

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

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requirement for urbanization. To meet that need in Bangladesh, customs duty on double decker bus was withdrawn and that on bus having seating capacity of forty or above was drastically reduced previously. Our objective is to encourage such transports which can carry a large number of passengers, are environment friendly and help in reducing traffic congestion in the cities. With this end in view I propose to withdraw all taxes and duties including VAT on double decker buses using only CNG and withdraw all other taxes except 5 percent customs duty on buses with forty or more seats using only CNG. This decision is expected to help develop our mass transit and transportation system. This will also increase the domestic consumption of our natural gas and help us save valuable foreign exchange on account of import of liquid fuel.

**Honourable Speaker,**

24. Government is very keen on protecting the environment. Last year highest customs duty of 37.5 percent was imposed on EVA which is used in products that increase environmental pollution. For the same reason I propose to increase the duty rate on film grade HDPE from 15 to 37.5 percent. Based on the recommendations of the Ministry of Commerce and Ministry of Environment and a strong demand articulated by the civil society for protecting the people from serious environmental pollution, I propose to ban the import of three wheelers such as auto-rickshaw and Tempo owners with two stroke engine and also chassis of such vehicles fitted with engines. Such a ban will not adversely affect existing auto-rickshaw or tempo owners because bank loans on easy terms will be provided for their conversion to CNG system.

**Honourable Speaker,**

25. While it is necessary to reduce duties on import of industrial raw materials to help the industrialization in the country, it is equally necessary to protect our nascent industries from unfair competition from external sources and to assist the growth and development of import substitution industries. With this end in view, I propose to increase duty on talcum powder, aluminium base cap and adhesive dressing. Moreover, to unify different customs duty rates on different items under a single heading I propose to enhance duty rate on bulk import of esbiothrine and note counting machine and reduce duty on copper wire and rod and aluminium wire and rod. Details of these proposals have been given in Annexure - "Ga".

26. To encourage local production of chromium sulphate, I propose to reduce the duty on its raw material sodium dichromate. To unify the duty rate on various polythene compounds and to stop leakage of such items imported through bond, I propose to unify the duty rate on LDPE, LLDPE and non-film grade HDPE. To ensure duty difference, between semi-finished and finished products, I propose to reduce customs duty on multi-layer extruded plastic, which is the raw material of laminated tube. I am proposing withdrawal of existing five percent Customs duties on incubators, which are used for saving the lives of critically ill new born babies.

27. A large number of private telephone booths have come up in different parts of the country. But their clients now face inconveniences in payment of the due charges in the absence of computerized billing system. To remove these difficulties by encouraging the booth operators to use spot-billing machines I propose to reduce customs duty on such machines from 25 to five percent.

28. Value addition in the manufacture of polished marble and marble blocks is taking place in Bangladesh these days. In order to free this industry from duty discrepancy in the import of large marble blocks created by classification description which is not commensurate with the technological changes in marble mining, I propose to unify customs duty rate on crude marble and large marble blocks weighing 4000 Kg. or more at 25% from existing 15% and 37.5% respectively.

**Honourable Speaker,**

29. You are aware that duties and taxes in full have been withdrawn from computer and its parts and accessories. In continuation of the government policy for promotion of computer and computer based industries, I propose to withdraw customs duty on Ink-jet Refill Kit used in computer printers.

30. The government is very keen to develop sports and games in the country as such I am proposing reduction of customs duty on some sports goods and equipment including sports wear to 15 percent.

31. There has been notable growth in the printing and publication industry of Bangladesh. Because of this we have decided to discourage import of commercial advertising materials, catalogues and calendars, by increasing the customs duty from "Nil" to 5 percent. I propose to bring a change in the tariff description of books and to reduce customs duty on photographic plates and offset reproduction films from 37.5 to 15 percent. It is also proposed to reduce customs duty on slides required for educational and training purposes.

32. As per description in Annexure "Ga", I propose to reduce the duty rate on various raw materials to encourage the carbon-rod industry. Anti-knock and anti-oxidant chemicals help increase the durability of rubber tires as such. I propose to reduce duty on such chemicals from 25 to 15 percent. Metalized Zari produced in the country is sufficient to meet the local demand. So, to ensure legitimate protection of local weavers, I propose to increase the duty on this product from "nil" to 15 percent. We are now locally producing packaging materials like medicine strip and blister foil for the pharmaceutical industry. To encourage the use of local products, and to ensure growth of such industries, I propose to withdraw the exemption granted for these products by the pharmaceutical S.R.O. and to impose 25 percent duty on them. The legal import of Arc-carbon used in the cinema industry is very small. To encourage its legal import, I propose to reduce its duty rate to 15 percent.

