The Daily Star
BUDGET SPECIAL
2008 - 2009
DHAKA TUESDAY JUNE 10, 2008

Stocks

DGEN	3,100.67	2.48%
CSCX	5,927.86	2.17%

Asian Markets

MUMBAI	15,066.10	3.25%
TOKYO	14,181.38	2.13%
SINGAPORE	3,084.02	1.99%
SHANGHAI	Closed	

Currencies

	Buy TK.	Sell TK.
USD	68.10	69.10
EUR	105.98	110.60
GBP	132.37	137.52
JPY	0.64	0.68

SOURCE: STANDARD CHARTERED

Commodities

Gold	Oil
$ 904.07 (per ounce)	$137.27 (per barrel)

SOURCE: AFP

More News

5-year tax holiday for new industries to continue

The tax holiday benefits will be continued for another five years with some conditions for the newly set up industries.

According to the budget proposal, all industries set up in Dhaka and Chittagong division will be exempted from 100 percent income tax for the first two years of their establishment, 50 percent income tax for the next two years and 25 percent income tax for the last one year.

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3-year tax exemption for software, call centre

Software development, data processing and entry and call centre business will get a three-year tax exemption with effect from July 2008.

However, the ICT (information communication technology) stakeholders demanded such an exemption for a period of 10 years.

Tax exemption on income from housing projects outside urban areas

Finance Adviser, in his budget speech yesterday, proposed for tax exemption on income generated from construction of multi-storied buildings located outside urban areas for the next ten years.

Measures to cool down steel market

Fixed duties proposed on the import of meltable and re-rollable scraps, the two raw materials for steel manufacturing, in the wake of abnormal price hike of steel products.

The government also proposed to withdraw 15 percent value added tax (VAT) on the import of MS (mild steel) bar and rod.

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Tax reforms welcome, but business fears govt borrowing to eat up credit

STAFF CORRESPONDENT

Business cautiously welcomed yesterday's proposed budget with its cuts in corporate tax rates and import duties, but there were concerns that increased government borrowing would squeeze out the private sector from the credit market.

While the headlines may have been grabbed by the moves on safety nets and food security the business community was yesterday busy trying to make sense of a range of duty and tax changes that will impact their prospects in the coming year.

Top of the list of positives was the cut in corporate tax that will be reduced to 27.5 percent from 30 percent on listed companies and to 37.5 percent from 40 percent on non-listed companies. There was also praise for cuts in import duty on capital goods and some raw materials, and proposals for tax holidays in certain sectors.

The raising of tax thresholds in the Small Business sector was also seen as a plus.

"It is a little early to assess the whole budget, but instantly it looks more or less okay from the business point of view," said Fazlul Hoque, president of Bangladesh Knitwear Manufacturers and Exporters Association.

But the nagging doubt repeated by many business leaders was whether the government's plan to finance a large part of its Tk30,580 crore defict through domestic borrowing would soak up too much of the local credit supply.

"The government's possible huge borrowing from the banking system to meet budgetary allocations will cause a liquidity crisis, and that will affect bank interest rates and hamper normal growth in the industrial sector," said Anwar-Ul-Alam Chowdhury Parvez, President of the Bangladesh Garment Manufactures and Exporters Association.

Parvez's views were echoed by Syed Nazim Manzur, managing director of one of the country's largest shoemakers Apex Adelchi Footwear. "If the next fiscal year's budget is financed depending mainly on bank borrowing there is the possibility it will crowd out the private sector," he said.

The most positive reaction to the budget came from the President of Bangladesh Textile Mills Association (BTMA) Abdul Hai Sarker. "It is a people and industry friendly budget," he said, only moments after the finance adviser had finished making his statement.

"I am happy with the budgetary proposal, as the government has addressed the long cherished goal of a reduction of duty on the import of textile raw materials and intermediary goods," he added.

In the proposed budget duty on capital machinery and spares will be reduced to 3 percent from 5 percent, duty on raw materials to 7 percent from 10 percent and on intermediate raw materials to 12 percent from 15 percent.

