How tenable is the case against reduction in corporate tax?

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FOLLOWING the announcement by the National Board of Revenue of its plan to gradually reduce the rate of corporate tax in Bangladesh starting from the next fiscal year, views have been expressed from some quarters contesting the case for corporate tax reduction. This view seems to rest on the following five arguments.

i)The average corporate tax in Bangladesh is one of the lowest in South Asia and is close to the average corporate tax rate of South Asian countries.

ii)In the backdrop of overt dependence on debt-financing for investment by the corporate sector, a reduction in corporate tax may not have adequate positive impact on investment.

iii)If supportive measures such as conducive business environment and supportive infrastructure are not put in place, increasing investable surplus through lowering of corporate tax rate will likely have only a limited impact on investment.

iv)It is a common practice to impose higher tax rate on sectors that earn high rates of profit and on that ground the existing high rate of corporate tax on banks, insurance companies and mobile phone companies should continue.

v)Subsidised credit to domestic market oriented SMEs will be more successful in stimulating investment than reduction in corporate tax rate.

Let us examine these arguments one by one.

The evidence that has been put forward in support of the first argument shows that the rate of corporate tax is 34 percent in both Pakistan and India, 22 percent in Vietnam, 20 percent in Thailand, and 17 percent in Singapore against 27.5 percent in Bangladesh. Among these countries, Vietnam, Thailand and Singapore have better track records of attracting foreign direct investment compared to both Pakistan and India. Given that Bangladesh desperately needs FDI to supplement its meagre indigenous investable resource base, the suggestion that Bangladesh should follow the example of the later countries instead of the former hardly makes sense.

In presenting the evidence, it has been argued that the corporate tax rate applicable to publicly traded companies (27.5 percent) in Bangladesh is the relevant tax rate to compare with the tax rate in other countries. This does not sound very logical given that listed companies constitute a tiny fraction of the corporate sector in Bangladesh unlike most other countries mentioned in the evidence. Also, as argued in a recent article in a local daily, the comparative position with respect to the corporate tax rate presented in the evidence gives a distorted picture as it compares the lowest corporate tax rate in Bangladesh with the highest rate in the neighboring countries.

When corporate tax is reduced, it raises after-tax profit of the company and, thereby, provides the incentive for further investment. As long as the cost of fund remains unchanged, this incentive will be there irrespective of the mode of financing -- debt or equity. So, the second argument that the high incidence of debt financing in Bangladesh will result in lower investment response against reduction in corporate tax rate, does not seem to make much sense.

Again, one reason behind the high incidence of debt financing in Bangladesh is the system of double taxation on corporate profit entailed in deducting interest payment but not dividend payment from gross profit for calculating taxable net profit and then taxing dividend income again as part of personal income. Reduction in corporate tax rate will bring down the ill effect of this double taxation and will take away the bias towards debt financing as opposed to equity financing.

The third argument that reduction in corporate tax rate will fail to create adequate investment response is based on the assumption that reduction in corporate tax rate will be accompanied by status quo in infrastructure and investment climate situation. This assumption does not seem to be very realistic.

The instance of some countries imposing higher tax rate on sectors earning super normal profit (fourth argument) does not seem applicable to banks and mobile phone companies in Bangladesh currently because of the following reasons.

a)The rate of profit in these sectors has come down sharply in recent years.

b)Year-to-year fluctuations and inter-company variations in the rate of profit have also increased significantly in these sectors in recent years.

c)Both these sectors have important forward linkages with the rest of the economy, which justifies the case for reducing corporate tax rate in these sectors. Banks constitute the main source of credit to the private sector. A reduction in corporate tax rate for this sector will facilitate growth of credit to the private sector by favourably affecting the lending rate. Similarly, rapidly expanding use of mobile phone in Bangladesh has played a critical role in bringing down transaction costs and facilitating accelerated growth of the economy. A reduction in the corporate tax rate on mobile phone companies is likely to strengthen this process by encouraging more investment by these companies that will improve the coverage and quality of their service and may bring down costs substantially.

The fifth argument that expanded flow of subsidised credit to domestic market oriented SMEs will spur investment is quite perplexing. Several questions arise here.

First, why is the recommendation limited to domestic market oriented SMEs? Why have the export oriented SMEs been left out?

Second, if expanded flow of subsidised credit to domestic market oriented SMEs spurs investment, why would the same not happen when lending rates are favourably affected through reduction in corporate tax for banks and financial institutions?

Third, if investment response in the case of reduction in corporate tax rate is constrained by lack of improvement in infrastructure and investment climate, why should the same not happen in the case of expanded subsidised credit to domestic market oriented SMEs?

Finally, studies and empirical evidence have time and again shown that a lack of access to collateral free credit rather than the high cost of credit constitutes the binding hurdle to financing SME development in Bangladesh. Hence the prospect of increased investment in the face of expanded flow of subsidised credit to domestic market oriented SMEs remains suspect.