**Honourable Speaker,**

33. Under the existing Non-tourist Baggage Rules, a Bangladeshi passenger may import 5 Kg. of gold in his baggage on payment of duty of Tk. 300.00 (Taka three hundred) per tola (11.664 grams). There is a bright prospect for export of gold ornaments made in Bangladesh. To tap this prospect and to encourage legal import of gold, I propose to enhance the import quota of gold to 10 Kg and reduce the duty rate to Tk. 200.00 (Taka two hundred) per tola. I also propose to enhance the import quota of silver from 15 to 20 Kg.

34. Previously we did not have any industry producing pre-fabricated buildings in the country. To facilitate quick construction of industrial buildings, duty on pre-fabricated building was drastically reduced in the last budget. Since then industry for manufacture of pre-fabricated building has been set up in the country. In order to support such local industry, I propose to increase duty on steel and aluminium pre-fabricated buildings from 5 to 37.5 percent. However, to save the local

entrepreneurs from sudden cost increases, existing facility will continue to apply to all consignments for which L/Cs were opened before 8<sup>th</sup> June 2000.

35. The First Schedule to the Customs Act, 1969, containing rates of import and export duties was amended in 1995 for the last time. By now a number of amendments have come into force in the international classification of goods. At the national level also differences have crept up in the duty rates between Bangladesh Customs Tariff and Customs General Exemption Notification due to rationalization of tariff structure. Hence, there is an urgent need for compilation of a unified tariff in the interest of industrial investments in the country. This is also necessary for the modernization of customs administration and its processes. Under these circumstances, I propose to replace the existing First Schedule to the Customs Act, 1969 by a new one with unified tariff rates.

**Honourable Speaker,**

36. In order to unify different rates of customs duties on same items and to eliminate user specific duty exemptions as far as possible, I propose to amend the capital machinery S.R.O. and the pharmaceutical S.R.O. and to repeal the S.R.O. related to exemption for electrical spares and raw-materials and the S.R.O. for Pisciculture. The duty benefits of the S.R.O's, proposed for repeal or amendment have been included in the proposed Bangladesh Customs Tariff.

37. The notification in respect of capital machinery was issued during the 1970s. In the context of that time, general items like rubber pipe, steel wire and some electrical goods with alternative commercial use were included in that SRO with provision for strict supervision by customs official. Due to variance of duty rates between General and Exemption Notifications in respect of such items the scope for misuse and duty evasion has always been there. To rectify this situation, I propose to withdraw exemption on such items. In case of other capital machineries existing facility of exemption of all taxes and customs duty only at the rate of 5 percent shall remain in force. In case of spare parts imported along with the capital machinery same 5 percent customs duty and tax exemptions will apply to an amount of 10% of the total import value. Any import of spare parts in excess of this limit will attract five percent customs duty, 15 percent VAT and other leviable taxes. Current system of clearance of capital machinery by 100% export oriented industry by submission of indemnity bond in lieu of payment of duties will continue. They too will be entitled to clear spare parts up to 10% value of the total import value through indemnity bond when imported with the capital machineries. Additional imports will, however attract 5 percent customs duty, 15 percent VAT and other chargeable taxes.

**Honourable Speaker,**

38. In case of pharmaceutical raw materials it has been proposed to apply exemptionary rates as general rates for all importers with the exception of a few items like Caustic Soda, Caustic Potash, Ethanol, Acetic Acid, DOP and various packing materials which bring substantial revenue for the government. Exemptionary duty rates applicable to electrical equipments are now equal to the rates of general exemption notification. As such I propose to repeal the exemption notification by incorporating the tariff rates into the Bangladesh customs tariff. The S.R.O. relating to pisciculture contains only six items, all of which are used exclusively in pisciculture. It is proposed to rescind the pisciculture S.R.O. and apply zero duty rate for import of all.

**Honourable Speaker,**

39. Bangladeshi wage-earners living abroad play a vital role in our total foreign exchange earning. In recognition of their commendable contribution to the economy I propose to amend the existing Non-Tourist Baggage Rules and Transfer of Residence Rules to give more facilities to them through simplification and liberalization of both the rules.

