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Rehabilitation of the Senior Citizens and the Uprooted People

82. We cannot deny our social responsibility towards the poor senior citizens of the country. Bearing this in mind, I propose to enhance the existing rate of allowances for the senior citizens from Taka 200 to Taka 220 and extend the beneficiary coverage from 16 lakh to 17 lakh. The programme for construction of 15 thousand flats on khas land in Dhaka, intended to rehabilitate the uprooted people, slum dwellers and the low-income families will soon be implemented.

Employment Generation

Fellow Citizens

83. Creation of increased employment opportunities is essential for social empowerment. In order to help the marginalised poor suffering from geographical and natural constraints like mona and river erosion, extension of existing micro-credit programmes has been proposed. I propose to allocate Taka 550 crore for employment generation in rural areas outside the ministry-based employment generation programmes in the next fiscal year. A significant portion of this allocation will be implemented by Palli Karma Shahayak Foundation (PKSF) through their associate NGOs. The total allocation against these credit programmes and funds including other rural employment generating programmes will stand at around 9 percent of the total budget. I expect that this will create employment opportunities in rural economy equivalent to 3 man-months for 95 lakh families in the next fiscal year.

Food Management

Fellow Citizens,

84. Now I would like to dwell upon the food management system of the Government. The objectives of food management of the government are to maintain adequate buffer stock, to reach food grains to the distressed populace, to keep the price of food grains at a tolerable level and to ensure fair price of food grains for farmers. You are aware of the fact that the food grains production in the country and also across the world has not reached the expected level in current year whereas the demand has increased. As a result, the price of food grains has increased relatively both at home and abroad.

85. To meet the overall food deficit, the Government has planned to import 8 lakh tons of food grains alongside the imports by private sector.

In order to build an adequate buffer stock, there will be internal procurement of food grains along with imports. In the next fiscal year, the VGF programme will be implemented in an extended fashion to enhance the capacity of the marginalized section of the society whose purchasing power has been eroded due to price increase. I propose to allocate 4 lakh metric tons of rice for 50 lakh card holders across the country to provide a subsistence coverage of 8 months. Alongside this allocation, about 6 lakh metric tons of food grains will also be distributed through TR, GR, FWP and VGD programmes. In order to keep the price of food grains within the tolerable limits, the Government will go for open market operation, if necessary. I believe, successful implementation of these programmes will usher in a positive change.

Environment Development

Fellow Citizens

86. Bio-diversity and environmental protection are closely interlinked with sustainable economic development. Growing population, deforestation, water and industrial pollution are the main causes of environmental degradation. Following the steps taken by the Government, it has been possible to free a total of 5 thousand hectare of lands of the Forest Department from illegal occupation. These lands will be brought under afforestation programme. In order to prevent industrial pollution, establishment of Effluent Treatment Plant has been made mandatory in the case of highly polluting industrial undertakings. Steps have been taken to reduce the use of ozone layer depleting gases in phases. Efforts have been made to prepare and implement plans for waste reduction and recycling.

There is an ongoing initiative to create a website and database on climate changes in the Department of Environment. Bangladesh has signed the United Nations Convention on Law of the Seas.

Revenue Management Reforms

Fellow Citizens

87. I have so far made my reflections on the reforms initiated by the present government and mentioned how these reforms would be implemented through the proposed budget of FY2007-08. I have also talked about macroeconomic situation, poverty reduction and growth momentum. Now I would like to highlight how the expected revenues in the proposed budget will be mobilised and how these are going to affect the overall economy and equity.

88. Bulk of our revenues is collected from imports. For a sustainable economy, this is not desirable. We have to reduce our dependence on import based revenue collection, and augment revenues from domestic sources. We also have to gradually reduce import duties on industrial raw materials and capital machinery and even on the intermediate goods to keep the price of commodities within tolerable limits. Therefore, we have to increase revenues from income tax and VAT sources. In fact, a balance between trade liberalisation and domestic industrial development is essential. We have been cognizant of the need for such balance in proposing the tax measures for FY2007-08.

