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Expenditure Tracking Surveys to study the impact of public spending.

The process of transformation of "The Public Procurement Guidelines", introduced this year, into a law is at the final stage. This will ensure further transparency and accountability in public procurement.

Relevant law is being framed to create an oversight regulatory body to improve the quality of accounting and auditing in the private sector.

The organisational structure of the police forces and Rapid Action Battalion (RAB) has been strengthened to improve the law and order situation. Adequate logistics including vehicles, ammunition and equipment have been provided to the law enforcing agencies. Required reforms are being implemented with the support of development partners to enhance efficiency and to bring in transparency in their activities.

Over the last four years, we have been continuing our efforts to frame new laws and amend existing ones to ensure speedy trial, women empowerment, protection of children's rights, provision of legal aid to the poor and socio-economic development.

To make Anti-Corruption Commission effectively operational, the preparation of organisational structure of the Commission is underway. We hope, the Commission will be able to play soon its effective role in curbing corruption.

In fulfillment of our commitment, we have enhanced the pay and allowances of the employees of Government and autonomous bodies and also the salary support to the teachers and employees of MPO-listed non-government schools and colleges from January 2005. The enhanced new pay scales being implemented in three phases would require an additional expenditure to the tune of Taka 4,000 crore. The Government firmly believes that this will inspire all classes of officers, employees and teachers engaged in administration and educational institutions to devote themselves to public service with increased efficiency and honesty.

We have adopted a new approach to enhance the effectiveness of foreign aid utilisation in consultation with our development partners. The development partners are bringing in harmonisation in their policies, practices and procedures in channeling aid. At the same time, steps have been taken to establish harmonisation between our policies and procedures reflected in our poverty reduction strategy and those of the development partners. As a result, delay and duplication in receiving and utilising aid would be largely reduced.

Mr. Speaker,

50. Good governance at the national level presupposes good governance at the sectoral levels. Our aim is, therefore, to improve the quality of governance in every sector. In view of this imperative, we have adopted required reform programmes in all sectors in the light of our poverty reduction strategy. The positive outcome of our reform efforts is already evident in many sectors.

Mr. Speaker,

51. We believe that a strong monitoring and evaluation system is a must for establishing transparency and accountability in each sector. In view of this, we are taking steps to introduce a robust system of monitoring implementation of poverty reduction strategy and to carry out ex post evaluation of the outcomes.

Mr. Speaker,

I believe, I have been able to reflect the hopes and aspirations of the people in this budget as all my budget proposals are based on poverty reduction strategy prepared through extensive consultations with cross-sections of the society. I take this opportunity to express my sincere thanks to the Hon'ble Prime Minister Begum Khaleda Zia for giving me valuable guidelines in preparation of this budget. The Hon'ble members of the Cabinet, Hon'ble MPs, distinguished economists, members of the civil society, business people, industrialists, journalists and representatives of NGOs have helped me with their valuable comments in preparation of the budget. I express my sincere thanks to all of them.

Mr. Speaker,

The Government has been trying its best to build a happy, prosperous and poverty-free country through creation of extensive employment opportunities and providing education, health and nutritional services to the poor at large. We are firmly committed to accelerate these efforts in spite of limitations of resources. Side by side with the Government, the private sector, the NGOs, the mass media, the civil society, all agencies and people of all walks of life must come forward to face the challenge of eradication of poverty. All of us together must create a development-friendly proper environment to accelerate the process of uninterrupted economic growth.

The involvement of all must not remain within the confines of policy formulation, it must go beyond and extend to policy implementation as well. Therefore, we have mentioned in our PRSP "The engagement is not just for policy planning. It is importantly an engagement for results, for inclusion, for imaginative solutions, and ultimately an engagement to unlock the potentials of the nation".

Mr. Speaker,

As a nation, we have demonstrated outstanding determination and firmness in facing all odds, crises and natural disasters. We have achieved rare progress in successfully utilising our limitless potentials since achieving independence until now through unparalleled self-sacrifice. Our achievements are many, so are our problems. Nevertheless, we dream of a Sonar Bangla, a self-reliant nation full of amity happiness and justice based on equity. I invite you all to join together to unlock the potentials of our beloved country by utilising our endless devotion to duty, deep sense of nationalism and our unlimited inherent strength.

