

# Proposed budget needs further review

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**T**HE budget and Finance Bill 2014 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:

- a) Increasing the individual tax threshold for women, the physically and mentally-challenged and wounded freedom fighters.
- b) The maximum tax rate increased to 30 percent for individuals with income exceeding Tk 44.2 lakh.
- c) Introducing four levels of rates in wealth surcharge.
- d) Resetting turnover tax at 0.30 percent.
- e) Introduction of compliance of Bangladesh Accounting Standard and Bangladesh Financial Reporting Standard.
- f) Collection of rent through bank accounts and similarly, payment of rents through banks.
- g) Extending the time limit for tax holiday for certain industries to September 30, 2019.
- h) Introduction of tax on capital gains exceeding Tk 10 lakh from transfer of shares by an individual.
- i) Increasing and re-fixing withholding tax on transfer of immovable properties.
- j) Raising the limit of allowable perquisites to Tk 350,000.
- k) Expanding the area of tax withholding.
- l) Reintroducing exclusion of assessee from audit having income over 20 percent than last year.
- m) Imposing penalty for false certification of financial statements, and making the Transfer Pricing Cell of NBR functional from July.

These steps are not enough, but encouraging for the simplification of tax systems, increasing revenue, equity concept and business-friendly environment.

On the other hand, certification of financial statements and specifically turn-



Finance Minister AMA Muhith places the proposed national budget for 2014-15 in parliament on June 5.

PID/FILE

over of assessee not being a company is a good step but inclusion of cost and management accountants for conducting audit and certifying financial statements is a wrong step.

The Institute of Chartered Accountants of Bangladesh (ICAB) was established in 1973 through a presidential order to regulate accounting and audit profession in the country while The Institute of Cost and Management Accountants of Bangladesh (ICMAB) was established in 1977 to regulate cost and management accountants.

It is very important that objectives of ICMAB Ordinance do not include any audit function. In addition, syllabus and course curriculum and most importantly, mandatory practical training of three years and many other areas are completely different in the two institutes.

It is well recognised that three years of practical auditing experience is a unique feature of CA profession as recognised worldwide. Cost accountants are allowed

to do the cost audit but it should be kept in mind that cost audit and certifying financial statements are not the same.

A vested quarter is trying hard for introducing cost and management accountants in audit functions unlike any other country in the world.

However, area of certification by chartered accountants can be expanded to withholding tax, foreign and extraordinary payments, transactions among directors and group entities. The issue must be reviewed dispassionately.

Any false certification of financial statements or any other document calls for a penalty. A new clause has been introduced to impose penalty for chartered accountants certifying false statements.

The preparation of financial statements is the main responsibility of management of the entity or the assessee. Similar penalty should also be imposed on the management of the entity or assessee apart from imposing due tax.

Tax on insurance money: A new clause has been inserted imposing withholding tax at 5 percent on the amount paid for life insurance policy in excess of accumulated premium paid. It is a discouraging step towards savings and investment by middle-and limited-income groups.

In our country, no pension and health insurance benefits are sponsored by the state for private sector employees. Further, people have an apathy to life insurance and current coverage of people by life insurance is lower than expected.

In such a situation, such a measure will obviously discourage small savers and investors for life insurance policy and life insurance companies are expected to be affected severely.

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.

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## Investors put emerging markets under closer scrutiny

REUTERS, London

**I**NVESTORS are waking up to the structural differences between countries classed as emerging markets and are becoming less inclined to treat them as a homogenous group, according to a survey published on Monday.

The study by think-tank Create Research and asset manager Principal Global Investors showed that after suffering losses in recent emerging market volatility, many investors are now scrutinising individual countries more closely.

The survey of 700 pension funds, sovereign wealth funds, consultants and asset managers in 30 countries with combined assets of \$29.7 trillion showed that the percentage remaining optimistic about the asset class nearly halved in two years.

"Investors have not lost faith in the emerging market story; they are simply questioning it. The scales have tilted somewhat from 2012 to 2014," the report said.

The percentage of so-called "believers" in emerging markets fell to 20 percent from 38 percent between 2012 and 2014, while "skeptics" increased to 28 percent from 18 percent.

When the United States' Federal Reserve began winding down an \$85 billion-a-month money printing program this year, emerging markets started to suffer asset price volatility amid fears that countries reliant on foreign investment to plug their balance of payment gaps would struggle.

Investors nursing losses from the ensuing turmoil are now more likely to examine countries and their economic benefits on a case-by-case basis.

Countries identified as capable of pushing through economic reforms are seen as most attractive, the report says, with more than a third of respondents identifying China as able to deliver strong returns over the next three years.

China is in the middle of a push to remodel its economy away from a frothy export-dependent model that has fueled the breakneck growth of recent decades to become consumption-led, growing more slowly but on a more stable basis.

More than half of respondents to the survey said they thought China would make significant progress in implementing economic reforms, while only six percent said they thought the same of Russia.

"The study indicates there is no longer a blanket acceptance of the emerging market story. Investors' return expectations have dropped markedly for equities and bonds," said Nick Lyster, European CEO of Principal Global Investors Europe.

## Samsung Electronics, juggling \$60b cash, bulks up on bonds



AFP

Pedestrians walk past a logo of Samsung Electronics at the company's headquarters in Seoul.

REUTERS, Seoul

**S**AMSUNG Electronics Co Ltd is buying more local bonds with its \$60 billion cash pile as domestic banks grow reluctant to overload on deposits from the South Korean giant.

The investments by the world's biggest smartphone maker underscore the challenge of managing its huge and growing reserves, with banks increasingly wary that it could withdraw short-term deposits upon maturity and create funding problems.

