

Amnesty to breed

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actual in order to evade tax. Consequently, not much revenue is deposited in the exchequer through this opportunity being made available, economists argue.

"The owners of undeclared wealth have found an avenue to safely park their ill-gotten money in the real estate sector through the opportunity, as there is scope to under-report the actual price of a real estate product," said eminent economist Hossain Zillur Rahman.

In fact, the opportunity has been inconsequential both economically and socially, he said, adding that the finance minister himself had admitted time and again that the opportunity had not yielded the desired results.

It has neither been able to woo any significant revenue into the state exchequer nor change the attitude of black money holders, he said. Rather, it has instead paved the way for mis-governance in the real estate sector, he believes.

Zaid Bakht, research director of Bangladesh Institute of Development Studies, said, "The only difference it makes is that the owners of ill-gotten wealth buy real estate in their own names when immunity is offered. Otherwise they buy properties in the names of relatives."

Professor Mustafizur Rahman, executive director of the Centre for

Policy Dialogue, said that such a provision, which is politically discriminatory, discourages honest taxpayers and encourages tax evasion.

Md Wahiduzzaman, general secretary of Real Estate and Housing Association of Bangladesh (Rehab), however, defended the move and said the reason for the poor response to the opportunity is that it did not guarantee that the Anti-Corruption Commission or other government agencies would not question the source of the money.

When asked whether he thought that the response would have been better if the illegal income had been welcomed, the Rehab leader said, "Maybe."

In his defence of such an unethical provision, Wahiduzzaman said governments had historically been in favour of it and the Rehab simply wanted it to continue.

Under the provision, people can legalise their undisclosed money by building or buying homes or apartments through paying taxes between Tk 700 and Tk 7,000 per square metre of floor space, based on the location.

Between July last year and April this year, the National Board of Revenue (NBR) received only Tk 26 crore through this facility.

The history of this controversial privilege provides an even bleaker picture. Between 1972 and 2013, around Tk 13,808 crore was whitened, with the NBR receiving taxes worth Tk



1,455 crore, which is less than 1 percent of the revenue target in the proposed budget for the upcoming fiscal.

At several pre-budget discussions over the past one month, Finance Minister AMA Muhith repeatedly spoke of scrapping the provision relating to a whitening of black money in the new

budget.

However, in his budget speech in parliament yesterday, the minister carefully stayed away from touching on the issue. He neither said anything in this regard nor did he propose doing away with the provision in the money bill.

A large part of the black money is believed to be laundered abroad.

Between 2002 and 2011, around \$16 billion of illicit capital left the country, according to a December 2013 study by Global Financial Integrity, a US-based non-profit organisation which focuses on curtailing cross-border flow of illegal

GOVT EMPLOYEES Allowances too taxable

STAFF CORRESPONDENT

All the allowances of public servants will come under the tax net once the new pay scale is announced in the upcoming fiscal year.

"Income tax will be imposed on all pay and allowances once the new pay scale is implemented," Finance Minister AMA Muhith said in his budget speech yesterday.

The Pay and Services Commission 2013 has been constituted to recommend an appropriate salary structure for government employees commensurate with price levels and employees' living standards.

The commission is expected to submit its report by December this year.

Under existing provisions, all allowances, excluding basic salary of government employees, are tax-free. On the other hand, allowances, including basic salary of the employees of semi-government and autonomous bodies, are liable to taxation.

"Under such circumstances, it is reasonable to bring parity of tax liability for all employees of government

Hard to attain growth target

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In order to achieve the GDP growth target, the country would need to have around 30 to 33 percent investment-GDP ratio, up from around 28 percent now.

Only 7-8 percent of the required investment-GDP ratio would come from the public sector, meaning the private sector would have to chip in with 25 percent, he said.

Private investment now stands at 21 percent of GDP as per the latest data from the Bangladesh Bureau of Statistics.

"This implies that we will need an extra four percentage points of incremental investment from the private sector. That is a highly ambitious number and has hardly ever been achieved in the nation's history," said Bhattacharya, the distinguished fellow of the Centre for Policy Dialogue (CPD), a leading think-tank.

While the budget is providing a wide range of tax concessions, tax rebates, harmonisation of tariff structures and cuts in supplementary duties, it would still not be enough to generate the desired levels of private investment.

A much more rigorous implementation of a large number of reform measures are needed to attain the 7.3 percent growth, he said.

The reforms will not only be in the National Board of Revenue and in implementation of the Annual Development Programme (ADP), but also in areas such as management of state-run enterprises and banks, local government financing and development administration.

"I am disappointed to see no such rigorous measures propagated in the budget."

The noted economist said the investment in infrastructure would

not immediately help the private sector, provide necessary incentives to new investors and reduce the transaction costs for current investors.

He said many of the fiscal measures taken by the budget are quite logical and practical in nature, and one would feel comfortable with the tax measures.

"But what is not immediately evident is that how much revenue will be lost because of these concessions and how much will be gained."

