

THE BUDGET 2000-01 Full text of Finance Minister's speech

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initiated actions for modernisation and improvement of efficiency of our defence forces who are dedicated to the protection of independence and sovereignty of the country. Continued steps have been taken by the Government since its assumption of office to suitably modernise Army, Navy and Air Force. National Defence College, Military Institute of Science and Technology and Armed Forces Medical College have been established. Considering the felt needs for national defence, I propose an allocation of Taka 3206 crore in the budget for 2000-2001. This proposed allocation for defence forces is 7 percent higher than that of the original allocation for 1999-2000.

53. Bangladesh Awami League also made a commitment in its election manifesto of 1996 that the law and order administration would be set on a firm footing through development and modernisation of the police forces. The budget for the police has been gradually increased since the present Government assumed office. In the revised budget of 1995-96, allocation for police (except ration) was Taka 518.67 crore. This allocation (except ration) has been proposed to be increased to Taka 800.75 crore in the budget for 2000-2001. The Police Staff College has been established. Necessary allocations have been made to equip the police with modern arms and to improve their telecommunication and transportation facilities. A scheme called "honorarium for risky duties" has been introduced to improve the morale and provide incentives to the police forces. An allocation of Taka 16 crore has been proposed for this purpose in the 2000-2001 budget. I propose to allocate Taka 5.00 crore for setting up the "Police Welfare Trust" in order to ensure overall welfare of the police forces. The allowances for ansars have been increased by 20 percent. Steps have been taken to amend relevant laws to permit absorption of embodied ansars serving over 15 years in regular establishment.

54. The war of liberation is an immortal achievement of the Bangalee nation under the leadership of the Father of the Nation Bangabandhu Sheikh Mujibur Rahman. The history of liberation war is written in sacred blood of millions of martyrs and glorified by the supreme sacrifice of the undaunted freedom fighters. In the words of poet Shamsur Rahman, the memory of valiant freedom fighters is floating perpetually like "bunches of flaming red flowers or burning clouds at twilight" ... "in the sun-drenched and reverberating arena of our heart and in every tumult of our consciousness". It is our sacred national duty to provide assistance and rehabilitate the freedom fighters. Unfortunately, the initiatives started by the Bangabandhu Government to assist the freedom fighters were foiled by the conspiracies over the last twenty one years. Meanwhile, the present Government has initiated steps to restructure the Freedom Fighters' Welfare Trust. In the revised budget for 1997-98, the allocation for the Freedom Fighters' Welfare Trust was taka 6.60 crore which has been proposed to be raised to Taka 16.25 crore in the revised budget for 1999-2000. Despite the expanded activities of the Trust many distressed freedom fighters have not yet received any assistance. Therefore, a new scheme will be implemented in FY 2000-2001 to introduce monthly allowance for distressed freedom fighters. I am proposing an allocation of Taka 15 crore for this new scheme in the budget for 2000-2001.

Mr. Speaker,

55. The liberation war was fought by our freedom fighters under the leadership of Bangabandhu. But it was not possible for them to complete the liberation struggle. We will have to successfully continue this war by attaining economic emancipation. We have achieved significant success over the last four years. But we have a long way to go. This path is not strewn with flowers. On the one front, there are various obstacles and complexities in international environment; on the other hand, the conspirators at home are still active in playing with the fate of the people. Some people express concern as to whether in this environment we would be able to materialise Bangabandhu's vision of "Sonar Bangla" in the near future. I am an optimist. Despite all odds, I want to echo George Bernard Shaw, "You see things and you say 'why?'" But I dream of things that never were; and I say "why not?". Certainly, we will fulfill Bangabandhu's dream of the "Golden Bengal".