**Honourable Speaker,**

40. We have already initiated Customs Administration Modernization Programme and introduced Transaction Value Method as per GATT and a mandatory PSI System. In many countries of the world filing of entries for imports and processing of documents for customs clearance are being done electronically these days. As a part of globalization initiatives under the auspices of WTO, Bangladesh has already introduced various measures for trade facilitation. Bangladesh is also actively examining the prospects of signing the Kyoto Convention and the revised Kyoto Convention at the earliest possible time. Against the back drop, we need to widen the use of electronic media in customs processing from its initial stages. We need adequate legal provisions for such technological change. It is also necessary to amend some sections or incorporate new ones in the Act to make the customs administration dynamic and to simplify the procedures further. To create the right conditions, I propose to update and modernize the Customs Act, 1969, by amending some of its existing sections and incorporating some new sections in it. This will create the appropriate legal basis for the eventual introduction of modern customs procedure which will gradually make the clearance of import and export consignments quick, easy and hassle free in Bangladesh.

## Value Added Tax and Supplementary Duty

**Honourable Speaker,**

41. The Value Added Tax system has brought about a significant change in the collection of national revenue. Last year this tax was extended to wholesale trading of all imported and locally manufactured goods under the definition of "Trade Service". More than a hundred items were also included at the retail stage. The system has generated some practical problems and confusions in identifying retail and wholesale trading of different goods in the country. These need to be solved to smoothen the system and to make the tax collection transparent. Moreover, non-extension of VAT to all commodities at the retail level has also created anomalies in the system. With a view to solving these problems, I propose to abolish the concept of "trade service" and to levy VAT at a uniform rate on all sales of goods which are now covered by VAT. To remove complexities and to simplify the system, I propose to unify the existing 10% value addition base for wholesale and 15% for retail trading into a single 13.35% value addition base to collect VAT @ 2% on the total value of the goods.

**Honourable Speaker,**

42. VAT is an indirect tax which is paid by the buyer on goods or services. Generally this is realized from the buyer of goods and services by the seller and deposited to the Government account. However, absence of a clear cut legal provision specifying the VAT liability of the buyer has been creating a lot of confusion and misunderstanding between the buyers and the sellers in the market. To remove this difficulty, I propose to incorporate a specific legal provision for realizing VAT by the seller from the buyers.

**Honourable Speaker,**

43. The VAT Act contains two schedules. The First schedule contains a list of items which do not come under VAT and the Second Schedule includes a list of items where VAT is applicable. This duality in the nature of the schedules leads to confusion. To remedy the situation, I propose to substitute the second schedule with a new exclusion list. However, the existing definitions, explanations, truncated rates, exemptions and levy pertaining to the service sector will remain unchanged. I propose to include chartered flights by plane and helicopters and renting of video and audio compact disks in the list of services under VAT. I am proposing the removal of 'newsprint' from the First Schedule of The Excises and Salt Act, 1944 and bringing it under the purview of VAT. I am also proposing to withdraw the facilities extended last year to the manufacturers who; all factors of production remaining the same; pledged to pay a minimum of 20% additional VAT revenue on previous year's payment because of the misuse of the facility by a section of tax payers.

**Honourable Speaker,**

44. In order to consolidate and properly implement the VAT system, I propose to include a clear list of expenses which are not admissible for input tax credit under VAT law. This is needed to simplify the collection process. I also propose to specify the maximum and minimum penalty instead of a fixed penalty for offences under the VAT law. At present an appellant has to deposit 10% and 25% of the penalty amount before filing an appeal with the Commissioner (Appeal) and the Appellate Tribunal respectively. I propose to reduce the mandatory payment amount to 5% and 10% respectively. We have been found from experience that in many instances, appeal cases can not be finalized within the present time limit of six months for various reasons. This causes revenue losses to the state. To rationalize the matter I am proposing a 12 month time limit for disposal of appeal cases.

**Honourable Speaker,**

45. Under the VAT system a tax payer bears the responsibility of self-assessment and payment. In such a situation, audit plays an important role in detecting faulty payments by the tax payer. There is a legal provision for appointment of professional audit firms to do this work, but the matter of their remuneration has not been spelt out. I propose to introduce an incentive system where by 10% of the evaded tax detected by the auditors will be paid to them subject to actual realization of the amount. I also propose a reward of 5% of the evaded amount to members of special teams, formed by the NBR, comprising of officers of Customs, Excise and VAT also similarly subject to actual realization.