The garment industry, the country's largest export sector, relies heavily on imported materials while cheaper capital goods will allow increased mechanization.

Cuts in corporate tax rates were especially welcomed by the leaders of the country's capital markets, who said they would further add to the incentives to list.

Salahuddin Ahmed Khan, chief executive officer of Dhaka Stock Exchange said:

"The revised corporate tax structure will encourage companies, especially the industrial units, to be listed on the stock market."

Salahuddin also welcomed the government's decision to offload more shares in state owned power, energy, telecom and industrial companies.

But not everyone believed the budget went far enough in encouraging growth. In the ICT sector for example industry leaders said they had hoped for a five year tax holiday for software developers and the soon to be opened call centres. Under the proposed budget the tax holiday will be three years.

Further duty cut on capital machinery

STAR

A plastic goods manufacturing plant in Dhaka. Finance Adviser Mirza Azizul Islam yesterday, in his budget speech, proposed further reduction of existing concessionary rate of duty on the import of capital machinery and spare parts from 5 percent to 3 percent.

STAFF CORRESPONDENT

Finance and Planning Adviser Mirza Azizul Islam yesterday, in his budget speech for 2008-09 fiscal, proposed further reduction of existing concessionary rate of duty on the import of capital machinery and spare parts from 5 percent to 3 percent.

He also proposed for reducing import duty on basic raw materials from 10 percent to 7 percent and 3 percent reduction of duty on the import of intermediate raw materials from 15 percent to 12 percent.

But, the highest slab of duty on finished products remains unchanged at 25 percent in the proposed budget.

But, to simplify customs procedure as it concerns the import of machinery and spare parts, he proposed to repeal the indemnity bond system and replace it with a concessionary 1 percent duty. For importing machinery for textile industries, similar benefit of concessionary rate and on the import of some other spares and inputs, special rate of 3 percent in place of existing 5 percent has been proposed.

The industry people, particularly those of the ready-made garment (RMG) sector, and the major importers of capital machinery in the country came up with mixed reaction in response to these proposals for the next fiscal.

In his reaction President of Bangladesh Textile Mills Association (BTMA) Abdul Hai Sarker said imposition of 1 percent concessionary rate on the import of machinery for textile industries was not good. "Otherwise, the reduction of duty on import of raw materials is appraised," he said.

President of Bangladesh Garment Manufacturers and Exporters Association (BGMEA) Anwar-Ul-Alam Chowdhury Parvez welcomed the decision for opening up bonded warehouses for exporters of all sectors. He said the concessionary duty on import of capital machinery should be 0.50 percent.

President of Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA) Fazlul Hoque welcomed the introduction of the concept of concessionary rate on import of capital machinery. "But the rate should be 0.25 percent as the bank interest rate is high," he said, adding that Tk 1500 crore should be allocated for export subsidies.

General Secretary of Bangladesh Re-rolling Mills Association (BRMA) Masadul Alam Masud said the government's proposed reduction of duty on import of capital machinery is good news for industrial sector.

But, President of Real Estate and Housing Association of Bangladesh (REHAB) Tanveerul Haque Probal said nothing is clear in the proposed budget regarding the import of reconditioned machinery.

Meanwhile, Finance Adviser proposed for providing bonded warehouse facilities to all 100 percent export oriented industries.

In the budget for 2008-09 fiscal, Mirza Aziz proposed allocating Tk.1, 050 crore as export subsidy.

Corporate tax reduced

STAFF CORRESPONDENT

Listed companies are to pay 27.5 percent corporate tax instead of existing 30 percent.

The finance adviser yesterday also proposed to reduce corporate tax on non-listed companies from 40 percent to 37.5 percent.

"The 45 percent tax for banks, insurance, financial institutions and mobile phone operators will, however, remain unchanged," the finance adviser said.

"For corporate tax-payers, I propose to impose income tax on dividend income in accordance with the applicable scheduled rates for companies instead of existing 15 percent," he said, adding that currently, according to Section 16CC of the Income Tax Ordinance, all companies, irrespective of profit earning or loss making, have to pay a minimum tax on the basis of their turnover which is clearly in breach of the fundamental principles of Income Tax.