So, on the whole the case against reduction in corporate tax rate appears quite weak and untenable.

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Apple, Google settle smartphone patent litigation

REUTERS, San Francisco

APPLE Inc and Google Inc's Motorola Mobility unit have agreed to settle all patent litigation between them over smartphones, ending one of the highest-profile lawsuits in technology.

In a joint statement on Friday, the companies said the settlement does not include a cross license to their respective patents. "Apple and Google have also agreed to work together in some areas of patent reform," the statement said.

Apple and companies that make phones using Google's Android software have filed dozens of such lawsuits against one another around the world to protect their technology. Apple co-founder Steve Jobs called Android a "stolen product."

Google and Apple informed a federal appeals court in Washington that their cases against each other should be dismissed, according to filings on Friday. However, the deal does not apply to Apple's litigation against Samsung Electronics Co Ltd. Apple has battled Google and what once were the largest adopters of its Android mobile software, partly to try to curb the rapid expansion of the free, rival operating system.

But it has been unable to slow Android's ascendancy, which is now installed on an estimated 80 percent of new phones sold every year. Motorola, the US company that pioneered the mobile phone, no longer ranks among the biggest smartphone makers.

Both Motorola and HTC Corp have been eclipsed by Chinese Android adopters such as Lenovo Group Ltd - which is buying Motorola - and Huawei and Xiaomi.

The most high-profile case between Apple and Motorola began in 2010. Motorola accused Apple of infringing several patents, including one essential to how cellphones operate on a 3G network, while Apple said Motorola violated its patents to certain smartphone features.

The cases were consolidated in a Chicago federal court. However, Judge Richard Posner dismissed it in 2012 shortly before trial, saying neither company had sufficient evidence to prove its case. Last month, the appeals court gave the iPhone manufacturer another chance to win a sales ban against Motorola.

Apple's biggest victory against Android came against Samsung, where U.S. juries have awarded Apple more than $1 billion in damages. Those verdicts are on appeal, and despite years of court challenges to Android, Apple has not been able to win a crippling sales injunction.

Google acquired Motorola Mobility in 2012 for $12.5 billion, and this year announced it was selling Motorola Mobility's handset business to Lenovo, while keeping the vast majority of the patents. The case at the US Court of Appeals for the Federal Circuit is Apple Inc vs Motorola Mobility, case number 2012-1528, -1549.

A poor corner of Spain, transformed by Europe

AFP, Caminomorisco, Spain

IN the 1930s the Spanish district of Las Hurdes was a case study in rural poverty, immortalised by the film-maker Luis Bunuel in his bleak documentary "Land Without Bread".

But residents in this remote corner of the southwestern Extremadura region say it was saved by Spain joining the European Union -- and now its leaders are anxious to translate that into votes in the European elections on May 25.

"This is nothing like the Las Hurdes of Bunuel," said local parish priest Angel Luis Lorenzo, pointing to the well-made slate roofs of the nearby houses. "Everything has changed. Look at the buildings. The people are more open, the roads are better."

For the classic film director, Las Hurdes was a "sterile" land—one of the poorest in a country on the fringes of Europe under the dictator Francisco Franco.

But Franco's death in 1975 and most of all Spain's accession to the European Union in 1986 changed all that. Locals here are still grateful to the far-away bureaucrats in Brussels.

"During the dictatorship we were totally abandoned," said Gervasio Martin, the Socialist mayor of one of the main villages in the district, Caminomorisco, with a population of 1,400.

"Today we are proud to be a normal district, like any another," he added, largely "thanks to European funds".

Spain has received 300 billion euros ($410 billion) in aid from the European Union since joining.

The Spanish government estimates that seven percent of this has gone to developing Extremadura, a relatively small region of about a million inhabitants.

That helped partly reverse the exodus of young people who for generations had been leaving Las Hurdes in search of opportunities elsewhere.

"I got tired of Madrid so I came back here," said Soraya Conde, a 31-year-old town councillor, out putting up campaign posters for the European elections with other Socialist Party activists.

In the late 1990s, with EU funding, Las Hurdes got its first public high school.

"We were the first ones who were able to stay here for high school, instead of leaving at the age of 14," said a fellow campaigner, Noelia Martin, 31.

REUTERS

US Transportation Secretary Anthony Foxx stands near acting National Highway Traffic Safety Administration Administrator David Friedman as he announces that General Motors will be fined a record $35 million in civil penalties as a result of the automaker's failure to report a safety defect in one of its automobiles, at the Department of Transportation in Washington, on Friday. General Motors Co knew about the link between faulty ignition switches and air bag failures since at least November 2009, Foxx said on Friday, citing GM for breaking the law and failing to meet public safety obligations.

Taiwan approves 'rich man's tax'

AFP, Taipei

Taiwan's parliament has approved a so-called "rich man's tax" on nearly 10,000 of the island's wealthiest people in a bid to narrow the widening income gap.