**Honourable Speaker,**

46. Many honest and conscientious tax payers follow tax rules and pay them properly. But there are others who neither maintain proper accounts, nor issue proper challans for their business transactions nor submit required returns to the VAT authority. These businessmen, on the one hand, deprive the Govt. of due revenue and on the other push honest businessmen into unfair competition. Such conduct should not be accepted. I therefore, propose to introduce inspection and surveillance of such business concerns to ensure fair business practices and also to protect governmental revenues. To strengthen VAT activities and to make them more effective I propose to incorporate legal provisions to obtain the co-operation of various licensing or permit giving authorities such as Union Parishads, Municipalities, City corporations and Upazilla authorities. I am also proposing a provision to empower the VAT authorities to seize vehicles of tax defaulters to facilitate realization of taxes. Some amendments with regard to ownership and transfer of business, maintenance of business documents and provisional release of seized transports are also proposed to streamline the system further.

**Honourable Speaker,**

47. Cigarette industry is a major source of revenue for the country, but possibilities of large scale tax evasion also exist in this sector. To prevent leakages supervised clearance by posting VAT officials in the factories as well as capacity system has been tried without success. It is the considered opinion of all concerned that introduction of banderol system for cigarette similar to that in existence for the Biri industry will produce meaningful results. I am, therefore, proposing realization of proper taxes through the introduction of banderol system for the cigarette sector. Because this will be a new system for the industry as well as for the VAT officials, efforts will be made to design an effective procedure to protect revenue interests of the government. Necessary instructions in this regard will be issued after obtaining practical knowledge from a few countries who already have adopted the banderol system. Hopefully, realization of VAT revenue through banderol on cigarette packets will be effective from 1<sup>st</sup> January 2001 after completing all preparations in this regard. Keeping this in view I am proposing the relevant legal provision in Section 6 (4) of the VAT Act, 1991.

**Honourable Speaker,**

48. It is risky to allow exemption of VAT since it may disrupt the credit chain of this very modern and scientific taxation system. Even then, considering the interest of local industries, employment, environmental pollution etc. some exemptions at the import stage, some in the production stage and some exemptions at both the stages have been given as per Annexure - "Gha". At the same time, I am proposing the withdrawal of exemption on pre-fabricated buildings made of steel and aluminium at the import stage for consignments where L/C's will be opened on the 8<sup>th</sup> June, 2000 and thereafter.

**Honourable Speaker,**

49. In the best interest of domestic industries I am proposing the withdrawal of supplementary duty on IV saline's raw material Dextrose, disposable syringe's raw material DOP, PVC Resin, Polypropylene and Film for Blister packing even though principles of supplementary duty calls for trade neutrality. In the interest of local industries, I am also proposing new imposition of supplementary duty in some cases, abolition of it for a few, and increase of rate at the import stage for some others. For meeting domestic demand of milk and reducing its cost, I am proposing lowering the supplementary duty on powdered milk. I am also proposing re-structuring of supplementary duty on cigarettes. After a careful examination of the suggestions from different sectors for reviewing the existing supplementary duty structure on motor cars at import stage, I am proposing a re-structuring of SD on motor cars. Detailed proposals in this regard are shown in the Annexure - "Uma".

**Honourable Speaker,**

50. I am proposing the imposition of VAT on retail sales on products covered by the schedule under VAT Act within the areas of city corporations and municipalities. Normally tax payers are required to maintain detailed accounts of their business transactions for VAT purposes. Retailers in Bangladesh can not maintain such accounts because of the macro-economic realities obtaining in the country. Considering the practical difficulties

they will be allowed to maintain accounts in a limited scale and also avail of the participatory system of tax payment introduced in 1998-99 FY, where a committee consisting of a VAT official, representative of the local chamber/trade body and representative of the shopkeepers association will determine the annual sales and tax liability of every retailer within their jurisdiction. Taxes will be collected on that basis. I expect this system to create confidence amongst the retailers about the tax system and encourage them to pay their taxes. But tax payers wishing to avail of credit facilities will have to be given proper invoices by the sellers when the former buy industrial raw materials locally.

**Honourable Speaker,**

51. The government is giving lot of emphasis on the reorganization of the field level structure, training for both tax officials and tax payers, proper identification of tax payers and collection of required data about their businesses, introduction of a unified TIN-VAT registration system and various other measures to streamline and strengthen the VAT system. To bring about accountability and transparency, a 3 year long technical assistance project has been started with funding from DFID of the U.K. A long term modernization project named "Revenue Administration Modernization Project" is being prepared for implementation in future. These measures will result in improvement of VAT system along with other branches of the revenue administration. I am hopeful that the nation will start to reap the benefits of these measures from the next financial year.