Second Part

TAX, CUSTOMS AND REVENUE MEASURES

Mr. Speaker,

52. National Budget is not only a balance sheet of probable income and expenditure of the government. On the one hand it contains the broad contours of future development plan of the government and on the other it is also a document, which captures the principles and operational programs of the government to remove social disparity. Government expenditure has a role to play in implementing its development programs. No less important is the role of internal resource mobilization. So far I have presented to this august house our proposals for resource allocation in the light of the philosophy and strategy of development pursued by the government. Now I would like to throw some light on the steps, methods and efforts that we propose to undertake for mobilization of internal resources.

Mr. Speaker,

53. We need to implement the Poverty Reduction Plan in its totality in order to achieve the Millennium Development Goal of the United Nations. To achieve this we have to consistently increase the expenditure/GDP ratio, which is currently only 15%. Private investment also suffers if investment by the government does not considerably increase. This is more relevant for a stage of development at which we are presently placed. For the development of the private sector we require huge investment in areas like infrastructure, energy and power. Investment of this magnitude can only come from the government. Like wise in order to enhance the level of income of the poorer sections of the society and to reduce poverty. We need sufficient investment in sectors like education, health and nutrition. We need investment in different sectors for employment generation.

Mr. Speaker,

54. With anguish in my heart I would like to inform the house through you that compared to other developing countries, our tax/GDP ratio is very low. Our annual revenue income is only 10.5% of the GDP. We cannot accomplish our task of poverty reduction and achieve economic progress if this dismal

tax/GDP ratio does not improve. So we have to persistently augment the collection of revenue and bring it to such a level where we no longer have to depend on others. And only then we can initiate the pace of development on the basis of our own values, our hopes and aspirations with our own resources.

Mr. Speaker,

55. We all nurture the dream that we will emerge as a self-reliant developed country on the world stage. We all have our responsibility to translate this aspiration into reality. Although it may sound unpleasant, I have to mention that we as a nation are extremely reluctant to pay taxes. But on the other hand our urge for development is enormous. How can we expect the government to invest resources in business, industry, health, and education and in building necessary infrastructure? We have to shun this culture of non-payment of taxes. Without this we cannot stand on our own feet as a proud nation in the world.

Mr. Speaker,

56. As a nation we have to shun dependence not only in words but also in deeds. Those who are affluent, those who have ability must come forward to pay lawful taxes and contribute their share to reducing poverty, dismantling the barriers and bridging the divides between the rich and the poor. We have to prove that we all repose our trust in creating a self-reliant, dignified and prosperous Bangladesh. With this courage of conviction I would like to place before this house the salient features of Revenue proposals comprising of Income Tax, Customs and Value Added Tax

Income Tax

Mr. Speaker,

57. Direct tax plays a significant role in ensuring socio-economic development and establishment of social justice. During last three years major reform measures including transparency and dynamism in tax administration, reduction of discretionary powers of tax officials, and facilitation of the growth of investment were undertaken to attain the goal of increased revenue from Direct Taxes. In continuation of this reform program, I would like to place the important proposals relating to direct taxes before this august Parliament through you.

58. Last year I announced the schedule of tax rate and ceiling of tax-exempt income for assessment year 2004-2005 and 2005-2006. In continuation of this practice, for the next assessment year 2006-2007, I propose enhancement of the ceiling of tax-exempt income from Tk. 1 lakh to Tk. 1 lakh 20 thousand keeping the rates of tax unchanged. I also propose the



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Opposition rows at the Jatiya Sangsad give a barren look as the Awami League boycotted yesterday's budget session.

enhancement of the limit of total income that attracts the highest tax rate from Tk. 9 lakh to Tk. 10 lakh 20 thousand. [Annexure-'A-1']

59. I propose tax rate for non-listed companies to be fixed at 40 percent for the assessment year 2006-2007 instead of 37.5 percent.