SECOND PART

FISCAL MEASURES

Honourable Speaker,

In the first part of my budget speech I have placed different budget proposals and also described the overall picture of the economy. Now I am placing the revenue proposals for the fiscal year 2000-2001. You are aware of the fact that in the context of globalization of international trade, formulation of tax policy in a developing country like Bangladesh is not an easy task at all. Our tax policy needs to be formulated in such a way that the benefits of globalization can be maximized while our domestic industries are protected from uneven competition from abroad. Moreover, such a policy has to aim at increasing investment and reducing poverty as well as income inequality. We have to remember that unbridled liberalization is not an unmixed blessing for any developing country including Bangladesh. As a part of the globalization process, import tariffs and other trade barriers have to be reduced gradually and carefully otherwise, this will spell economic disaster for the country. In this connection I quote from the draft resolution of the 10th UNCTAD conference held recently in Bangkok: "The developmental impact of globalization has been mixed: while some developing countries have benefited, others have not. Economic disparities among countries have not been reduced, with the result that a number of developing countries, particularly the LDCs, run the risk of further marginalization." We have been mindful of these concerns for which we are careful in the formulation and implementation of our development strategy and the tax policy.

Honourable Speaker,

02. It is very unfortunate that the present government is shouldering the difficult task of solving the problems created by the sudden and drastic reduction of tariff during the first half of the 1990s. As a result of those unplanned and hasty policy measures a large number of industrial units have become sick consequentially increasing the burden of bank loan defaults. I have mentioned in the first part of my speech about the activities of the committee on sick industrial units. We can not ignore these

legacies of the past. Hence, we are proceeding after proper analysis, evaluation and assessment of our own situation instead of going with the general tide of globalization. In the light of last decades experiences it can be said that to cash on the development potentials of the country and for maintaining the pace of development it is necessary to undertake balanced macro-economic management, well regulated foreign debt realistic exchange rate, appropriate export development policy and an effective policy for continuous upgrading of skills and efficiency of the work force. Fiscal policies must complement and further these macro objectives and strategies. We have kept these factors in view in formulating the tax policies for the ensuing financial year. It is a historical fact that share of direct and consumption taxes progressively increase as a country gradually develops itself. In this view of things we are taking various measures to simplify our tax system and at the same time make it efficient, strong and effective so that we may also succeed in reducing our dependence on import taxes and duties by increasing the share of direct and consumption taxes.

Honourable Speaker,

03. The present democratic government always stands for an accountable and participatory tax policy. In accordance with this principle I have exchanged views on fiscal policies and measures with honourable members of parliament, different chambers, trade bodies, NGOs, leading economists and journalists through a series of pre-budget meetings. Their views and suggestions have been given necessary weightage and consideration in the formulation of this year's proposals. Suggestions and recommendations on budget received from Tariff Commission and different ministries of the government have also received due attention. In addition to this, like last year, three separate task forces consisting of the representatives of FBCCI and the National Board of Revenue have thoroughly discussed and examined the budget proposals on Customs, VAT and Income Tax given to the Government by FBCCI and numerous other Trade and professional associations. I express my sincere gratitude and thanks to all the participants in this process for their time and hard work. I must, however, mentioned my disappointment at the refusal of only the main opposition party to take part in the pre-budget discussions despite my invitation for a dialogue. I am truly sorry for their lack of interest in a matter of such vital national importance.

Honourable Speaker,

04. In the last year's budget a number of tax measures were taken relating to Income tax, VAT, Customs Duty and Supplementary Duty. However, industrial production and trade is a dynamic rather than a static subject. To cater to their urgent needs we have taken a number of quick and immediate corrective measures since the last budget. A summary of such measures is given at Annexure-"KA". It may be mentioned here that due to the bumper production of rice this year, the government have imposed 5% Customs duty on the import of rice to protect local farmers from losses on account of lower grain prices.

Honourable Speaker,

05. Based on 1999-2000 budget proposal we have introduced mandatory PSI system in the country for imports from 15th February, 2000. This has been done in response to the long-standing demand of the trade and industry to make customs clearance procedure quick and hassle free. Extensive consultations were undertaken by the NBR with the various client groups before the introduction of this new system. I hope this will play a vital role in enhancing revenue collection by reducing misdeclaration about value, description, classification and quantity of the imported goods. Under the new system 95 percent of total imported consignments are being released by customs on the basis of Clean Report of Findings (CRF) without any physical examination. Of the remaining consignments 4 percent are being selected by computer through random sampling and the remaining 1 percent purposively by the concerned Commissioner of Customs for physical examination of the goods. This has reduced the average customs clearance time for imported consignments and the demurrage costs sustained on account of delay in clearance. I would like to inform this house that PSI system is encountering teething problems as would be expected for any new system. However, I have instructed the NBR to take immediate corrective measures in all cases. They are doing so in consultation with the business community, banks and the PSI companies. Initially imported consignments of below US\$ 5000 were outside mandatory PSI system. It was observed that some importers were splitting a consignment into smaller consignments to keep the value of each individual consignment below US\$ 5000 with a view to circumvent the system. In the interest of the government revenue, recently mandatory PSI system has been made applicable to all consignments except those specifically exempted for reasons other than their value. Based on feedback received from various quarters I am proposing further amendments to the PSI order through this budget. I firmly believe that the PSI system is going to bring its desired result in the coming days.

