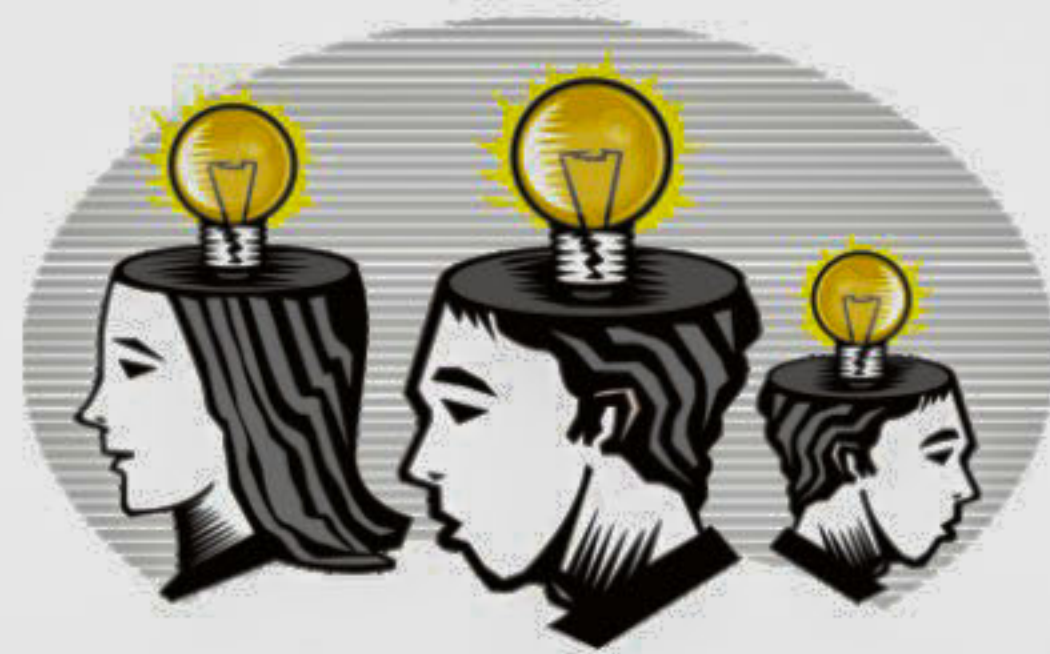


## Pockets



## of Change

DHAKA, MONDAY, MAY 16, 2011, E-MAIL: [business@thedailystar.net](mailto:business@thedailystar.net)

# Greater tax revenue from more trade, jobs

MD FAZLUR RAHMAN

**T**HE government can generate greater revenue and net more taxpayers if it simplifies the taxation system and provides incentives to new entrepreneurs, the managing director of the SME Foundation said yesterday.

"It is important for the government to collect revenue from internal sources to finance the national budget, as foreign assistance is gradually drying up," said Syed Rezwanul Kabir.

"But the small and medium enterprises will be able to generate employment and contribute immensely to poverty reduction, if the government prioritises them."

"Our ultimate target should be to build business, generate new tax revenue for the government and create jobs."

His comments came after the state-run foundation submitted a 32-point recommendation to the National Board of Revenue (NBR) on April 28, urging the government to make a raft of changes to the tax and VAT (value added tax) regime in the upcoming budget for the betterment of the sector.

SMEs make up 75 percent of the domestic economy. There are about 60 lakh SMEs and micro enterprises in Bangladesh, according to Asian Development Bank.

The SME is the largest sector in terms of employment generation, even though it accounts for 6 percent of the country's \$100-billion economy, according to Bangladesh Economic Review 2009.

The sector now contributes up to 25 percent to gross domestic product and accounts for about 40 percent of manufacturing output, 80 percent of industrial jobs and nearly 25 percent of the total labour force, according to SME Foundation.

Kabir said the foundation has prepared the recommendations, keeping revenue and employment generation in mind.

He said for the first time, the foundation has analysed every step in detail before making any recommendation. "We sat several times with stakeholders to know their potential."