Mr. Speaker,

60. With a view to expanding the tax base, simplifying tax collection and payment procedures, and making the tax rate equitable, now I would like to place before this house some important tax proposals:

a) To allow banks to make provision for bad & doubtful debts up to 1 percent in place of 2 percent of the total outstanding loans till assessment year 2006-2007;

b) In lieu of the present provision of Dividend distribution tax, it is proposed to withhold advance income tax @ 10 percent on dividends making it taxable in the hands of shareholders;

c) Rate of advance income tax applicable to profits from approved Securities & Bonds to be reduced to 10 percent from the prevailing 20 percent;

d) To deduct tax @ 4 percent on freight charges of resident ocean going ships as final settlement of tax liability;

e) To deduct tax @ 10 percent on the profit or interest paid on deposits by non-banking & other deposit collecting financial institutions;

f) To deduct tax at source @ 0.25 percent on total export proceeds of knit-wear & readymade garments as final settlement of tax liability;

g) At present, the rates of advance income tax applicable to "Royalty & Technical Know-how fee" and "Professional & Technical service fee" are 10 percent and 5 percent respectively, which very often cause confusion because the "fees" are of same nature. In order to remove this confusion, the rates of tax for all these fees be re-fixed at 10 percent;

h) To deduct tax at source @ 0.015 percent on the transaction value of shares for members of stock exchange as final settlement of tax liability;

i) To collect tax for sale of apartments @ Tk 175 per square meter and for land @ 2.5 percent on deed value at the time of registration from persons engaged in real estate business as final settlement of tax liability;

j) To collect tax on the basis of production capacity from brick fields at the time of issuance and renewal of license to brickfields; [Annexure-'A-2']

k) To enhance tax rate on the value of banderole of hand made cigarettes from 3 percent to 4 percent;

l) To introduce a reduced rate of tax @ 10 percent on the income from computer software business, this facility to continue up to 30th June, 2008.

Mr. Speaker,

61. With a view to simplifying the application and compliance of Income Tax Law and making it more effective, I take the opportunity to present some more proposals before the house:

a) It is proposed that tax return certified by chartered accountant as correct under section 82 of the Income Tax Ordinance cannot show loss or lesser income than the last assessed income. Any return certified by

chartered account to be subject to audit;

b) Loss from a source, income of which is tax exempt, not to be set off against the taxable income of any other source during the year;

c) It is proposed to make submission of accounts mandatory by the Insurance Companies to the Taxes Department complying with the provisions laid down in the Insurance Act, 1938;

d) Allowable expenditure under the head 'perquisites' for companies be raised from Tk. 1 lakh 50 thousand to Tk. 1 lakh 92 thousand.

Mr. Speaker,

62. Now I propose extension of the period of tax exemption in some areas:

a) Tax exemption period on income of hospitals, formed under the Companies Act, be extended from 30th June, 2005 to 30th June, 2008;

b) Tax exemption period on income from poultry, dairy farm, poultry feed production, etc. be extended from the prevailing 30th June, 2006 to 30th June, 2008.

63. The existing provision relating to tax-holiday will expire on 30th June, 2005. Considering the present state of socio-economic development, export business, and for employment generation, it is proposed that the tax-holiday facility for some defined sectors of industry be extended for another three years i.e. up to 30th June, 2008. The tax holiday period depending on location be re-fixed at 4 & 6 years in place of 5 & 7 years respectively (Annexure-'A-3'). Similarly it is also proposed to continue the existing facility of accelerated depreciation allowance for new industry up to 30th June, 2008.

Mr. Speaker,

64. We are given to understand by different quarters that there is still huge amount of undisclosed income in the country. Opportunity of investing this income without any explanation will expire on the 30th June, 2005. We presume that a good number of people is holding such undisclosed income who, for some reasons or other, could not avail themselves of this opportunity. I propose to extend the time limit of disclosure of this type of income without any explanation by paying only 7.5 percent income tax thereon up to 30th June, 2006.

65. At present, a good number of philanthropic and educational institutions are working in Bangladesh. To encourage donations to these institutions by any individual or industrial enterprise, it is proposed to allow the donors tax-rebate for such donations.