89. We are curtailing the discretionary power of the tax officials and have instructed the tax authorities to avoid discriminatory tax collection policies. Emphasis has been laid on simplification of tax assessment and payment procedures. We have also given due importance to ensuring transparency and accountability of tax department. We would like to create an atmosphere in which tax payments is viewed as a symbol of social status. One of the objectives of tax measures is to induce the tax payers to pay taxes voluntarily. Bearing in mind these objectives, I am now presenting tax related proposals for FY 2007-08.

Tax Proposals

Income Tax

Fellow Citizens,

90. The general aversion of the taxpayers as well as procedural complexities in paying taxes adversely affects our tax revenue collection. We have to put an end to this situation. Let me now present proposals relating to income tax.

1) I propose to enhance tax-exempted income limit for individual tax payers from existing Taka 1 lakh 20 thousand to Taka 1 Lakh 50 thousand. Simultaneously, I propose that if an individual tax payer paying taxes at the highest rate of 25 percent, discloses at least 10 percent higher income in the assessment year than that of the previous assessment year, he will be allowed 10 percent tax rebate on the tax payable on that higher income.

2) To motivate and encourage tax payers to pay tax voluntarily, I propose legislative provision for introducing 'Universal Self-Assessment Procedures'.

3) In order to make income-tax law simpler and appropriate for the present times, I propose the following changes in the Income Tax Ordinance, 1984:

- irrespective of profit or loss, minimum tax on the basis of turnover will be reduced from 0.50 percent to 0.25 percent
- 50 percent of foreign travel expenses of company directors in excess of four travels (in place of prevailing two travels) will be deemed as income of the company directors
- provision for deduction of tax at source on credit card bill to be abolished
- interest on loans up to Taka 20 lakh used for self-occupied accommodation to be admitted as allowable expense
- allowing 15 percent tax rebates for private universities and research institutions registered under Trust Law
- abolition of provision of paying tax at a specified rate for construction of building or buying house property or flats or land or purchasing car, with undisclosed and untaxed money
- considering 5 percent of transfer to Statutory Reserve of financial institutions as allowable expense instead of 10 percent

4) Mobile Phone Operator Companies' corporate tax rate would be 45 percent but the tax rate would be 35 percent if the companies are converted as publicly traded companies and enlisted with the stock exchanges. In other cases, corporate tax rates will remain unchanged as prevailed in 2006-07.

5) I propose to impose tax deductible at source at the rate of Taka 1 thousand, at the time of issuance and renewal of trade licenses by City Corporations, adjustable at the time of final tax assessment.

6) I propose to impose tax deductible at source at the rate of 0.25 percent on all export earnings which will be considered as tax finally paid.

7) I propose to re-fix advance tax deduction at source by hospitals and diagnostic centres at the rate of 10 percent, instead of existing 5 percent, from the payments made to the doctors like other professionals. I propose to impose income tax deduction at the rate of 10 percent from trustee fee, and 7.5 percent from freight forwarding agency commission and 10 percent on interest from savings instruments if such interest exceeds Taka 25,000 per annum.

8) Pursuant to the ongoing reform initiatives, the cost of doing business has fallen significantly. Therefore, I propose to enhance tax deductible at source at the rate of 7.5 percent, instead of 5 percent, on commission income of stevedoring, C&F, non-resident courier service, marketing, insurance and general insurance surveyor.

9) I propose to offer tax holiday facility to solar energy plants to encourage use of alternative source of energy to mitigate the power crisis.

10) I propose to extend the time limit to 3 weeks from existing 1 week for depositing tax deducted at source to government exchequer and to raise the limit of income to Taka 3 lakh from existing Taka 2 lakh for payment of advance income tax.

11) I propose to extend tax rebate facility to the non-resident Bangladeshi investors.

12) As an alternative source of financing investment, I propose to exempt income generated from Zero-coupon Bond from income tax.

13) I propose to abolish the provision of all up front and advance tax on government bonds to create a competitive market for such bonds.

