

# Draft VAT law to cut power of tax officials

STAR BUSINESS REPORT

A proposed VAT Law 2011, drafted by the National Board of Revenue (NBR), seeks to cut discretionary power of taxmen and abolish their authority to arrest delinquent tax-evaders -- a move that is likely to ease much of businesses fear of harassment.

"It is really a praiseworthy step to create a taxpayer friendly environment," said Asif Ibrahim, president of Dhaka Chamber of Commerce and Industry (DCCI).

His remarks came at a consultation workshop on draft VAT (value added tax) Act 2011 with businessmen at DCCI.

DCCI, NBR and Policy Research Institute organised the programme.

NBR Chairman Nasiruddin Ahmed, who was present at the meet, said the tax authority takes various measures to create a taxpayer friendly atmosphere.

He said the new VAT law, after passage from the parliament, may require two-three years for

full implementation. Time will require for building administrative capacity of officials and to complete automation of tax administration.

The proposed VAT law, which is set to replace the two-decade old VAT Act 1991, is likely to be placed in the parliament in the next budget session, in June 2012.

Under the draft law, the power of arresting taxpayers by VAT officials, as given by the current law, will go. The discretionary authority of officials will also be cut, said Barrister Jahangir Hossain, commissioner of Large Taxpayers' Unit for VAT in Dhaka.

To reduce the hassles of entrepreneurs to get registration for branch offices, the draft law proposes a single registration of a company instead of registration from tax offices for branches located at different places.

It also proposed abolishment of the system of determining taxes based on a pre-sale price of a product approved by tax office.

The new law will determine taxes based on a fair transaction value of a product. No prior approval will be required.

He said withdrawal of the provision of price approval by tax officials is likely to cut the number of disputes and cases against the NBR.

"Some 80 percent cases related to VAT originates from price approval disputes. Abolishment of the system will make the law taxpayer friendly," he said.

The existing law does not have that the provision of VAT adjustment deducted at source. But the new law provides businesses the scope of tax adjustment for VAT deducted at source.

It will encourage tax compliance since additional tax payment through VAT returns will be much less after adjusting for the amount withheld, Hossain said, adding that refund processes will be eased under the new law.

The draft law also aims to trim the list of VAT exemptions, which will increase revenue collection.

The government incurs losses of Tk 18,000 crore or 2.4 percent of GDP for giving VAT waiver to various products and commodities. He said the tax collection will rise if the exemption list can be narrowed down.

The draft law, which proposes to fix a single VAT rate at 15 percent for all sectors, allows submission of VAT returns online and enable businesses to pay VAT through electronic bank transfers, credit cards and certified banks cheques as documents along with treasury challan.

Others include waiver from VAT to businesses logging up to Tk 24 lakh turnover a year.

DCCI President Ibrahim, however, called upon NBR to withdraw the provision of charging Advanced Trade VAT in the draft law and suggested plugging the loopholes of tax evasion.

Businesses also demanded setting the rate of penalty for various offences based on a rule instead of allowing tax officials to determine the rate of penalty.

They also proposed to reduce the rate of VAT from present 15 percent to enhance the rate of compliance.

"There are 3-4 lakh retailers whose transaction will be huge at a whole. The NBR should focus on them," said Mohiuddin Monem of Abdul Monem Ltd (AML).

The NBR chairman said the tax authority will continue discussion with stakeholders to clear ambiguity and fears of businesses to make a taxpayer friendly VAT law.

Noting the NBR move to form Alternative Dispute Resolution (ADR) tribunal to settle pending tax related cases at courts, he said the ADR will be formed in January next year taking a list of persons in the panel nominated by the private sector.

"It will cut discretion of the NBR," he said.

He also said the Chittagong Customs Office will remain open for more hours after 5pm along with banks to facilitate overseas trade.



**ICB ISLAMIC BANK**  
Atiur Rahman, governor of Bangladesh Bank, cuts a cake at the launch of ICB Easy Pay service -- an electronic fund transfer system -- of ICB Islamic Bank, at a programme in the capital recently. Mamoon Mahmood Shah, managing director of ICB Islamic Bank, was also present.