Bhattacharya went on to express reservations about the deficit financing, as it will rely on higher domestic resources, mainly banks.

anything about it, but it seems the old provision continues. We are on principle against it."

"I think that it will not be possible to implement the budget," AB Mirza Azizul Islam, a former finance adviser, told reporters, while touting the budget deficit to become acute in the next fiscal year.

"It will not be possible to meet up the deficit financing in reality. Besides, there is lack of transparency and administrative skill, integrity and honesty in implementing the development budget."

Mustafa K Mujeer, director general of Bangladesh Institute of

large in terms of number. "But it is not that large in terms of GDP."

"It is not clear to us whether the revenue generation target will be achieved. If it is not achieved the budget deficit will grow further, which will not bring any good to the economy."

He said a number of big projects have been taken up for implementation with domestic financing.

"Those projects will not bring any immediate yields. If we don't get immediate benefits, it may affect inflation."

Prof Mohammed Farashuddin, a former governor of the central bank,



Debapriya Bhattacharya



Mustafa K Mujeer



AB Mirza Azizul Islam



Akbar Ali Khan

"What is spectacular is that the budget expects a gross inflow of \$4 billion in foreign aid in the next fiscal year. Bangladesh has possibly never received that amount of foreign aid in its history."

On 6 percent inflation target, the CPD expert said the economy will heat up if the announced high-profile infrastructure projects get the jump-start this year.

"It will be difficult to energise investment and contain inflation at the same time. Maintaining both would be quite a challenge."

He also touched upon the issue of amnesty to black money. "The budget does not specifically mention

Development Studies, said while the budget is getting bigger every year in line with the demand, the problem of implementation continues.

"I don't see any improvement in the capacities of the ministries and agencies relating to the implementation of budget. The problem will get acute unless we resolve the capacity constraint."

On the barren investment scenario in the country, the economist said determined effort needs to be taken to regain the confidence of investors.

Akbar Ali Khan, a former caretaker government adviser, said the revenue generation target is highly ambitious from one point because it is

too thinks achieving the 7.3 percent GDP growth would be no easy task. "But, it is possible."

To achieve the targeted economic growth, the government would have to accelerate private investment, raise total investment and make investment more productive, he said.

The reduction in allocation for health care and education system from the ADP could have a negative effect though, according to Farashuddin.

"If we can manage alternative financing for the Padma bridge project, some of the money earmarked for the project could go to the health and education sectors."

Luxury cars to be cheaper

ABDULLAH MAMUN

Private cars and sport utility vehicles (SUV) will be cheaper, especially the vehicles with engine capacity of above 1,500 CC, while new hybrid cars will be costlier, according to the budgetary proposals.

Taxes on cars with engine capacity between 1,800 CC and 2,000 CC will be eased due to slashing of supplementary duty (SD) from 150 percent to 100 percent, said Hamid Sharif, former secretary general of Bangladesh Association of Reconditioned Vehicle Importers and Dealers Association (BARVIDA).

Besides, prices of SUVs (between 2,001CC-2,750 CC) will also come down as the SD on these types of vehicles would be lowered to 200 percent from 250 percent, he added.

Prices of cars with engine capacity of up to 1,500 CC (cubic centimetre) will also slide as the demand of such vehicles will decrease though its current 45 percent SD will remain unchanged.

But the prices of new hybrid cars in the range of 1,500 CC to 2,500 CC will increase as SD on these cars will hike to 60 percent from current 30 percent. Import of hybrid cars in the country is still very nominal.

Prices of microbus and double-cabin pick ups will hike as the SD on these vehicles have been increased.

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But one is not sure how much of the minister's bet on increased income tax to generate revenue will come true. There has not been any new approach to tax collection. The minister has rather restated the old reforms.

The proposed budget looks at growth from a long list of mega projects. But how many of those projects will come through and at what implementation rate is a huge question.

Muhith has shown, as before, a lot of compassion for the poor and the marginalized. His plans for Char and Haor people are well thought out. His targeting of extreme poverty with Tk 1,500 crore is correct. Skill development plans to develop manpower are also laudable. Again, how much and how efficiently these can be implemented remain a question.

There are areas where the finance minister has remained rather vague. For example, he has not said anything

new about physical infrastructure, planned urbanization or overseas employment. A lack of specifics makes one wonder whether these vital issues will be addressed in their proper importance. For example, while stressing too much of PPP, one still wonders when the PPP act will be approved and then when the rules and guidelines will be drawn up.

In the end, it can be said that the next budget will need to see a much improved aid utilization. This is because with increase in domestic borrowing, the flexibility of the non-development budget has shrunk. So for additional investment Muhith will have to depend on foreign funding, which is not easy to pump out from a pipeline already bulging with \$19 billion. And at the back of the mind, the Asian Development Bank's report that 50 percent of a project's time passes by only to release 20 percent of its finance remains vivid.

JS witnesses new record

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Daily Star yesterday.

The JP has already appeared as a curious case as some of its lawmakers have joined the Awami League-led government's cabinet too.