Import Duty

Simplification of Tariff Structure

Fellow Citizens,

91. As part of the initiative of simplifying tariff structure, and of increasing the difference of rate of duties between the finished products and intermediate products, I propose to restructure the customs duty slabs:

- Complete withdrawal of 4 percent infrastructure development surcharge
- Introduction of duty slabs at 10 percent, 15 percent and 25 percent instead of existing 5 percent, 12 percent and 25 percent
- Merger of two slabs of supplementary duty at 15 percent and 25 percent into a single slab of 20 percent

Imposition of specific duty at the rate of Taka 20 thousand and Taka 39 thousand per ton on Base Lubricating Oil and Finished Lubricants respectively to avoid the complexities in determining the value of lubricant and to reduce litigations

Inclusion of cement clinkers under the mandatory pre-shipment inspection system to prevent tax evasion.

Reducing Tariff Distortion

Fellow Citizens

92. There are inconsistencies in the existing tariff structure. Removal of these inconsistencies is a continuous process. I propose to bring in following reforms in the existing tariff structure:

Withdrawal of zero duty on textile machinery, computer and computer accessories

Withdrawal of existing duty exemption on telecommunication equipment and Liquid Dielectric Transformer and to increase duties on these items to bring them at par with VOIP equipment and other transformers

Imposition of customs duties at an equal rate of 10 percent on all pumps including those used for agricultural work, to avoid mis-declaration and misuse of duty-facilities.

Protection of Consumers' Interest

Fellow Citizens

93. Despite revenue loss, I propose the following measures to keep the market price stable in respect of a range of commodities including the essential ones:

Complete withdrawal of customs duty on crude edible oil and lentils to keep the market price tolerable

Continuation of duty free benefit on essential commodities including rice, wheat, onion, matar dal and, chola dal

Continuance of duty-free facility to different lifesaving drugs including insulin required for health services of the general public and to import of fertilizers for farmers

Enhancement of customs duty from 12 percent to 25 percent on formalin and stearic acid to prevent public health hazards

To facilitate the availability of vehicles to the general middle

class, increase of the dealers' commission discount rate of used reconditioned cars from 25 percent to 30 percent.

Protection of Local Industries

Fellow Citizens

94. In order to protect the local industries, I propose to rationalise the duty structure on manufactured products and raw materials. I also propose to readjust the rate of duty of some industrial raw materials:

Reduction of customs duty on CNG driven trucks from 25 percent to 10 percent and enhancement of customs duty from 5 percent to 15 percent on CNG driven CBU bus to develop the assembling industry for CNG-driven bus

Imposition of supplementary duty at the rate of 20 percent on metal framed furniture to develop furniture industry and withdrawal of supplementary duty on boards of all types

Enhancement of customs duty from 5 percent to 15 percent on auto disposable syringe to encourage local production

Imposition of supplementary duty at the rate of 60 percent on SIM card and different kinds of plastic products and at the same time reduction of customs duty on raw materials used for manufacturing plastic products

Reduction of customs duty rate from 25 percent to 15 percent on the import of newsprint considering the problems of newspaper industry and at the same time keeping the raw materials for newsprint duty-free to develop the local newsprint industry

Re-fixation of specific rate of duty at Taka 4000 instead of existing specific rate of duty Taka 2250 on raw sugar to avoid mis-declaration and also to address the problems being faced by 5 lakh sugarcane growers and local sugar industries

Extension of bonding period up to 2 years to encourage exports of the export-oriented industries.

Reduction of Discretionary Power

Fellow Citizens

95. In order to enhance transparency and accountability of the revenue administration, and to reduce the discretionary powers of the customs officials, I propose the following measures:

Preparation of specific guidelines for the issuance of bond license

Bringing in more transparency in the procedure of extending bond period

Simplifications in the customs procedures in line with the Kyoto Convention

More clarity on tariff description of a number of commodities

Making it mandatory to write "Import under Bond Not for Resale" on the packing of imported commodities to stop their sale in local markets.

Trade Liberalisation

Fellow Citizens

96. To make our local commodities internationally competitive and also to fulfill our commitments with the World Trade Organisation (WTO), I make the following proposals:

Keeping existing 25 percent customs duty on finished products unchanged though 4 percent infrastructure development surcharge has been withdrawn

Reducing existing supplementary duty of 25 percent and 65 percent to 20 percent and 60 percent respectively

Complete withdrawal of customs duty on Electronic Cash Registers.