Kabir said it is natural that the SMEs can demand a lot. "We have analysed how logical the sector's demands are and what impact it will have on revenue generation if implemented."

A team of six officials analysed and researched practices in other countries for six weeks, he said, adding that the foundation also appointed a consultant, a retired member of



Syed Rezwanul Kabir

*"Many of our agro-processing companies have reached out to the rest of the world. If they get incentives, they will be able to expand. Even if they profit initially, there will be a trickle down effect on the farmers and other people involved in the total process. It will not only help the agriculture sector, but also create huge employment"*

NBR customs, to do the things properly.

"Our first consideration was that the foundation will not incorporate any demand just for the sake of it. We have prepared the recommendations in a way that the SMEs get priority. We have analysed the demands in detail so that the SME can grow."

Kabir said the foundation did not only propose a tax or VAT waiver for the upcoming budget. "We have placed 32 proposals with NBR on VAT, tax, income tax and incentives for exporters. We also proposed effective tax slabs."

The foundation suggested the government impose duties on all imported raw materials for the growing plastic industry at the lowest tax slab of 3 percent, cutting it from an existing 5 percent. Export-oriented plastic industries should be allowed inter-bond transfer facilities too, it said.

It urged NBR to double the time for bond renewal from one year, as the annual renewal system involves cost and time.

It said the value added taxes should be completely withdrawn from powder-milk produced from liquid milk supplied by domestic dairy farms.

The advanced income tax on the export of leather goods and footwear should be cut by half to 0.25 percent, which will act as incentive for the industry, it proposed.

The foundation said the government should specify the agro-processing industries that will enjoy income tax exemption for the next five years to 2016.

In 2008, the government exempted agro-processing industries from paying taxes. But as the authorities did not specify the industries eligible for the tax holiday, many such industries are not getting tax amnesty, despite being agro-processing farms, the foundation said.

It proposed that shops or enterprises run by women should get income tax and VAT exemption facility for two years.

The foundation urged the government to give cash incentives against the export of plastic products, leather goods and footwear. The women exporters should be given 5 percent more as incentives than their male counterparts.

Kabir said the country's small entrepreneurs do not understand the issue of income tax at all. "We propose a separate income tax slab or category be formulated for small or new entrepreneurs."

"They will definitely have to pay taxes, but they will not be able to pay taxes on the first year after they start any new venture."

He said the newly formed companies, particularly run the ones run by women entrepreneurs that forms 10 percent of total business, should be given some incentives, including cash, to help them secure a footing.

He said the SMEs want to pay VAT. "The newly formed entities have to be given an opportunity for a year or two initially."

He said NBR could unveil a card for them, just as Bangladesh Krishi Bank has introduced the 'Farmer's Card' for farmers. "NBR can provide an identity card to entrepreneurs, particularly women, for a certain period. Dur-

ing the time, they will be exposed to a tolerable level of VAT."

"It will help generate more revenue for the government, as in the absence of simple processes many entrepreneurs will want to evade taxes or pay less than required with the help of unscrupulous VAT officials."

"Introduction of the card will also dramatically increase the number of taxpayers in the country. It will also save entrepreneurs from unnecessary harassment. We will have to give an opportunity to the people to walk first, and then we can ask them to run. Otherwise, the system will not work effectively."

"They must be given space to breathe so that they can slowly become an integral part of the growing economy. Once the business stands on a sound foothold, the usual rates for tax and VAT will be applicable."

Kabir said the foundation fully agrees to the government's target to generate revenue. "We just have to streamline the system."

He said in the service sector, restaurant owners go through unnecessary harassment in the case of VAT. "We propose to simplify the process. We also see problems in income taxes. The small entrepreneurs face discrimination."

Kabir said agro-processing industries should be given incentives so that they can expand further. "Many of our agro-processing companies have reached out to the rest of the world. If they get incentives, they will be able to expand."

"Even if the processing companies profit initially, there will be a trickle down effect on the farmers and other people involved in the total process. It will not only help the agriculture sector, but also create huge employment."