Honourable Speaker,

06. You are certainly aware that Bangladesh is a signatory to the Agreement on Valuation Principle of GATT. In compliance with the agreement, we have introduced Transaction Value Method for the valuation of imported goods this year in place of the former Brussels Value Method. With the exception of a few items, tariff values have been abolished for about 2200 items. The new method requires the Customs Authority to assess the imported goods on the basis of actual price paid by the importer, thereby bringing our Customs valuation system at par with the current international trade practices.

Direct Taxes

Income Tax

Honourable Speaker,

07. Now I would like to present my proposals regarding Income Tax which is the most important source of our direct taxes. Income tax is not merely a source of revenue, it is also a tool for bringing social equity and justice. A good number of changes have been proposed in respect of income tax this year. The objective of these changes is to reduce tax burden of the lower income group, widen the tax base, check tax evasion, continue incentives for industrial investments, encourage declaration of proper income and reduce the complexities of tax law. I hope that these measures will make the tax law and system more realistic and acceptable.

Honourable speaker,

08. (a) At present income up to Taka 75,000/- for individuals is exempt from taxation. Considering the rising cost of living and with a view to reducing tax burden of the lower income group, it is proposed to raise this exemption limit from

Tk. 75,000/- to Tk.1,00,000/-. I also propose to readjust personal income tax rates as described in Annexure "Kha" to match this new exemption limit

(b) Currently assesses whose net wealth at acquisition cost exceeds taka ten lakh are required to pay surcharge at the rate of ten percent of the amount of payable income tax. I propose to increase the rate of surcharge to fifteen percent for individual assesses whose net wealth at cost exceeds taka thirty lakh. This two tier surcharge rate will rationalize rate of surcharge on the basis of amount of wealth owned.

(c) Income tax rates announced in the last month of the budget year becomes applicable on the income for the same year. Assessments thus have no opportunity or scope to properly plan payment of taxes for the income year. I propose that the income tax rates and investment allowance announced this year be made applicable in the assessment years 2000-2001 and 2001-2002. This will correct the present anomalous situations and help assesses plan their investment and tax payment since they will know rates for both in advance of the income years.

(d) Under the existing law, individual assesses are required to file tax return within 15th September every year. Often this becomes difficult because various documents and information required for such filing are not available within that time. As a result, every year we receive requests for extension of time. To obviate this problems I am proposing to extend the time up to 30th September. Since time for filling of returns is being extended to 30th September on a permanent basis we will follow a policy of not extending the time any further.

Honourable speaker,

09. (a) The provision for granting tax holiday to new industrial undertakings will end on 30th June, 2000. To encourage investments in new industries, physical infrastructure facilities and tourist industries, it is proposed that the existing facility be extended up to 30th June, 2002. Similarly it is also proposed to continue existing facility regarding accelerated depreciation allowance for new industries up to 30th June, 2002. To encourage tourist industries, I propose to extend tax holiday benefit to hotels having thirty rooms in Dhaka, Chittagong and Khulna City Corporation areas and ten rooms in all other areas in place of existing requirement of sixty and thirty rooms respectively.

(b) Development of capital market is essential for growth of the economy and creation of employment opportunities. With this end in view, I propose to grant tax rebate to listed companies for declaring higher dividends, increase exemption limit of dividend income, allow purchase of secondary shares under investment allowance and increase the limit of investment allowance for investment in primary shares. Details of these proposals are in Annexure "Kha".

10. (a) It is generally believed that there is a very large amount of untaxed money in the economy. Opportunities were given to invest such money in specified areas. However, response to such a measure was not encouraging due to imposition of conditionalities. After careful consideration of the situation, I propose to allow any person to declare untaxed money by 30th June, 2001 subject to payment of tax at the rate of ten percent. Such declarations will be accepted by the Tax department without any question.