Starting next year, those with annual net income of over Tw$10 million ($333,000), or the richest 1.5 percent of individuals or families, will be subject to a 45 percent income tax rate, up from the current 40 percent, said the finance ministry.

The revised income tax law passed by parliament Friday also includes business tax hikes on banks and insurers as well as more tax deductions for low-income families, salarymen and the disabled, the ministry said.

It is expected to generate an extra Tw$65 billion more a year in revenue for the government, including Tw$9.9 billion from the richest people as well as around Tw$20 billion from the banking and insurance sectors.

Finance Minister Chang Sheng-ford has said that the taxation reform was aimed at improving income distribution and was backed by tycoons such as Foxconn Group founder Terry Gou.

Taiwan's income gap reached a record level in 2011, as the wealthiest families earned 96 times more than the poorest, according to the latest official data.The bottom five percent of families reported an average annual income of Tw$48,000, compared with Tw$4.63 million earned by the top five percent in 2011.

Observers have blamed the rapidly widening gap between the rich and the poor as one of the reasons behind a recent string of

Bouygues, Orange make new calls in French telecom turf war

AFP, Paris

THE French telecom sector is in a new round of turbulence, with two takeovers in the air. Shares in the Bouygues group and in Orange, formerly France Telecom, rose sharply on Friday on strong signs that a tie-up that would result in the number of mobile operators dropping from four to three is possible.

This comes in a context of recent big deals in the wider European telecom sector.

The French Bouygues conglomerate, with interests in construction and television, is now in talks to sell its loss-making telephone subsidiary Bouygues Telecom to Orange, a source close to the matter told AFP.

Bouygues is acting on the rebound after losing out in a bitter bidding battle to win control of ailing SFR, which French media giant Vivendi had put up for sale.

Also on Friday, small upstart cable operator Numericable, owned by Altice, fresh from winning the battle for SFR, pounced again, announcing it was in exclusive talks to buy Virgin Mobile.

The talks were on the basis that Virgin Mobile, which does not have a network of its own, and its parent Omea Telecom, were worth 325 million euros ($445 million).

Virgin Mobile, with 1.7 million customers, operates by renting transmission capacity from operators such as SFR or Orange.

Numericable, in buying Virgin, would therefore be able to improve the usage of its own infrastructure.

"It is a race for size, and for economies of scale which will help to absorb the cost of investment in networks, and also in a way to prevent the competition from enlarging its client base," said Philip Pestanes, a telecoms expert at management consultancy Kurt Salmon.

The same factors are driving the reported talks between Bouygues and Orange, formerly the French state monopoly France Telecom.

French Economy Minister Arnaud Montebourg has said he thinks that the French market can only support three big operators, but consumer groups argue that the new high level of competition has broken up cosy market shares and brought lower prices and better conditions consumers.

Orange has 27 million mobile phone and 10.1 million fixed-line customers in France, as well as a big international reach.

SFR has 21.3 mobile customers and 5.3 million Internet service subscribers.

SFR-Numericable will have about 28.3 customers overall, of which 1.7 million come from the smaller Numericable.

Free, the irreverent player which has disrupted the market and provoked the deal-making with a price war, has 14.3 million customers, overtaking Bouygues Telecom with 11 million mobile and 2.1 million fixed-line clients.

This penetration of the market by Free was greatly helped by an agreement with Orange which allowed Free to rent transmission capacity while it developed its own network.

This strategy by Orange explains to a large extent how Free has been able to undercut and weaken Bouygues and SFR, to the point that they have both looked for

partners, which would have the effect of eliminating a big competitor.

Also on Friday, the self-made tycoon behind Free, Xavier Niel, tied up in Monaco his acquisition of small operator Monaco Telecom, previously controlled by British group Cable and Wireless Communications.

The price of Bouygues shares was showing a gain of 4.23 percent to 33.03 euros to lead the French CAC 40 index which was up 0.13 percent.

Shares in Orange were up 1.02 percent to 12.39 euros.

"Traders are counting on a deal between Orange and Bouygues," said stock trader Yves Marcais at Global Equities.

But he warned that anti-trust regulators could impose conditions to ensure competition.

The latest takeover talk emerged just after Bouygues Telecom announced a cost-cutting plan to save 300 million euros ($412 million) and warned that jobs were at risk.

Late on Thursday, the overall Bouygues group reported that exceptional items had enabled it to avert a loss in the first quarter, reporting a net profit of 285 million euros.

But the telecom division reported a current operating loss of 19.0 million euros.

Bouygues had been pushed into loss last year by the fall in the value of its stake of nearly 30.0 percent in French engineering group Alstom, itself a target of bid moves

Stock trader Marcais commenting on Friday on the outlook for the telecom business, said that "the best option for Bouygues would be to dispose of the activities which are weighing it down the most."