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reform in the field of income tax, due to which our dependency on indirect tax has not at all decreased. Lack of reforms has undermined dynamism in the income tax administration. On the other hand, due to various distortions and retrogressive measures that have been brought in the income tax law during the preceding years, the entire income tax management has lost its coherence and sense of direction. The main objectives of the measures designed for this year are : to restore dynamism in administration, promote investment in industrialization, ensure transparency and accountability in administration, expand tax base, bring multidimensional reforms in tax litigation settlement system, prevent tax evasion, create tax friendly environment conducive to investment and alleviate poverty by inducing investment in economic infrastructure and agro-processing industry. Now I am presenting some of the important proposals in respect of income tax.

Mr. Speaker, Sir,

15. (a) It is presumed that there is significant amount of 'untaxed income' within our economy. Due to absence of any special incentive for investing such income, taxpayers do not feel encouraged to declare such income nor such income is being invested in productive activities. Due to this reason, developmental activities including industrialization are being hampered. One of the goals of tax policy is to direct investment to socially and economically desirable sectors. Repeated opportunities in the past providing for partial tax amnesty on 'untaxed income' failed to generate desired response from the public

due to absence of allocative direction of tax policy.

Hence, I propose that any investment made between first July 2002 and thirtieth June, 2005 by an individual, firm, association of persons or a private limited company in any trade, commerce or industrial venture engaged in production of goods or services be accepted by the Taxes department unconditionally and without any question.

We have bumper production of mangos and leeches in our northern region, pineapples in the western and eastern region and guava in the south. Due to absence of processing facilities, full economic potentials of these perishable fruits can not be harnessed. Proper development of agro-processing industry will not only ensure fair price to the growers but will also help create employment opportunities and boost export diversification. With a view to extending our support to the development of agro-processing industry, I propose to fully exempt income of such industry from 1<sup>st</sup> July, 2002 upto 30<sup>th</sup> June 2005.

Investment in this sector will enjoy similar tax amnesty as is available in other sectors.

(c) An efficient transport system is a hallmark of a strong economic infrastructure. Adequate investment is needed in this sector to build such a system. At present, the owner of a commercial motor vehicle and inland water vessel is required to pay for his investment on such vehicle or vessel, as the case may be, an additional amount at the rate of 200% and 125% respectively of presumptive tax payable by him. This policy of taxing investment is not at all conducive to the development of this vital sector. Hence, I propose to withdraw investment-related tax in this sector.

Mr. Speaker, Sir,

16. During the regime of the last Awami League Government, Wealth Tax Act was repealed in 1999 and in its place a system of surcharge was introduced at a rate to be calculated on income tax payable. Imposition of surcharge with a bearing on income tax is a big distortion in the tax regime and is repugnant to ethics of taxation. Besides, since wealth tax was rolled back in order to relieve the taxpayers of the burden of multiple tax system, it was totally an immoral step to bring back the same wealth tax in the guise of surcharge. Hence, I propose to withdraw the provision of imposition of surcharge.

Mr. Speaker, Sir,

17. (a) At present, foreign remittance of a resident Bangladeshi is exempt from income tax on fulfilment of certain conditions. There has been no

positive response to this tax amnesty due to these conditionalities. On the other hand, remittance of Bangladeshis working abroad does not enjoy any tax exemption under the existing law. Hence, in order to encourage investment in our economy, I propose to exempt from tax unconditionally any foreign remittance through banking channel of a resident Bangladeshi and a Bangladeshi working abroad.

- (b) The development of computer software coupled with dissemination of information technology is indispensable for human resource development. Hence, I propose to exempt from tax so much of income of a Bangladeshi enterprise as is attributable to computer software business for the period from 1<sup>st</sup> July 2002 to 30<sup>th</sup> June 2005. I also propose to withdraw tax withholding on computer accessories at import stage.
- (c) According to existing law, bonus share is taxable in the hand of shareholder. As a matter of fact, bonus share is not an income. I, therefore, propose to exempt bonus share from taxation.