The SME Foundation chief executive said the genuine entrepreneurs in Bangladesh should be given incentives. "The SME Foundation stands ready to help identify the genuine entrepreneurs to complete the process. Bangladesh Bank can also be involved in the process."

He said the SME sector is also facing problems because of a scarcity of power and gas.

He said there is a tendency to under-invoice in the country to evade duties. The government should strictly check the illegal practice, he added.

"The foundation has made the recommendation so that the government can collect additional revenue, as well as help SMEs grow further and contribute to the economy," he said.

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*The SME is the largest sector in terms of employment generation, even though it accounts for 6 percent of the country's \$100-billion economy, according to Bangladesh Economic Review 2009*

## SME entrepreneur and banker conference in Sylhet

STAR BUSINESS REPORT

Bangladesh Bank and the SME Foundation are going to jointly organise the 'SME Entrepreneur and Banker Conference' in Sylhet on Wednesday, to bring entrepreneurs and financiers under one umbrella.

Finance Minister AMA Muhith is scheduled to inaugurate the daylong event at Rose View Hotel Conference Hall in the divisional city.

The event also includes a workshop styled the 'Responsibility and Contribution of Bankers in developing SME Sector'.

Industries Minister Dilip Barua, Bangladesh Bank Deputy Governor Murshid Kuli Khan and Executive Director Chowdhury Mohidul Haque, SME Foundation Chairperson Aftab ul Islam and Managing Director Syed Rezwanul Kabir and Sukamal Sinha Choudhury, general manager of Bangladesh Bank SME and Special Programmes Department, are also expected to attend the programme.

The workshop will discuss the steps the SME Foundation has taken to develop the sector. It will also discuss the central bank's role in increasing the flow of credit to the sector.

A panel of experts, which includes entrepreneurs and bankers, will speak about the problems and potential of SMEs sector in the greater Sylhet region, an official of SME Foundation told The Daily Star yesterday.

## A designer at heart

MD FAZLUR RAHMAN

**H**IS first investment was as low as Tk 500. SM Zahid Hossain Akash used it to make two 'fatuas'. The thirty-year-old from Jessore sent the pair to a leading fashion house in Dhaka. It was enough to win a bulk order and thus he cemented a career path he had dreamt off.

Upon completion of a two-year diploma on fashion designing from Bangladesh Institute of Design in Dhaka in 2005, Akash began to work at a fashion house in Tangail.

He worked in Tangail for a year until he landed a job at another fashion house in Dhaka.

That was the beginning. The owner of the fashion house also gave him some money, which he used to manufacture more items.

While working at a fashion house, 'Shuti', he started his own venture 'Shutoy Bona' (knitted by yarn) in his hometown Jessore two years ago.

"Shutoy Bona is doing fine. By Jessore standards, our business is very good," he told The Daily Star.

The 'salwar kameez' is the main attraction of his enterprise, which also produces saris, panjabis and shirts.

He employs about 25 workers at his factory in Gopibagh in Dhaka. He even sub-contracts a part of the orders to five producers based in Mohammadpur. He has also employed a couple of designers to assist him.

Akash, who collects raw materials from Manikganj, Tangail, Narsingdi and Islampur, designs his items in Dhaka and sends those to Jessore, where about 80 workers make copies of the designs.

On average, he produces 300 pieces of salwar kameez, 200 pieces of single women's tops, 50 pieces of short panjabis, 300 pieces of saris, and 1,400 shirts every week.

He said the saris he designs are displayed in showrooms of a leading brand in the city.

Akash recently joined a fashion house as chief designer. He has wanted to become a designer since childhood, he said, adding that aspiring designers in the country should

*Aspiring designers in the country should concentrate on practicality rather than books and theories to make a footprint in the sector, says Akash*

concentrate on practicality rather than books and theories to make a footprint in the sector.

He said although his boutique Shutoy Bona faces some financial difficulties, he has been able to manage with good management in just two years.

In future, the entrepreneur plans to open showrooms in Dhaka and different districts under the Khulna division to expand his business.

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SM Zahid Hossain Akash