(b) It is proposed to give cash reward for information relating to tax evasion. This will help prevent concealment of income.

(c) Assessors may feel encouraged to pay more tax if top tax-payers are recognized by the state. I, therefore, propose that top tax payers be recognized as VIPs and given some special facilities including invitation to various state functions. Such persons will be selected by the government on the basis of recommendations of the NBR.

Honourable Speaker,

11. (a) Mere reduction of tax rates is not enough to motivate people to pay tax. It is essential to simplify tax laws and procedure for this. At present several conditions need to be fulfilled by an individual to qualify for filing return to under self-assessment procedure. A company director owning more than ten percent of the paid up capital is not eligible under the self-assessment scheme. Tax returns are not accepted under this procedure if disclosed income is less than last assessed income. Similarly returns showing loss or claiming refund are also not acceptable. It is proposed to withdraw all these conditions and make filing of returns under self assessment very easy and smooth. In case of income from business or profession, tax return under self-assessment procedure can not be submitted in the first year if initial capital exceeds taka ten lakh. It is proposed to raise the limit of initial capital to taka twenty lakh.

(b) At present assesses are required to pay at least five percent tax before filing first appeal against the assessment order. I am proposing the withdrawal of this requirement for filing first appeal. I am further proposing that ten percent tax will have to be paid before filing an appeal before the Appellate Tribunal against the order on first appeal instead of twenty percent as per the existing provision.

12. (a) We need to expand our tax base for improved collection of revenue. With this end in view, it is proposed that production of TIN certificates be made compulsory in the following cases:

- (1) For enlistment or renewal of enlistment as general insurance surveyor;
- (2) For purchase of land, building or apartment in any City Corporations areas;
- (3) For registration or renewal of fitness certificate in respect of vehicles not plying for hire.

(b) Substantial investment is involved in the purchase of vehicles and property in the city corporation areas. These investments are important factors for determination of income of any tax payer. As such I propose that mentioning TIN be made mandatory in the blue book of the vehicles and in all registered or notarized documents relating to such transaction.

(c) At present, persons engaged in business or profession are required to obtain TIN certificate every year and display the same at the business premises. Since TIN is a permanent number, it is proposed that tax-payers be required to obtain the certificate once within six months of commencement of business or commercial activity and display the same at his business premises.

13. (a) To widen areas of tax collection at source and to simplify the assessment procedure, it is proposed that tax collected at source be considered as final settlement of liability in some more sectors. I am also proposing withdrawal or rationalization of tax collection at source in some cases. Details of these measures may be seen at Annexure "Kha".

(b) In view of proposed higher exemption limit of income for tax purpose, I am proposing readjustment of the rates of tax for collection at source in cases of income from contract work and house rent. This has been shown in Annexure "Kha".

(c) In view of the growing importance of the private sector, it is proposed that private limited companies be also

entrusted with the responsibility of deduction of tax from their respective contractors and suppliers.

Honourable Speaker,

14. (a) There is a provision for payment of presumptive tax in respect of income from bus, minibus, truck, tank lorry, coaster etc. Considering the growth of the transport sector, it is proposed to rationalize and adjust the rate structure of such presumptive tax. However, rate of presumptive tax will remain unchanged for vehicles which are more than ten years old. The proposed rates may be seen at Annexure "Kha".

(b) No question is asked regarding source of investment in house property if tax is paid at prescribed rates on the basis of the plinth area of such property. Adjustment of these rates is proposed to encourage investments in smaller apartments and to rationalize such rates in respect of larger houses and apartments. Details of the rates may be seen in Annexure "Kha".

(c) There is a limit in the tax law on the value of free medicine samples. Requests have been received from pharmaceutical industries to raise this limit. In the interest of promotion of marketing of the pharmaceutical products, I propose to raise this free sample limit only for the pharmaceutical industry. The revised rates have been shown in Annexure "Kha". I am hoping that these additional incentive will encourage our pharmaceutical industries to go for export of medicines from Bangladesh.