Customs Duty

Mr. Speaker,

66. During the current fiscal year rationalization was undertaken and four rates of customs duty were brought down to three namely, 7.5% on basic raw materials, 15% on intermediate goods and 25% on finished goods. I propose to continue with this three-tier duty structure. Similarly I propose further rationalization of the existing structure of supplementary duty in respect of goods of general nature and bring down five tiers of supplementary duty to three. However, considering the negative impact of some goods on health and environment, I propose to continue with the existing higher rate of supplementary duty on those goods.

Mr. Speaker,

67. Our government has identified agriculture as a priority sector and we have been providing concessions in terms of reduced import duty to a range of items like seeds, fertilizer, capital machinery and other implements essential for agriculture sector. In continuation of this avowed policy, I propose complete withdrawal of all duties and taxes on some varieties of fertilizer. I also propose reduction of customs duty from 15% to 7.5% on raw materials needed for the manufacture of parts and accessories of rice and wheat mills (Annex-'B-1').

Mr. Speaker,

68. Lot of dairy and poultry firms have come up throughout the length and breadth of the country. We would like to strengthen this potential sector and make it more competitive. I propose withdrawal of all duties and taxes on the raw materials of dairy and poultry feed, medicine, other medical inputs and capital machinery required by this sector.

Mr. Speaker,

69. In these days of globalization, we are required to strengthen our Ready-made Garments, Textile, Hosiery, Label Manufacturing and Terry Towel Industries and make them more competitive. With this end in view, I propose concessionary rate of customs duty for some dyes and chemicals essential for these sectors. I also propose complete withdrawal of duties and taxes on some machinery and spares required by the above-mentioned sectors and complete withdrawal of all duties and taxes on waste cotton, one of the basic raw materials of Terry Towel Industry (Annex-'B-1').

Mr. Speaker,

70. Leather and Leather goods industries have emerged to be a potential sector of our country. In order to encourage further development of this sector, I propose concessionary rate of customs duty for some dyes and chemicals of this sector.

Mr. Speaker,

71. We are now manufacturing quality transformers in Bangladesh. After meeting the domestic requirement we are also exporting transformers. We believe that this sector can achieve further improvement and expansion if we provide necessary protection and assistance. Considering the potential of this sector, I propose reduction of customs duty on some raw materials needed for the manufacture of transformer. Following the same rationale and principle, I propose reduction of customs duty on some raw materials of Iron and Steel Pre-fabricated building. I also propose reduction of customs duty on some raw materials of local

Bicycle Industries (Annex-'B-1').

72. The current rate of customs duty on Angles, Shapes and Sections made of Iron and Steel is only 7.5%. These are intermediate goods, so rationalization of duty structure for these items is the need of the hour. I, therefore, propose enhancement of customs duty on these items from 7.5% to 15% (Annex-'B-2').

Mr. Speaker,

73. I propose withdrawal of customs duty on Academic Journals and Periodicals essential for higher studies subject to certain conditions.

Mr. Speaker,

74. The demand for mobile phones has been growing steadily over the past few years. The existing duty rate for mobile phones is Tk. 1500 per mobile set at the importation stage. I propose rationalization of its duty structure. Regardless of its import value, I propose duty of Tk. 300 per mobile set at the importation stage and Tk. 1200 for connection of each SIM Card or similar technology at local stage (Annex-'B-1').

Mr. Speaker,

75. There are frequent fluctuations of prices of POL products in the international market. In order to address this situation we need to reduce the total tax incidence of these products at the importation stage and rationalize it suitably. No less important is ensuring stability of domestic market price and collection of duties and taxes, which are due to the government. With this end in view we have decided to refix the tariff value of crude and refined petroleum products. Accordingly, I propose reduction of customs duty on crude petroleum from 25% to 7.5% and customs duty on refined POL products from 25% to 15%. Supplementary duty of 15% on refined petroleum product will be completely withdrawn. This rationalization will have no negative impact on retail price of POL products. Following the same principle and rationale, I propose specific duty for Petroleum Bitumen (Annex-'B-1' and Annex-'B-3').

Mr. Speaker,

76. Now, I would like to propose some changes in the Customs Act, 1969 (Act IV of 1969). The existing time limit for final assessment of provisionally assessed goods is 150 days. I propose to reduce this time limit to 120 days. The existing time limit for clearance of goods brought by sea and land route is 45 days. I propose to reduce this limit to 30 days. Likewise, I propose to reduce the existing time limit for air cargo from 30 days to 21 days.

