAT registered clubs would be required to submit income Tax Returns. If owners of houses and apartments pay taxes at fixed rates, on the basis of measurements would not be questioned on their investments.

The presumptive tax system has been updated. Upward revision of the tax rates has been effected. Investments made in buses, minibuses, trucks and tank lorries would be accepted without questioning if fixed tax on investment is paid at the time of first registration of such vehicles. The net of presumptive tax system has been widened. Inland water transports have been brought under the cover. These transports may avail of the benefit by paying taxes at prescribed rates. Investments made will also rank for clearance without examination if additional amount of tax is paid on the investments.

The withholding tax system has been expanded. The base has been widened. Areas for collecting tax at source has been broadened. Proposal has been made for ten per cent advance income tax to be deducted at source on a number of heads. To streamline tax administration, increase efficiency and augment tax collection, creation of a separate Zone for the large taxpayers and three new Tax Zones in Sylhet, Barisal and Rangpur has been proposed.

Wealth Tax Act, 1963 has been repealed. Activities of collection of tax on the basis of wealth have been proposed to be brought under the umbrella of Income Tax Law. Proposal has been made for imposing ten per cent surcharge on the amount of income tax payable by all assesses.

The salient features of the budget proposals on direct taxes as reproduced above speak a volume about the anxiety and worries of the Finance Minister.

It is certainly a yeoman's task to strike a balance between equity and justice and, ensuring, at the same time, a fair amount of revenue to the state. The tight-rope walking gets further complicated by the absence of congenial environment in and around. In the given scenario, the task performed by the Finance Minister deserves a little kudos.

Certain elements, however, call for close scrutiny and stiff verification. It appears to us that some of the proposals lack directions. A certain amount of uncertainty seems to have been pervading the proposals. Ambiguity rather than clarity appears to have found a greater role with the framers of the law. The provisions of the Income Tax Ordinance in reality, should provide for the enduring structure for levy and collection.

The precipitation and chronic tinkering of the substantive and procedural provisions of the tax laws every year do make them fragile and so, they have but a frail hold on existence. In consequence, the basic provisions of tax laws are these days like a railway ticket — valid for one-way journey in time from the first of July of one year to the 30th of June of the next and sometimes, not even for the whole of that journey, to quote a well-known commentator.

Every change is made in the name of the public. But in reality, slightest thought is given to public hardship or public inconvenience when making kaleidoscopic amendments to the provisions of the Ordinance.

Benighted tax payer caught in the cobweb of changes in the fiscal laws every year, starting developing disrespect for the law. He sees variations in the endless changes much to the consternation, which causes him harassment and achieve so little public good.

Spot assessment system appears unworkable. The Deputy Commissioner of Taxes ordinarily does not visit commercial areas. Theoretically there is no bar. But in reality, this is absurd. Spot visit by tax officials are abhorred. It is on record that a former finance minister castigated the Inspector of Taxes — a tax authority by statute and authorised to make spot enquiry, for visiting commercial areas on the floor of the parliament. Now he present finance minister has been asking the tax authorities to visit commercial areas for making 'spot assessments'. We are not certain what awaits the fate of the tax officials. Only future can reveal the truth. We would, however, watch the development with amazement and a little trepidation.

Then again, the Deputy Commissioner of Taxes is a much harassed person. He is tucked-up in his chair with a truck-load of assessments and annual budgetary obligations. In this month of June no Deputy Commissioner of Taxes worth his salt, is in a position to move out of his office even for few hours. How then he performs the task of spot assessments? Although, the detailed machinery has not been made public so far, we are in doubt if this newly inducted system

could be made effective and workable.

Income tax is chargeable in reference to "total income". It is a levy on the "total income" of the assessable entity. This is straight forward law enshrined in the Ordinance. How then tax is imposed at prescribed rates on car owners and owners of houses and apartments? This proposed imposition has no reference whatsoever to the total income of the assessable entities. These are then against the basic tenets of law and so, militate against the civilised existence of a man.

Twenty per cent of the self-assessment cases has been proposed to be subjected to post audit. But where is the Audit Organisation? There exists no such unit in the Taxes Department. A non-existent Audit Management Division cannot rear. How then it is expected to play the role of a Royal Bengal Tiger? There is no trained manpower for performing audit jobs. Audit techniques, guidelines, work manuals and regulations for tax auditors are different kettles of fish. Responsibilities for planning, directing and controlling of audit and investigation activities are stupendous and arduous tasks.

Ordinary tax officials are not armed with audit management arsenals. They cannot, therefore, perform the tasks well.

Then again, some provisions have always been incorporated there in the statute book ever since the introduction of "self assessment scheme" way back in 1964 for cross verification

and audit investigation of cases filed under self-assessment procedure. So, the element of detailed examination proposed to be included is nothing new or unique. But what is the achievements so far? There has been no finding in this respect. Nor any evaluation has been made of the audit scheme now in existence in one form or other, for well over three and a half decades. We are, therefore, not convinced with the widening of the scope of audit nor we could be certain about the efficacy of the system so loudly announced without examining the merits and demerits.

Experiments signify growth. But short-sighted and short-lived half-baked provisions and evanescent amendments are likely to prove travesty of public justice. Legal provisions and procedures require illuminations by judicial adjudications. Time is essence in these areas of fitting shadows. Unfortunately, we do not have the vision nor do we have the vision. Skull-duggery cannot be a substitute for wisdom. Tax administrators are human beings. A good number of officers of the Taxes Department are outstanding personalities and capable authorities. Experiments should not be so frequent, welter of endless changes should nor be so torrential as to force them to learn, unlearn and relearn. It is said only two persons in the United Kingdom understood Income Tax Law. One of them is dead and the other is in the lunatic asylum. It is, therefore, wiser to be straight in contentions rather than twisting and wringing the dark nooks and misty-cranies of the laws surrounding the taxation world.

The writer is a retired member (Taxes) of National Board of Revenue and now partner of Adil & Associates, a law firm.