Value Added Tax (VAT)

Fellow Citizens

97. One of the principal objectives of a modern tax administration is to encourage the tax-payers through promotion of self-assessment procedure to voluntarily comply with tax laws. It is essential to make tax collection procedures transparent by simplifying the provisions of law and tax related forms and reducing the number of documents to be preserved to a minimum. With this end view, I propose the following several amendments to the Value Added Tax Act, 1991 and the Value Added Tax Rules, 1991:

Reduction of minimum penalty for tax evasion from 50 percent to 25 percent and maximum penalty from 200 percent to 75 percent

Reduction of maximum penalty for minor offences from Taka 50 thousand to Taka 25 thousand

Reduction of the maximum penalty for major offences from Taka 3 lakh to Taka 1 lakh

Reduction of deposit ranging from 10 percent - 25 percent of the amount assessed or fine imposed required for filing an appeal to 10 percent

Relaxation of the mandatory provision of submitting Mushak Challan 11 allowing the issuing units to issue challan in their own formats incorporating extra information needed but keeping intact the required legal information currently contained in Form

Mushak-11

Withdrawal of the provision of attaching challan along with each tax return submission

Delegation of the power of National Board of Revenue in regard to use of computer generated challan and maintenance of accounts of registered organisations to the Commissioners of VAT

Withdrawal of the provision of annual renewal of VAT registration by commercial importers

Re-fixation of the ceiling of invested capital in plant, machineries and equipment from Taka 5 lakh to Taka 7 lakh as a part of facilities extended to the cottage industries

Enhancement of the value of VAT exemption from Taka 6 thousand to Taka 10 thousand in the case of sending samples of pharmaceutical products to foreign countries

Fellow Citizens

98. The existing VAT law and rules do not contain sufficient provision to deal with declaration of value, transfer of input and credit adjustment for a registered manufacturer who produces branded goods of another registered manufacturer through contract. In view of the gradual promotion of trade and industry, I propose to add required provisions in the Value Added Tax (VAT) Act, 1991 and the Value Added Tax (VAT) Rules 1991 to address the existing complexities.

99. In order to ensure access of the general public to the medical service and to help people suffering from hearing impairment, I propose VAT exemption for Insulin, First Aid Box, Hearing Aid, Shadow-less Operation Lamps at import and production levels. I also propose VAT exemption for fire extinguishing equipment to encourage installation of such facility in industrial and commercial organisations at both import and production level

100. In order to widen the VAT net, I propose to bring Immigration Advisers within this net and at the same time I propose to withdraw existing VAT exemption facility from ornamental fish, specialized doctors, lawyers and dental clinics. I

also propose to impose VAT on the basis of truncated base value of the coaching centers, English medium schools, private medical and engineering colleges and private universities at the rate of 4.5 percent. Besides this, I propose to extend the same truncated base value facility to photo lab, courier service and air-conditioned bus service.

101. In order to establish more equity among the taxpayers, I propose to bring the following categories of goods and services under VAT net regardless of the amount of their annual turnover by withdrawing the existing turnover tax facility: soft drink, mineral water, toilet soap, restaurant, warehouse, port, land developers, building construction companies, telephone, teleprinters, telex, fax or internet service providers, SIM card distributors, cinema halls, WASA, insurance companies, organisers of cultural programmes by foreign artists, health clubs, fitness centres, sports organisers, engineering firms and chartered planes or helicopter rental companies.

102. I propose to make tariff values consistent with the current market price in respect of items like chocolate milk, mango milk, banana milk, tomato paste, LP gas, paper, MS products, nail wares, chillers, electric transformers, human hauler, mechanized boats and ship scraps.

103. After reviewing the revenue collection trends and the administrative capacity and also considering the tax proposals, the revenue target for FY 2007-08 has been determined at Taka 43 thousand and 850 crore, implying 17 percent growth over the revised revenue target of FY 2006-07. This includes Taka 10 thousand 838 crore on Income Tax, Taka 17 thousand 812 crore on Import Duty at import stage, Taka 14 thousand 800 crore on VAT and Taka 400 crore on other taxes and duties. Given measures indicated in the budget are implemented; I am optimistic that the proposed target could be achieved.