Samsung bought more than two-thirds of a 300 billion won (\$294.75 million) 2-year debt issue on Friday from Kookmin Bank, a unit of KB Financial Group Inc and the country's largest commercial bank by assets, a person with direct knowledge of the matter told Reuters.

Dealers also said Samsung, which accounted for almost a third of all global smartphone shipments in the first quarter, bought nearly 300 billion won worth of three-year treasury bonds late last month.

While it is not unusual for Samsung to buy bonds, dealers said it has typically bought debt issued by highly rated government-backed financial firms such as Korea Development Bank and Korea

Finance Corp.

"I think Samsung is diversifying its holdings and spreading out its maturities," said Hanwha Securities fixed-income analyst Kong Dong-rak.

"Samsung has to manage the cash in some way and it can't always get the right yields and duration from the banks, so it looks like it went to the bond market to find new avenues."

Samsung does not generally make large acquisitions and has been reluctant to return wealth to shareholders through large dividends or by buying back shares, preventing its cash pile from depleting.

The cash pile could grow to 75 trillion won by the end of the year, adding pressure on Samsung to increase dividends, said IBK Securities analyst Lee Seung-woo.

By comparison, smartphone rival Apple Inc has been under pressure from shareholders and has stepped up dividends and share buybacks. It whittled down its pile of cash, cash-equivalents and marketable securities by about \$8 billion in its most recent quarter to \$150.6 billion.

Apple's dividend yield - or payout relative to share price - is just over 2 percent. That is about double that of Samsung, which increased dividends last year and promised to pay out even more this year. Samsung's dividend payout ratio

- or how much of its earnings it pays out - is 7.11 percent for the past 12 months, according to Thomson Reuters data, whereas Apple's is 29.03 percent.

Samsung's cash pile is likely to be a factor in the ongoing restructuring of the Samsung Group. A potential \$6 billion-plus inheritance tax bill is looming for the children of group patriarch Lee Kun-hee, who underwent emergency surgery in May following a heart attack.

While increased dividends may not help much with the inheritance tax - as the younger Lees own little of flagship unit Samsung Electronics - the cash could be used to aid further restructuring within the group.

"It's possible that Samsung Electronics will buy shares from affiliates, which will in effect inject cash into other Samsung Group companies," said IM Investment analyst Lee Min-hee. "The money can then be used by the other Samsung affiliates for new investments or further reorganisation."

Samsung Electronics, which does not give a breakdown of its investments, said there has been no change to its stance on ensuring stable cash management and declined to comment on succession or group restructuring.

## Eastern Europe's top airline scraps London float plans

REUTERS, London

Wizz Air, central eastern Europe's largest airline, abandoned its plans for an initial public offering on Monday, citing current market volatility in the airline sector.

The budget carrier said in May it planned to list its shares on the London Stock Exchange, seeking to raise 200 million euros (\$272 million) to strengthen its balance sheet as it seeks to fund more growth.

"The outlook for Wizz Air's business remains extremely positive and unaffected by the decision not to proceed with an IPO; the board will continue to focus on executing its strategy of driving growth and value," the company said in its statement.

## BP head stresses Europe, Russia energy links

AFP, Moscow

Bob Dudley, the chief executive of British energy giant BP, stressed Monday the interdependence of Europe and Russia as the West braced for possible disruptions of gas supplies via Ukraine.

"The interdependence of suppliers and consumers is a force of stability in a very turbulent world," US national Dudley told a major energy conference in Moscow.

"In particular, I think the fact that Europe depends on Russian gas and Russia depends on European revenues creates an important link and I do believe that energy can act as a bridge."

His comments came as Russia on Monday moved to cut natural gas supplies to



REUTERS

People walk at the headquarters of Alibaba in Hangzhou, Zhejiang province in China. Chinese e-commerce giant Alibaba Group Holding revealed the members of its 27-person partnership in its updated initial public offering prospectus yesterday. The partnership, which includes founder Jack Ma, Executive Vice-Chairman Joseph Tsai and Chief Executive Officer Jonathan Lu, will have the exclusive right to nominate a majority of Alibaba's nine-member board of directors.

## India's inflation hits five-month high

AFP, New Delhi

**I**NDIA'S inflation accelerated to a five-month high in May, in a worrying sign for Prime Minister Narendra Modi's new government which has made fighting price rises a priority.

The Wholesale Price Index, the most closely watched cost of living monitor, rose to 6.01 percent in May -- the highest figure since December and compared to 5.20 percent in April.

The jump, which was in line with market expectations, was driven by higher food and fuel prices, commerce ministry data showed.

The increase comes amid a rally in oil prices and forecasts for weaker monsoon rains that threaten to cut crop production and further drive up food prices.

Modi's right-wing government, which came to power a month ago after a landslide election victory, has pledged to revive the economy growing at under five percent.

The government has also made tackling inflation, which hits millions of India's poor through high costs of basic items, a priority.

The price of food across-the-board rose

2.3 percent in May from a year earlier, while fuel prices, including that of electricity, rose by 0.5 percent.

The government is expected to unveil the annual budget next month, with analysts calling for long-term reforms to return the economy to health.

"The uptick in fuel and food inflation in the month of May is not surprising," said Siddhartha Sanyal, chief India economist at Barclays.

"What we need to see is how the new government tackles food prices and agricultural policies," Sanyal said, referring to the monsoon and the budget.

"They seem (to be leaning) towards prudent long-term moves and fixing the economy at fundamental levels rather than going in for short-term steps like an economic stimulus."

The monsoon is expected to be below normal this year because of the threatening El Nino, which could lower crop production and undermine Modi's efforts to curb inflation and boost growth.

Oil is also trading higher globally due to the worsening crisis in Iraq. Higher energy costs could drive up power prices in India which imports most of its oil.