"I propose to rescind this Section," Mirza Aziz said.

Stock market operators said although corporate tax cut was proposed for both listed and non-listed companies, in general the proposal will encourage the private companies to get listed on the stock exchanges.

"The revised corporate tax structure will encourage the companies, especially those in the industrial sector, to be listed on the stock market," said Salahuddin Ahmed Khan, chief executive officer of Dhaka Stock Exchange.

During his budget speech, the finance adviser also said the government has started the process of off-loading the shares of a number of state owned enterprises (SoEs) from the energy, telecommunication and industrial sectors in the capital market.

"It is expected that this initiative would positively contribute to employment generation and industrialisation," he said.

Mirza Aziz also said decision has also been taken to off-load government shares of nine SoEs in the power sector, 10 SoEs in the industrial sector and two enterprises in the telecommunication sector.

"Government has also taken steps to introduce Book Building System in the capital market to attract private companies having strong financial foundation," he added.

Deadline for e-cash registers installation extended

STAFF CORRESPONDENT

Finance Adviser ABM Mirza Azizul Islam has extended the time limit for installing Electronic Cash Registers (ECR) in all medium and large enterprises of the country.

In his budget speech yesterday, he said Value Added Tax (VAT) system is fundamentally based on input credit and audit mechanism.

But in our country, he said, most of the transactions of goods and services have no documentation, especially for small and medium enterprises, for which the enterprises are deprived from the benefits of inputs credit mechanism provided in the VAT regulations.

To ensure proper business record keeping, use of ECR was made mandatory from July 1, 2008 for all medium and large enterprises located within a city corporation area and in the district towns.

"But it appears that business people need some more time to procure ECR machines and get familiarised with the new system," said the finance adviser, proposing to introduce the system from January 1, 2009 in the divisional towns and from July 1, 2009 in the district towns.

At present, customs duty on ECR is nil. To ease the financial burden in procuring such ECRs for the ordinary traders, the finance adviser proposed to abolish the existing 15 percent VAT, 3 percent AIT and 1.5 percent ATV on import of ECRs.

Boost for SMEs as tax threshold increased

STAFF CORRESPONDENT

The minimum threshold of income tax and VAT for SME entrepreneurs has been proposed to be increased in fiscal year 2008-2009.

The government in the proposed budget yesterday has kept the income of the manufacturing SME entities out of taxes by defining the SMEs as entities having an annual turnover not exceeding Tk 24 lakh, which was Tk 20 lakh earlier.

The government also proposed keeping the income stemming from exports of handicrafts outside the purview of taxes from July 1, 2008 to June 30, 2011.

In his budget speech, Finance Adviser Dr Mirza Azizul Islam said, "With these new proposals our SME sector will see its desired growth."

The investment limit in cottage industries that are now charged with value added tax (VAT) has also been increased. The upper limit of investment in capital machinery has been enhanced from Tk 7 lakh to Tk15 lakh and annual turnover limit has been raised from Tk 20 lakh to Tk 24 lakh.

The budget has also proposed that the SME Endowment Fund be raised to Tk 200 crore in the next fiscal from Tk 100 crore now.

In addition, funding for the SME Refinancing Scheme of Bangladesh Bank has also been proposed to be augmented from Tk 300 crore to Tk 500 crore.

The finance adviser said an SME Foundation has been set up to implement the SME (small and medium enterprise) policies and strategies of the government, and bring required reforms to the sector.

He also said the SME Foundation, which comprises experts from public and private sectors, will be governed by a Board of Directors based on the principle of public-private partnership.

Nasreen Awal Mintoo, president of Women Entrepreneurs Association of Bangladesh (WEAB), has appreciated the government's proposed move to promote the SMEs.

"The new proposals will encourage more entrepreneurs, especially the women, to be involved in SMEs," she said.

She said in Bangladesh, the main problem is the implementation of any decisions, and the government should be more sincere in executing the decisions.

"If the good decisions are not implemented, entrepreneurship will not develop," she added.