Budget proposals need further review

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The budget for 2011-12 placed recently by the finance minister is now the main subject of discussion for all the stakeholders, especially the taxpayers all over the country. No doubt, certain proposals are realistic in the context of Bangladesh and these are: alternative dispute resolution, minimum tax, extension of tax holiday benefits (excluding tourist industry), expanding the avenues for withholding tax, rebate on investment allowance, withdrawal of conditions for investment in deposit pension scheme, increasing threshold for individual tax, imposition of wealth surcharge, compulsory tax filing for NGOs, expanding avenues for tax deduction at source, filing return of tax deducted at source and deposited, outlining and fixing limit for corporate social responsibility, payment of tax by Prime Minister, ministers, Supreme Court judges, government officials and few more positive steps. Although these steps were not enough but still encouraging for the simplification of tax systems, equity concept and business friendly environment.

On the other hand, certain steps proposed in the Finance Bill 2011 will definitely and adversely affect the economy and will not be well accepted by general taxpayers and these are discussed as follows.

• Whitening of black money: First of all, this is unfair and unethical. Since the finance minister in his post-budget press conference has admitted his inability to come out from the grip, I will refrain myself from commenting on justification of this provision. However, I would simply mention that last year, similar provision was introduced, saying that if investment is made in purchase of bond under Bangladesh Infrastructure Finance Fund, the benefits will be available but such fund does not appear to have been launched as yet. Further, when it was inevitable to reintroduce such provision, in order to encourage industrial investments and improving the capital market situation, such benefits could also be extended to investment in stocks and securities.

• A new chapter -- Alternative Dispute Resolution -- has been introduced for arbitrating any dispute between tax authorities and taxpayers. In the past, few years before, there was "Tax Settlement Commission" for the same purpose. This is no doubt a good step but we have a fear that it might face a fate like Tax Ombudsman, which was introduced after long time of demands from various stakeholders. However, I hope that my fear is unrealistic and does not come true.

• The corporate tax rate for cigarette manufacturing companies has been enhanced to 42.5 percent at par with banks and financial institutions. Cigarette manufacturing companies are taxed at present at normal corporate tax rates. This is a good step for discouraging the use of tobacco. However, corporate tax rate in general has not been reduced. It has been a demand from genuine taxpayers for long. The concept is that the corporate tax rate will be lower with wider tax base covering more companies for reasonable tax payments and more coverage of potential taxpayers in the tax net.

• No steps appear to have been taken to reduce the discretionary powers of assessing officers and as a result, corruption by assessing officers and hassle for the taxpayers will remain as usual. Very often, the assessing officers reject the audited accounts under some pretext or other without any justification and adequate homework. Further, tax income is estimated and expenses are also disallowed for no apparent reasons in many cases. This should not be allowed to continue. Any actions taken by the assessing officers must be supported by clear-cut evidence, strong justification and reasons.

• The appointment of a judicial member in each bench of the tribunal has not been considered. It is a long standing demand of the taxpayers and consultants for more judicious and transparent practices. Tribunal members are appointed mostly from the Commissioner of Taxes. In some cases, it happens that Commissioner of Taxes who issued the appeal order or approved the assessment order is appointed as the member of tribunal for disposing of the same matter dealt by him earlier. In such a situation, a fair judgment can not be expected. Further, the tribunal being the highest authority and a quasi-judicial body in the tax department, the matters raised to them should be of legal nature than the fact finding ones. But unfortunately, many decisions issued by tribunal are almost similar in nature and basically in line with decisions given by the tax authority. People's expectation from the tribunal is very high and the taxpayers always expect to resolve the issues within the tribunal level without resorting to higher court. In essence, to ensure its neutrality and fairness, the tribunal should be comprised of members including one independent person from outside the tax department and especially a judicial member having legal expertise.

• Except for paying tax by the Prime Minister, ministers, judges and government officials from their own pockets, no major steps have been taken for widening the tax net by bringing in more income earners in the tax net. In case of government officials, taxes were paid by the government by way of accounting adjustments. Without taking other avenues, TIN so far issued should be followed strictly for filing of income tax returns and except normal tax returns, minimum tax, say of Tk 5,000, be imposed on all TIN holders since they belong to high income earner groups. This will help boost revenue generation by the government and people are likely to be more tax oriented.

• No consideration has been made for withdrawing or relaxing the existing condition of taking NBR approval and other conditions for spending money on CSR. The benefits proposed for CSR are not likely to bring the desired results unless the conditions are removed.

• No proposal appears with respect to investment by "Provident Fund", "Gratuity Fund", "Superannuation Fund" and "Pension Fund". In our country, no pension and health insurance benefits are sponsored by state for private sectors employees and in such a situation, such an incentive for investments by such funds was absolutely essential apart from avenues of investments (allowing tax free easier investment in Sanchaypatra and similar other instruments).

• The Finance Bill 2011 has proposed extending tax holiday for another two years up to June 2013, but strikingly tourism industries have been kept out of tax holiday. Tourism is one of the thrust sectors in the emerging economy of Bangladesh. As such, tourism facilities, especially in the upcountry areas, should be given special incentives including tax holiday facilities at least for next few years until the sector becomes matured. Since there is ample scope for employment generation, this sector should be looked into with positive considerations.