**Saving Instrument**

**Honourable Speaker,**

52. After presenting the major tax proposals I would now like to present the non-NBR tax proposals. In the last budget, provision was made to deduct advance income tax on income from savings instruments subject to certain conditions. In consideration of the interest of the small investors I have earlier in my speech proposed for the cancellation of the advance income tax deduction system in respect of saving instruments. In this connection, I want to say that due to the high rate of profit of the government saving instruments, banking and financial sectors are facing difficulties in mobilizing savings which would be used for investments in and growth of the industrial sector. This calls for restructuring interest rates of different savings instruments. As such, I am proposing revised rates of government saving instruments as per Annexure - "Cha".

**Stamp Duty**

**Honourable Speaker,**

53. Development of insurance sector is essential for expansion of trade and industry of a country. To achieve that goal it is necessary to reduce stamp duty on various types of insurance, which prompts me to propose amendments in the relevant Schedule of the Stamp Act, 1899.

**Honourable Speaker,**

54. Non-judicial stamp papers are basically used in the sale and purchase of land in the country to pay the stamp duties on such transaction. Government incurs a huge expenditure for printing stamp papers and distribution of the same to different regions of the country. But people also face various difficulties and harassment in obtaining stamp papers. Government have been receiving many complaints about stamp paper forgery, irregularities and corruption in transactions relating to stamp paper. Similar complaints exist in case of non-judicial stamps used in the insurance policy documents. In order to safeguard revenue interests of the government, to protect the people and to streamline and simplify stamp duty administration by eradicating irregularities and corruption in the system, I propose to amend the Stamp Act, 1899. Necessary procedure to reduce the use of non-judicial stamp papers and stamps by directly paying stamp duty is being brought in to existence under this new legal provision.

**Honourable Speaker,**

55. The government incurs a huge expenditure on construction, expansion and maintenance of roads and highways. In order to meet this rising cost, I propose to enhance motor vehicle tax by amending the First Schedule of the Motor Vehicle Tax Act, 1932. These measures are estimated to yield additional revenue of Taka 30 Crore.

**Honourable Speaker,**

56. Extensive use of information technology has been transforming international trade at a very fast pace. Use of e-mail, internet and similar other tools in trade and commerce is increasing rapidly. Our government is aware of the urgent need for collection and analysis of information in respect of transactions through these media. Under these circumstances, I feel the urgent necessity for specialized research to facilitate appropriate and timely policy formulation for Income tax, VAT and Customs administration under the NBR. Therefore, I propose to set up a new "Fiscal Research and Analysis Unit" in NBR for this purpose.

**Honourable Speaker,**

57. I have placed the major tax proposals for FY2000-2001 before the parliament. In the FY99-2000 the revenue target for NBR was Taka 17,500 crore. The revised target has been fixed at Taka 16,000 crore. The revenue estimate for NBR has been fixed at Taka 18,000 crore for FY2000-2001. 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 21 crore. On the other hand, due to expansion of tax base there will be a revenue gain of Taka 112 crore. Consequently, there will be a net increase of Taka 91 crore under this head. Implementation of proposals for reduction of customs duty is expected to result in a revenue loss of Taka 80 crore and there would be a gain of Taka 15 crore for increase of duty rates. Consequently, there would be a net loss of Taka 65 crore. Expansion of VAT and supplementary duty would raise an additional revenue of Taka 245 crore. Proposed tax exemptions would result in a loss of taka 5 crore. Hence, net increase in revenue under this head due to expansion of tax base would be Taka 240 crore. Reforms of tax structure and improvement of collection process would hopefully bring an amount of Taka 800 crore. The remaining amount is expected to come from autonomous growth of revenue.

**Honourable Speaker,**

58. Before I conclude, I want to reiterate that in this budget we have given emphasis on the expansion of the tax base through reforms and rationalization of the tax system as well as through administrative improvements. Our goal is to establish a simple, easy and modern tax system in the country. To that end I have proposed various measures including a simplified self-assessment system and higher tax exemption limit for individual tax payer for income tax purposes. I hope all these measures will contribute in changing our tax system to suit our needs in the 21<sup>st</sup> century with its on going globalization process.

**Honourable Speaker,**

59. We have to implement hard fiscal reforms and create the appropriate development environment so that we can

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