(d) Business income of trusts and charitable institutions have been made taxable with effect from 1st July, 1999. However, micro-credit operations are extremely important for the alleviation of poverty in the country. Considering this, it is proposed to grant tax exemption to entire income of such institutions from operation of micro-credit.

(e) I propose to allow tax rebate on donation to institutions for the welfare of the mentally retarded and to 100% charitable hospitals located outside the city corporation areas. This is intended to help welfare services for poor and mentally retarded persons.

Honourable Speaker,

15. The main objective of the proposed amendments in the income tax law this year is to create a conducive environment of mutual trust between tax administration and tax payers, to promote investment and accelerate growth of revenue. I hope that the tax payers will come forward to take advantage of the new policies of the government and pay their due taxes as per law so that our efforts for mobilization of internal resources are further consolidated and strengthened.

INDIRECT TAXES

Import Duties

Honourable Speaker,

16. Now I want to announce the salient features of my proposal in respect of import duty for the financial year 2000-2001. In the past four years' budget we have pursued a tariff policy consistent with the trends in international and regional trade and commerce. Our policy to increase export, help flourish local industries, ease customs procedure, rationalize duty structure, encourage agro-based industries, discourage and prevent smuggling and make consumer goods available to the people at reasonable prices will continue in this budget. As a result of this policy there are only four slabs of duty at 5, 15, 25 and 37.5 percent rates. In the interest of industrialization of the country and for providing reasonable protection to the local industries, I propose to continue the general principle of keeping duty rate at 5 percent for basic raw materials, 15 and 25 percent for intermediate raw materials and semi-finished goods and 37.5 percent for finished goods. Like the previous year's budget we have proposed general reduction of duty rates on basic raw materials and intermediate goods. To support the local industries, I have proposed duty enhancement of only a few finished goods. Details of these proposals related to customs duty are given in Annexure-"Ga".

Honourable Speaker,

17. Industries are progressively playing an important role in Bangladesh in earning foreign exchange and generating employment Development and growth of backward linkage industries including that for the textile industries are critical for consolidating the future of our industrial sector. In consideration of the importance of backward linkage industries, I propose to reduce duty rates on various raw materials used in the textiles, leather, footwear and similar other industries. New industries for the manufacture of thread by reprocessing thread waste, yarn waste and cotton fabric waste are being established in this country as such. I am proposing reduction of duty on these items.

18. Ceramic and melamine industries are playing increasingly important role in our exports. In continuation of the government policy to encourage them further, I propose to reduce duty rates on their raw materials namely, zinc oxide, aluminium hydroxide, barium carbonate and transfer decal-co-mania paper.

19. Local production of milk and other dairy products is not sufficient to meet the total demand of milk in the country. Due to acute shortage of grazing land in Bangladesh, it is unlikely that local dairy industries would be able to meet the total demand in the near future. To ensure sufficient supply of milk for the people, I propose to reduce the customs duty on bulk import of milk powder from 37.5 percent to 25 percent which will also generate some value addition in the country.

Honourable Speaker,

20. The government have been patronizing the agro-processing sector to increase the income of the farmers and also to achieve diversification of exportable goods through duty reduction on machinery, spare parts, raw materials and packaging materials of agro-processing industries. As an automatic follow up I propose to refix the duty on chlorine, fluorine, bromine, iodine, mulch, nursery tray, tetrapack, filter paper, ultra-violet net, storage equipment made of PVC with zipper system, unwrought zinc, zinc waste and scrap, tin and zinc dust, powders and flakes, unwrought tin, tin waste and scrap and cream separator at five percent. I also propose to reduce duty on industrial fan and blower exclusively used in the tea industry from 37.5 percent to 5 percent to help this vital export oriented agro-based industry.

21. I am pleased to say that a few industrial units producing water-based resins have been set up in this country. To encourage this industry I propose to reduce duty rate on some of their raw materials as shown in the Annexure-"Ga".

Honourable Speaker,

22. Production of electrical goods holds a lot of promise for this country. To promote its growth, I propose to reduce duty rates on a number of its raw materials which have been shown in Annex-"Ga". The duty rate on phosphate and polyphosphate, used in a number of industries, is also proposed for reduction from 15 to 5 percent.

Honourable Speaker,

23. A well developed mass transit system is a basic

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