Mr. Speaker,

77. Now, I would like to place before the august house some important proposals regarding supplementary duty:

In order to provide protection to the industries engaged in the production on mineral water, I propose to impose 35% supplementary duty on mineral water at the import stage. Likewise, I propose to impose 20% supplementary duty on imported detergents. Giving due consideration to similar factors, I propose introduction of 20% supplementary duty on all imported Lamps and Light fittings. (Annex-'B-4').

The Agro-processing industry of our country are producing quality processed food items and varieties of fruit juice. To provide protection to these industries and to save foreign exchange, I propose enhancement of supplementary duty from 25% to 35% on some of the items of processed food and fruit juice. In the same manner, I propose enhancement of supplementary duty from 25% to 35% on all kinds of imported furniture.

Value Added Tax

Mr. Speaker,

78. It was BNP government that introduced Value Added Tax in 1991 for the first time in Bangladesh. I believe this modern system of taxation has taken its roots in the country. This is my view that instead of expanding the existing tax base the need of the hour is to consolidate it further and to make it more transparent. That is why I don't like to propose any major change in the existing tax regime. I firmly believe that we need to further simplify the collection procedures and ensure proper enforcement of the law and the regulations made there under (Annex-'C').

Mr. Speaker,

79. With a view to ensuring improved management and collection of VAT and to provide better service to the taxpayers we have established a Large Taxpayers' Unit comprising of the enterprises paying large amounts of tax. In order to ensure transparency and efficacy I now propose some changes in the Value Added Tax Act and the rules made there under (Annex-'C').

Mr. Speaker,

80. 100% export oriented industries have been enjoying exemption facilities in respect of some services and utility charges at both the stages of import and export. With a view to providing more encouragement to export business I now propose to introduce similar facility for the enterprises situated in EPZ areas and those engaged in deemed exports.

Mr. Speaker,

81. In order to provide increased assistance to agriculture sector I propose exemption of Trade VAT on insecticides, fungicides, pesticides, anti-sprouting products, plant growth regulator and disinfectants used in the sector (Annex-'C').

Mr. Speaker,

82. In the Value Added Tax Act there is provision for punishment of VAT related offences. The hefty amount of penalty of Taka Twenty Five thousand for both major and minor offences appears to be a little inconsistent. In order to remove this inconsistency I propose reduction in the amount of penalty for minor offences from Taka Twenty Five thousand to Taka Ten thousand (Annex-'C').

Mr. Speaker,

83. During the 2004-2005 fiscal year the target for the National Board of Revenue was fixed at Tk. 32,190 (Taka thirty two thousand one hundred and ninety) crore comprising of Income Tax, Customs Duty, Value Added Tax and others. I mentioned in my budget speech last year that it was a challenging target. Although it may not be possible to achieve the target, we expect that we will be able to collect Tk. 30,500 (Taka thirty thousand five hundred crores) by the end of the fiscal year. Thus growth of revenue over the past year 2003-2004 is expected to be 16.45%. Keeping in view this trend the revenue target for the next fiscal year has been fixed at Tk. 35,652 (Taka thirty five thousand six hundred and fifty two) crore.

Mr. Speaker,

84. Compared to other developing countries our tax GDP ratio is still very low. In order to come out of this situation it is necessary for us to modernize revenue administration; undertake reforms and ensure proper enforcement of the laws. With a view to achieving this objective we have already undertaken a reform program of our revenue administration. A draft Strategic Development Plan has been prepared. The World Bank is expected to provide financial and technical support. Implementation of the project is likely to be completed over a period of three to five years. I fervently hope that through management reforms, administrative improvement and with increasing eagerness of the taxpayers, we would be able to achieve the target.

Mr. Speaker,

85. With humility, I can say that hopes and aspirations of all sections of the society have been reflected in the budget proposals of 2005-2006 fiscal year. The poverty reduction strategy paper, which has been formulated with the active participation of the people from all walks of life, is the basis of all our proposals. In this connection, I would like to place on record my sense of gratitude to the Honourable Prime Minister Begum Khaleda Zia for her unstinting support and valuable guidance