Mr. Speaker, Sir,

18. At present, tax exemption limit for individuals is one lac taka. By Finance Act, 2000, this exemption limit has been raised to one lac taka from 75,000/- taka. The current exemption limit is undoubtedly high in the light of our per capita income and exemption limits prevailing in our neighbouring countries. I, therefore, make the following proposals in this regard:

- (a) I propose to reduce tax exemption limit for individual assessee to 75,000/- taka from one lac taka and replace the present four tier tax structure by a five tier structure as shown in Annexure-"A". Maximum tax rate of 25% for individuals will remain unchanged. Mr. Speaker, I want to mention here that, as a result of restructuring of the tax rate following reduction of exemption limit, a tax payer having income of 10 lac taka will pay income tax under proposed rate at taka 1,58,750/- as against taka 2,07,000/- he is required to pay under the existing rate. Similarly, a tax payer having income of 5 lac taka will pay tax at taka 57,500/- in place of taka 82,000/- and a tax payer having income of 2 lac taka will pay tax at taka 12,500/- in place of taka 14,000/-. It is my earnest hope that in the background of substantial reduction of tax burden, the assesseees will be paying their due taxes imbued with patriotism and will participate more actively in national economic activities.

- (b) At present, minimum tax for individual is taka 1,000/-. In 1994, minimum tax under self-assessment was taka 1,800/- and for other assesseees taka 1,200/-. Taking inflationary impact into consideration, I propose to fix minimum tax for all individual categories of assesseees at taka 2,400/-. I also propose to fix minimum tax under 'spot assessment' at the same amount.

Mr. Speaker, Sir,

19. At present, corporate tax rate for listed companies is 35% and for others 40%. Various quarters including business communities have been demanding for long to reduce corporate tax rate. It is necessary to reduce corporate tax to a tolerable level for improved tax compliance and also to promote investment and industrialization. To achieve this end, I make the following proposals:-

- (a) I propose to reduce corporate tax rate of listed companies to 30% from 35% and for others to 35% from 40%. However, in the case of bank, insurance company and financial institution, corporate tax rate will be 40%.
- (b) At present listed companies are entitled to 10% tax abatement if they declare dividend at 25% or higher. In order to help promote capital market, I propose to bring down rate of dividend declaration to 20% from 25% for enabling these companies to avail of tax abatement.
- (c) According to existing law, capital gain tax for companies is payable at corporate rate in case of asset divestment within five years and at 25% on divestment after five years. The present capital gain tax regime for company is impeding industrial growth. Hence, I propose to fix capital gain tax at 15% for companies, regardless of the retention period of assets.

Mr. Speaker, Sir,

20. By Finance Act, 2001, tax rate of the assessment year 2001-02 has been made effective for the assessment year 2002-03 also. In order to help the assessee avail of the benefit of proposed reduction and changes in tax rate, the proposed rate be made effective for the assessment year 2002-2003.

Mr. Speaker, Sir,

21. At present, government employees are not required to pay income tax on their salary. Tax on their salary is deemed to be paid by the government. Since they are not required to pay tax on their salary, many government employees do not file their tax return even when their income from sources other than salary exceeds tax exemption limit. On the other hand, employees outside the government are required to pay tax on their salary as usual, which has resulted in a discriminatory tax treatment between government employees and others. This discrimination creates social inequity and distortion in the system with negative impact on our tax-GDP ratio. Besides, the situation in which the government employees are remaining outside the tax net is also hindering expansion of tax base. For many years, different trade bodies including FBCCI have been vociferous in their demand for removing the current disparity in the tax treatment of government employees. Our development partners including the World Bank are also highly critical about maintaining the current status on the issue. Since no decision has previously been taken on this, similar demand from the same quarters for ending differential tax treatment for government employees has been raised before me this year also. I agree in principle that the current discrimination should terminate. But in the existing pay structure of the government employees, it will not be rational to ask them to pay their income tax themselves. Considering the overall situation in this behalf, the government has decided to pay income tax of the government employees from its own fund. The Ministry of Finance has allocated 50 crore taka as income tax of the government employees, which will be deposited by the government to the treasury. Keeping in harmony with the government measure for paying income tax on behalf of the employees, the government employees will require to mention their TIN in their pay bill. Tax on tax will not apply for government employees as in other cases. I hope that this step will put an end to the long simmering issue of differential tax treatment in respect of government employees.

Mr. Speaker, Sir,

22. 'Branch company' not incorporated in Bangladesh repatriates its post tax profits to its overseas parent company. At present, such repatriation is not liable to taxation. On the other hand, in case of repatriation of dividend to a foreign shareholder company by a company incorporated in Bangladesh, tax is payable on such dividend at 15%. The present scenario of taxing a 'branch company' and a Bangladeshi company under similar circumstances is discriminatory. With a view to removing this discrimination, it is proposed to treat profit repatriation of 'branch company' as dividend for the purpose of taxation.