The BNP, which was either in the treasury bench or in opposition since the restoration of parliamentary democracy in the country in 1991, however, opted for keeping silent on the proposed budget.

While in opposition, both the BNP and the Awami League have traditionally rejected the government's budget, terming it anti-people.

BNP acting secretary general Mirza Fakhru Islam Alamgir said Sheikh Hasina's government had no right to place the budget in parliament as the administration came to power through the January 5 "unacceptable and one-sided" election with 153 MPs being elected unopposed.

In the ninth parliament, the then opposition BNP had refrained from attending parliament on all five budget placing days from 2009 to 2013.

Officials in the parliament secretariat could not remember instantly whether any other opposition party

was present in the House when the budget was placed in previous parliaments.

Last night, Ershad in his reaction to the proposed budget said the big challenge for the government was to implement the huge volume of the budget.

"There is concern whether the government will be successful in implementing this budget," he said in a statement.

Abul Kalam Azad, president of Bangladesh Nationalist Front, the lone opposition in the 10th parliament which neither joined the cabinet nor the AL-led alliance, told The Daily Star that the proposed budget would not make any contribution to eradicating poverty and establishing social justice.

In an instant response to the proposed budget, the Communist Party of Bangladesh has termed the proposed budget "traditional" and rejected it, saying it is full of false assurances.

"In the proposed budget, there are some glitzy proposals to conceal its negative character and cheat people," the party viewed.

Target: rare or unreal?

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foreign financing, increased, raising the government's debt servicing costs.

The story would be the same this year, too: the highest allocation in the non-development budget - 18.4 percent - has been set aside for interest payment.

The proposed budget has set an overall deficit of Tk 67,552 crore, of which net foreign financing would be Tk 24,275 crore and domestic financing Tk 43,277 crore.

Banks will be a major source for financing budget deficit, and the government has set borrowing target at Tk 31,221 crore.

Hussain though said the composition of deficit financing can be improved by ensuring the net foreign financing target is met.

"This will require a significant increase in the disbursement rate from the outstanding aid commitment," he said, adding that meeting the target will require a 22 percent disbursement rate in fiscal 2014-15.

The only way this can be achieved is through prioritised attention to large and high-impact projects, the economist added.

He said the domestic bank financing target is rather large and may constrain private credit growth if private investment demand picks up.

But, Helal Ahmed Chowdhury, managing director of Pubali Bank, said the private sector credit growth is slow anyway, so the possibility of a crowding-out effect due to the government's increased borrowing from the banking system is low.

Zaid Bakht, research director of Bangladesh Institute of Development Studies, however, said the revenue target is not too ambitious, as such figures were achieved in the past.

He said if a stable situation prevails and investment increases, the sum could be met.

He, too, called for more utilisation of unused foreign assistance to avoid the stress of high-cost domestic borrowing.

High tax on super rich

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than Tk 30 crore will have to pay 20 percent surcharge on their payable tax.

Those who have net wealth of over Tk 30 crore will face 25 percent surcharge on their payable tax, according to the proposed budget for fiscal 2014-15.

These are the additions to the existing structure of surcharge that the government has had in place since fiscal 2011-12, with the aim of collecting higher taxes from wealthy people.

However, the existing two slabs -- 10 percent surcharge on people with net wealth of more than Tk 2 crore to Tk 10 crore, and 15 percent for those with net wealth from over Tk 10 crore to Tk 20 crore -- remain unchanged.

Rising revenue collection from wealth surcharge has encouraged the government to go for new measures.

Revenue collection from this source rose to Tk 101 crore in fiscal 2012-13 from Tk 65 crore in fiscal 2011-12, according to the National Board of Revenue.

NBR's earnings from surcharge are likely to rise 48 percent year-on-year to Tk 150 crore in the outgoing fiscal year. The amount stood at Tk 131 crore between July and April, according to taxmen.

Wealth surcharge is an alternative to wealth tax which some economists say the government should introduce to discourage people from holding possession of property, mainly land,

for a long time.

Because of scarcity of land in Bangladesh, people invest in land and keep that in possession. And it gives them the scope for getting rich in a short time.

Taxmen said the wealth surcharge will be imposed on net wealth, not income. So, wealthy people will have to pay income tax in line with a rise in income.

Moreover, those who earn more than Tk 44.20 lakh a year will have to pay 30 percent tax on incomes in the next fiscal year, compared to 25 percent in the outgoing fiscal year.

The government has also proposed keeping tax-free income limit unchanged at Tk 2.20 lakh.

The tax rate will be 10 percent on income of the next Tk 3 lakh, 15 percent on the next Tk 4 lakh, and 20 percent on the next Tk 5 lakh. And 25 percent tax will be payable on income of the next Tk 30 lakh.

Besides, 30 percent tax will be imposed on those who earn above Tk 44.20 lakh.

The finance minister said the proposal for increasing taxes on high-income people was made to ensure equitable distribution of income and reduce economic disparity.

Top executives in banks, multinational companies, mobile phone operators and large corporate firms are likely to fall under the new slab of above Tk 44.20 lakh.