104. Non-tax revenue is also an important source of augmenting total resources of the government. In the past years, the share of non-tax revenue in the total revenue collected by the government has been 18 percent. In this context, the government has laid special emphasis on augmentation of non-tax revenue and has taken a range of measures.

Included among them are: expansion of non-tax revenue base, rational refixation of existing rates through regular review, exploring new areas, improvement of collection management and plugging the leakage. It is, therefore, expected that the non-tax revenue income will increase significantly in the next fiscal year

Fellow Citizens

105. Assured resource mobilisation from domestic sources is one of the preconditions for attaining economic sovereignty by a developing country like Bangladesh. However, the revenue collection is not increasing compared to the growth of GDP. In FY 2005-06, while the revenue-GDP ratio was 10.6 percent, by the end of current fiscal year this may slide down to 10.4 percent. In this context, raising the revenue-GDP ratio to 10.8 percent will turn out to be a great challenge. This would require undertaking a formidable task of expansion of tax base, improved quality of tax assessment, strengthened collection procedures, office automation, transparency and accountability of tax administration and applied research.

106. What is, therefore, required is to build a total quality management in our tax regime through long-term reforms. Also we have to earn the confidence of the taxpayers through motivational campaign. Formulation of a new law and separation of tax policy from tax administration to build a transparent and simplified tax regime in the country are under consideration.

Fellow Citizens

107. Despite political instability and administrative snags, the Bangladesh economy has experienced over time remarkable positive changes. The contribution of industry sector to GDP has increased from 15 percent in 2000 to 30 percent. Financial deepening has increased to 44 percent from 17 percent. Private sector credit flow has increased to 75 percent from 24 percent. The openness index of the economy increased from 18 percent to 41 percent. In banking sector, the share of private sector banking has increased from 0 percent to 60 percent. During this period, we made remarkable achievements in reduction of maternal and infant mortality, enhancing primary enrollment and gender parity in primary and secondary education. During the same period, income poverty has reduced remarkably. Our micro-credit system has been replicated in as many as 150 countries across the world. We have also earned Nobel Prize. The reputation of the performance of our armed forces in the peace-keeping missions has spread far and wide. All these have become possible due to hard work, undaunted spirit to overcome odds and entrepreneurial spirit of our people. I am confident that given favourable environment, Bangladesh will be able to march forward by competing with the counties in South and South-east Asia.

Fellow Citizens

108. While preparing this budget, I have exchanged views with the economists, researchers, members of the civil society, media personalities and business leaders. During my visit to Khulna and Rajshahi as part of this process, I have heard the views of the local elites and intelligentsia.

I have also sought guidance from Hon'ble Chief Advisor. I have had detailed discussion with the Secretaries of ministries and divisions on a number of issues including the economic situation, reforms and budget priorities, strategies and allocation. We have used all these inputs while formulating budget. I express my heartfelt thanks to those who participated in the process of exchanging views relating to budget preparation.

109. From this moment, any one can send his suggestions or proposals through e-mail or by surface mail from any corner of the country. All proposals or suggestions received by 14 June will receive our due considerations. We will incorporate all relevant issues and by the last week of this month we will finalise the budget with the approval of the Hon'ble President of the Republic.

Fellow Citizens

110. Ours is a nation glorified by immeasurable sacrifice. Its history is richly endowed by the glorious episodes of Great Liberation War and countless struggles to preserve our national identity. At times our history had been plagued by crises, calamities and malgovernance. We have countered them with undaunted resolve. The enviable achievements on our economic and social fronts in recent times stand as a testimony to our potential. Our march towards prosperity is sanguine, if we can forge unity based on the spirit of patriotism and tolerance. We would like to leave a glorious legacy such that our posterity will look back and see that in taking this country forward, we were relentless and courageous; we were unflinching in protecting our values; we were prudent in maintaining intergenerational equity; and that we were agile to make full use of our potentials.

Fellow Citizens

111. By combining all our strength, courage and wisdom, let us build a country where there will be no hunger and poverty; no spectre of malgovernance and no disparity. Let us join our hands in building Bangladesh as an abode of welfare, happiness and prosperity. May Allah bless us.

Allah Hafiz

(Concludes)