**SOUTHEAST BANK**  
Mahbulul Alam, managing director of Southeast Bank, opens the 79th branch of the bank at Kotowali in Chittagong recently.

## Stocks lurch in the red

STAR BUSINESS REPORT

Stocks declined for a second week -- 5.81 percent -- as investors refrained from making new investments.

The benchmark General Index of Dhaka Stock Exchange closed at 4,932.30 points, after falling 304.46 points.

The index fell below the 5,000-point level for the second time in six weeks.

"Institutional investors remained inactive due to the liquidity crisis," said Akter H Sannamat, a chartered accountant and analyst.

He also said the central bank is concerned about efforts to control inflation, but it should also give some liquidity support to banks to ease the crisis

"A circuit breaker might be imposed on the index to stop its relentless slide. The market will start to gain, if the regulator imposes it soon," he said.

Sannamat suggested that the interest rate of margin loans should be waived to help small investors.

"After selling shares, most investors adjusted equity and failed to buy as a result. The regulator should now encourage investors to buy," he added.

The week consisted of four trading sessions as the market was closed on Tuesday, a public holiday. The market was down in all four sessions.

All sectors retraced this week as stocks with the face value of Tk 100 started trading with new face value of Tk 10 from the first trading day of the last week.

The cement sector fell 11.42 percent to become the biggest loser, as Lafarge Surma lost 15.86 percent.

The financial sector also suffered heavy losses: life insurers 8.68 percent, general insurers 8.04 percent, non-bank financial institutions 7.06 percent and banks 5.27 percent.

# India inches closer to crisis as rupee retreats

REUTERS, Mumbai

India may face its worst financial crisis in decades if it fails to stem a slide in the rupee, leaving the Reserve Bank of India (RBI) with a difficult choice over how to make best use of its limited reserves to maintain the confidence of foreign investors.

If the RBI is too timid, it risks adding fuel to the ire of portfolio investors, which India relies on heavily to cover its imports tab.

Aggressive intervention would leave the central bank open to criticism that it is wasting precious money on problems that are beyond India's control anyhow, notably Europe's debt crisis.

Unlike most of its Asian peers, India has recently been running large current account and fiscal deficits. That means it must attract sufficient foreign money -- namely U.S. dollars -- to close the gap, and a weaker home currency makes that costlier.

This is a perennial problem for India. The current situation is so worrisome because India is grappling with big internal and external economic threats simultaneously. Growth is slowing. Inflation remains high. Political paralysis has stymied

domestic reforms.

The RBI, the last line of defence against a currency meltdown, has cautiously begun to support the rupee, but its firepower may be more limited than its \$300 billion in reserves would suggest.

Beyond India's borders, Europe is the biggest worry. As its banks leverage, investment money has flooded out of India's markets. If Europe's debt troubles deteriorate, India could be hit with a balance of payments crisis as severe as the one that forced a sharp devaluation in 1991.

The rupee, which has dropped 16 percent in the past four months, got a reprieve last week after the world's big six central banks banded together to try to ease dollar funding strains, helping it to snap a four-week losing trend.

But analysts widely expect the rupee, trading on Monday at 51.26 per dollar, to resume its slide.

"The Indian currency will be the first casualty of a deterioration in the euro zone crisis," said Rupa Rege Nitsure, chief economist at Bank of Baroda in Mumbai.

If Europe's crisis deepens, India's trade deficit would widen even more rapidly, and it would have even more

trouble attracting foreign capital.

"Risk appetite will obviously collapse and gradually the currency crisis is likely to take the shape of a balance of payments crisis," Nitsure said.

Worries about India have spiked in tandem with concern over Europe. UBS hosted a client conference call about India on November 29, which it announced with an email headlined "India explodes." Deutsche Bank sent out a report on November 24 entitled, "India's time of reckoning."

"Suddenly everything seems to be coming to a head in India," UBS wrote. "Growth is disappearing, the rupee is in disarray, and inflation is stuck at near-record levels. Investor sentiment has gone from cautious to outright scared."

India's current account deficit swelled to \$14.1 billion in its fiscal first quarter, nearly triple the previous quarter's tally. The full-year gap is expected to be around \$54 billion.