Considering the people's expectation, general bottlenecks in our taxation system, people's apathy towards payment of tax, poor tax-GDP ratio, reducing corruption and sufferings of the genuine taxpayers, developing a good relationship between the taxpayers and collectors (as opposed to existence of mistrust in many cases), lack of adequate manpower with required expertise, weak tax administration structure in terms of close monitoring and application of fair judgment and many other related issues, the budget proposals deserve further insight and review not to speak of total reforms of the taxation systems.

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Finance Minister AMA Muhith presents his budget proposals for fiscal 2011-12 in parliament on June 9.

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Air India faces turbulent flight to survival

REUTERS, *Mumbai*

Air India, a relic of state ownership threatened by losses, bloated costs and more nimble rivals, needs to secure a massive debt and operational overhaul if it is to survive in a market growing at 20 percent a year.

The airline has not posted a profit since merging with former duopoly partner Indian Airlines in 2007 and relies on handouts from the government to survive. It is behind on its payroll obligations and was forced one day last month to cancel a handful of flights because it had not paid its fuel bills.

Air India and 26 banks are in talks to restructure $4 billion of working capital debt in a deal that would force lenders including State Bank of India to accept equity in the carrier and cut lending rates to about 8 percent from 11-13 percent, saving it $133 million in interest costs.

Banks are not happy about the plan but may have no choice.

"There is no other option for banks but to go for it. But what they are asking for is not reasonable," said a banker involved in the ongoing negotiations. "If it is reasonable, we will approve it," he said.

Even if it can persuade banks to revise a payment schedule for $3 billion in local currency debt due on June 30, Air India needs a drastic revamp or privatisation that may require more money and political will than the government can muster.

With New Delhi opposed to privatisation but unwilling to put it out of business and banks poised to agree to a restructuring for lack of a more attractive option, Air India may well limp along in its current zombie state.

"Fundamentally, Air India has reached a dead end," said Kapil Kaul, chief executive for the Indian subcontinent and Middle East at the Centre for Asia Pacific Aviation (CAPA).

"From a business case standpoint it should have ceased to operate a few years back had it been a private company."

Air India lost more than $1 billion in the year that ended in March 2010, the last year for which it posted figures. Its domestic market share has dropped to fourth from third, behind private sector rivals Jet Airways, Kingfisher Airlines and budget carrier IndiGo.

A recent 10-day pilot strike forced it to cancel 90 percent of domestic flights, costing it nearly $56 million, further denting an already battered image and prompting it to lure back customers with costly discounts.

Air India, which is scheduled to take delivery of the first of its 27 Boeing Dreamliners by the end of the year, may defer some deliveries, according to people familiar with the matter. The carrier itself says the orders are on track.

The government of Prime Minister Manmohan Singh has been pushing for the airline to be restructured, but has otherwise been quiet on its future.

An earlier turnaround plan by the airline was rejected by creditors and the government as unrealistic. Air India then hired consultants Deloitte Touche Tohmatsu to come up with another proposal.

The latest plan would focus on a hub-and-spoke route model, cut costs by redeploying staff and unload non-core real estate. It plans to lease some of the 14 vacant floors in its landmark building in south Mumbai to raise about $1 billion over five years, according to a banker.

"It's a Catch-22 situation for them," said one person familiar with the plan. "On the one hand you require more investments to regain market share, but your financial position does not allow you to invest."

And rivals are investing heavily in an Indian aviation market growing nearly 20 percent a year.

Last Thursday, budget carrier GoAir said it ordered 72 Airbus planes worth $7.2 billion. Earlier this year, IndiGo placed a $15.6 billion order with Airbus for 180 planes in what it called the biggest-ever commercial jet order.

Air India has more than $9 billion in debt as well as outstanding dues both to airport developers and state oil firms, which since December have forced it to pay for its fuel as it uses it, not on credit.

Lenders include ICICI Bank, a private sector player that in January won a mandate to refinance loans worth 55 billion rupees ($1.2 billion), and state-run Bank of Baroda, with exposure of 38 billion rupees, a banking source said.

State Bank of India, the country's biggest lender, has a comparatively modest exposure of 12 billion rupees to Air India. SBI's investment banking arm is managing the debt revamp.

According to the restructuring plan, part of the debt would be converted to long-term loans at fixed rates of interest with the remainder converted into preference shares to be redeemed after 15 years, giving the lenders equity in the airline.

Air India's more-than $3 billion in overseas debt, held by lenders including Citibank, Standard Chartered and JP Morgan, is not part of the restructuring.

There is recent precedent for such a deal. Earlier this year, rival Kingfisher ceded a 5.68 percent stake to ICICI and a 23.4 percent stake to a group of 13 banks led by SBI as part of a debt restructuring.

Bankers say the Kingfisher deal was comparatively easy given what they believe are brighter prospects for the private sector carrier controlled by beer and liquor tycoon Vijay Mallya.

Indian banks rarely demand a major borrower's assets and go to great lengths to avoid classifying a loan as non-performing.

Civil Aviation Minister Vayalar Ravi said last week that a restructuring plan had been approved by bankers and would head to the cabinet in coming weeks, although bankers told Reuters they have not yet signed off on it.

"From our side the plan was ready quite some time back," said an Air India spokesman. "The next step is to send it to the government."

In a letter to staff last week, Air India's chairman, Arvind Jadhav, apologised for the delay in salary payments.

"You are well aware that Air India is passing through a very challenging and critical phase. Increasing debts, mushrooming interest burden and increasing fuel costs are financially crippling the company," he wrote in a memo obtained by Reuters.

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