Mr. Speaker, Sir,

23. A persistent stagnancy is prevailing in the capital market. It is, however, observed that many listed public limited companies, despite earning good profit, are not distributing reasonable dividend or bonus share to shareholders. As a result of this, not only the shareholders are deprived, the general investors are also discouraged from investing in capital market. In view of the above, I propose to impose 5% additional tax on undistributed profit of listed companies, where these companies despite having adequate divisible profit fail to declare dividend or bonus share less than 15% of their paid-up capital. Banking and insurance company will remain outside this measure.

Mr. Speaker, Sir,

24. Though the NGOs at the outset confined their activities on social & economic upliftment with no profit motive, subsequently they have enlarged their operations to commercial activities. Similar nature of commercial activity undertaken by others is taxable. It is not considered fair to accord discriminatory tax treatment to income arising in similar circumstances. However, there is rationale in allowing some tax break for the NGOs in the light of their special circumstances. Keeping the entire NGO scenario in view, I propose to bring all sources of their income under taxation except that arising from micro-credit operation.

Mr. Speaker, Sir,

25. In the interest of industrialisation and investment, tax holiday has been continuing in our tax regime since Pre-Liberation Days. By Finance Act, 2000, tax holiday has been extended upto 30<sup>th</sup> June 2005. There are forceful arguments for and against continuing this facility. In the context of our need for

increased resource mobilisation, our development partners are also opposed to this system. At present, more than 2 thousand industries are enjoying tax holiday. According to existing law, extension unit of an existing industry is also entitled to tax holiday. A study has shown that the current facility of granting tax holiday to extension unit has been grossly abused. As a matter fact, in many cases tax holiday facility was availed for an artificially created extension unit without really setting up a new unit, by merely showing transfer of machineries of the existing unit to the said artificial unit. The study has further shown that many industrial undertakings on expiry of tax holiday have set-up new extension units under tax holiday, where they have diverted income of the taxable unit through a mechanism of internal transfer pricing in a bid to use the system as a vehicle for perpetual tax holiday. This has resulted in an undesirable 'tax haven' situation for industrial sector in our tax regime. In the interest of revenue and industrial development, it is of imperative necessity to arrest such misuse. In view of this, I propose following changes and reforms in the system:

- (a) I propose to withdraw the provision of tax holiday for extension unit of an industrial undertaking.
- (b) In order to prevent misuse of tax holiday through internal transfer pricing, I propose to make provision for considering inter company transaction between associate enterprises as a disqualification for tax holiday. It may be mentioned that from now on tax holiday will be available only for an industrial undertaking formed as a separate company.

- (c) At present, a tax holiday company is required to reinvest at least 30% of its exempted income. In order to promote industrial investment, reinvestment is proposed to be raised to 40% from 30%.

Mr. Speaker, Sir,

26. (a) At present, 100% accelerated depreciation allowance on cost of machinery is admissible for new industrial undertakings at 100% for the first year and at the same percentage for the first two years, depending on the location of the undertaking. In order to promote industrial development, I propose to make provision for 100% accelerated depreciation allowance for the first year in all cases, regardless of their location.

- (b) Initial depreciation allowance in respect of new industrial undertaking was withdrawn by Finance Act, 1998, which has been a negative measure in the context of our need to promote industrialisation. I, therefore, propose to reintroduce initial depreciation allowance for the first year on machinery at 25% of its cost and in respect of factory building at 10% of its cost. I also propose restructuring of the general depreciation allowance rates as shown in Annexure - "B".

Mr. Speaker, Sir,

27. I have mentioned earlier that the benefit of tax holiday and accelerated depreciation allowance is available for new industries. The industries under tax holiday are not required to pay tax for five or seven years during tax holiday period. Many industrial undertakings do not feel comfortable in their transition from tax holiday to taxable status. The government wants to ensure a smooth transition by developing a tax culture among the entrepreneurs and at the same time desire to continue patronization of new industries. In view of this, I propose to make provision for taxing new industry set-up between 1<sup>st</sup> July 2002 and 30<sup>th</sup> June 2005 at a reduced concessionary rate of 20% for five years from commencement of commercial production. No application or approval formality will be necessary for this.

Mr. Speaker, Sir,

28. Self-assessment scheme for individual assessee is an important feature of our tax regime. An efficient and simple self-assessment system is desirable for both taxpayer and tax administration. In order to make the system more liberal and attractive for the taxpayer and revenue elastic for the tax administration, I propose following changes and reforms in the system:

- (a) Under this system, a new assessee can avail of a facility of declaring maximum 20 lac taka as initial capital which he is not required to explain, if at least 25% of the said capital is shown as income in his return. In order to further liberalise the current facility, I propose to withdraw the initial capital limit altogether and make provision for showing at least 15% of initial capital as income.