Its fiscal deficit hit \$58.7 billion in the April-to-October period. The government in February projected a deficit equal to 4.6 percent of gross domestic product for the fiscal year ending in March 2012, although the finance minister said on Friday that it would be difficult to hit that target.



**BAY GROUP**  
Shamsur Rahman, chairman of Bay Group, and MA Quader, chief executive officer, inaugurate a new Bay Emporium outlet at Badda in the capital recently.

## Two Micromax handsets hit market

STAR BUSINESS DESK

Micromax has recently launched two new multimedia handsets, Micromax X261 and Micromax X268, the company said in a statement yesterday.

The Micromax X261 has a 2.2 inch screen with 176x220 pixels resolution. It has a price tag of Tk 2,799.

Its audio and video player supports multiple formats including AVI, 3GP and MP4. The set is also equipped with 2.1 version bluetooth connectivity and a 1.3 mega-pixel camera with FM radio and recording facility.

The second set that is priced at Tk 2,350 offers all utility factors which come with a screen size of 2 inch.

The phone also provides a standby time of 11 days. The GPRS phone has the facility to connect to internet service. The set has a storage capacity of

## Worries grow over IMF loans to Europe

REUTERS, Washington

The prospect of European heavyweights like Italy or Spain turning to the IMF for rescue loans is worrying the United States and other nations that fear they could suffer losses on funds they have extended to the IMF.

The International Monetary Fund cannot be expected to step in as a substitute for a stronger commitment by Europe which needs to assume the brunt of any losses on emergency loans, a senior US official said on Friday.

Despite the International Monetary Fund's stable record - no borrower has ever defaulted on an IMF loan and no country has ever lost money lending to the IMF - there are concerns about the IMF's growing exposure to the euro zone.

That exposure could take a quantum leap if Italy and Spain need bailouts, a level of assistance that would almost certainly dwarf the loans already approved for Greece, Ireland and Portugal in deals engineered with the European Union.

Emerging markets, which are contemplating lending more money to the IMF -- which couples monetary assistance with tough conditions that seek to ensure a country does not default -- have also raised concerns in the IMF about the risks to the fund's capital, officials

## Tax dept freezes bank accounts of Kingfisher Airlines, Air India

REUTERS, Mumbai

India's tax officials have frozen 11 bank accounts of Kingfisher Airlines and 10 of Air India AIR.UL earlier this month as they have failed to pay their service tax dues, an official from the Mumbai service tax department said on Friday.

State-run carrier Air India owes the department 1.5 billion rupees, while India's third largest airline Kingfisher owes the department 700 million rupees for the April-August period, said S.K.Solanki, commissioner of service tax (zone 1, Mumbai commissionerate) of the Central Board of Excise and Customs.

Service tax is an indirect tax which is imposed on services called "taxable services."

Many Indian carriers including state-run Air India are troubled by rising fuel costs and price wars emanating from intense competition causing investors and government to worry about their survival.

The Vijay Mallya-owned Kingfisher is desperately scouting for funds from potential investors

## Motorola wins German patent case ruling vs Apple

REUTERS

Motorola Mobility won a preliminary injunction against Apple Inc in Germany, which could bar the sales of iPhones and iPads in the country.

A regional German court in Mannheim ruled on Friday that Apple Sales International -- European sales subsidiary of Apple in Cork, Ireland -- must stop selling or distributing mobile devices that infringe certain Motorola patents.

The ruling, which relates to cellular communications patents, could bar the sales of all Apple products that use the patents such as iPhone 4 and iPad 3G, Germany-based patent expert Florian Mueller said.

"The ruling targets Apple's European sales organization but relates only to that entity's sale to German customers," Mueller added.

Motorola Mobility said it has been negotiating with Apple and offering the company "reasonable licensing terms and conditions since 2007."



**EMIRATES**  
Yiannis Vrentzos, managing director of Olympiacos FC, and Terence Flynn, manager for Greece of Emirates Airline, attend a programme in Athens recently where Emirates announced the renewal of its sponsorship with Olympiacos for another two seasons.



**MTB**  
Mohammad Monjur Alam, mayor of Chittagong City Corporation, inaugurates the Karnaphuli EPZ branch of Mutual Trust Bank in the port city on Wednesday. Anis A Khan, managing director of the bank, was also present.