Transfer pricing rules in the offing

STAR BUSINESS REPORT

Bangladesh is set to enforce transfer pricing rules to curb tax evasion and overseas fund transfers by multinational and foreign firms, officials said.

The National Board of Revenue will start auditing income tax files of multinational companies from next fiscal year.

Last month, the tax administrator assigned seven of its officials to form a "transfer pricing cell" to check illicit capital flight or profit transfers by foreign companies through transfer mispricing.

Once implemented, Bangladesh will be the second country in South Asia with a full-fledged law on transfer pricing, said Md Shabbir Ahmed, coordinator of the transfer pricing cell at the NBR.

He spoke at a workshop on transfer pricing organised by the Institute of Cost and Management Accountants of Bangladesh (ICMAB) at its auditorium in the capital yesterday.

NBR Chairman Md Nojibur Rahman said transfer pricing is an important area that is increasingly getting attention globally.

"In Bangladesh, the challenge for the NBR is to make international and multinational companies compliant," he said.

Transfer pricing is the determination of prices at which goods, services and intangible property are transacted between related parties.

When the pricing of transaction within associated enterprises is fair and rational, there is no problem, Ahmed said.

"But when transactions are mispriced through showing of lower or higher prices than actual market prices, the transfer mispricing happens," he said, adding that such mispricing is a serious concern for the tax authorities.

He said two subsidiaries of a company -- one based in a high-tax country and another in a tax haven -- can engage in trade with one another.

The low-tax subsidiary can quote abnormally high prices from the high-tax subsidiary for goods and services to manage maximum after-tax profits for the parent company -- an unethical practice many multinational firms resort to, Ahmed said.

The United Nations Conference on Trade and Development (UNCTAD) estimates that more than 60 percent of global trade occurs within multinational groups.

That creates the potential for failing to declare profits and to shift profits from high-tax to low-tax jurisdictions. This is often done through tax evasion. But sometimes it is also done through legal forms of tax avoidance and manipulation -- including trade and transfer mispricing, according to the World Bank.

A recent UNCTAD study indicates that about $100 billion in annual tax revenue is lost to developing countries in transactions directly linked to offshore hubs.

Capital flight through transfer mispricing from the developing world is estimated at ten times the size of aid it receives and twice the debt service it pays, according Swedish agency, Forum Syd.

To fight transfer mispricing, developed countries and most of the middle-income countries have already adopted transfer pricing rules. Developing countries are also catching up.

Globally, 75 countries, including Bangladesh, have adopted transfer pricing regime, Ahmed said.

ICMAB President ASM Shaykhul Islam urged the tax administrator to amend the Finance Act 2015 for using the expertise of ICMAB members in preparing transfer pricing statement and other financial documents.

There are some 175 multinational companies operating in Bangladesh which would come under the scanner of the transfer pricing cell.

ICMAB Secretary Md Abdur Rahman Khan also spoke.

Stocks jump on bright data, regulator's move

STAR BUSINESS REPORT

Stocks bounced back last week to break a two-week spell of bad outcomes, thanks to the regulator's efforts to rein in the freefall in share prices.

DSEX, the benchmark index of Dhaka Stock Exchange, rose 75.04 points or 1.85 percent, to close the last week at 4,122.32.

Bangladesh Securities and Exchange Commission sat with some top institutions, brokers, and merchant banks on Monday to discuss the current market situation against the backdrop of high volatility in the market.

The regulator asked the brokerage houses and merchant banks to extend support to the falling market.

The severe correction pushed several scrips to attractive valuation levels, which lured in investors from the sidelines, IDLC Investments said.

"In addition, the BSEC turned active in the face of the rapid correction which provided some comfort to the investors," the merchant bank said.

After the regulatory move, investors bought heavily into the market, helped by corporate and earnings disclosures, the IDLC said.

The declarations fuelled the buying pressure as a significant number of stocks posted profit growth for the Jan-Mar 2015 period, despite investors' concern over the political situation, it added.

Last week's daily turnover averaged at Tk 360.47 crore, which was 5.76 percent higher than the previous week.

Among the major sectors, fuel and power rose 6.2 percent, the week's biggest jump, followed by non-bank financial institutions at 5.4 percent, banks 2.2 percent and pharma 2.2 percent. Conversely, the food and allied sector fell 2.2 percent.

Of the 319 issues that traded on the premier bourse, 39 advanced and 68 declined, while 12 remained unchanged.

United Power Generation and Distribution Company topped the week's turnover leaders' chart with 77.59 lakh shares worth Tk 146.71 crore changing hands. ACI Formulations followed, with ACI, Shahjibazar Power Company and IFAD Autos in tow.

Intech Online was the week's top gainer, registering a 29.17 percent increase, while Pioneer Insurance plunged 5 percent and ended up as the worst loser.

FSIBL

Mohammed Abdul Maleque, vice chairman of First Security Islami Bank, and Syed Waseque Md Ali, managing director, attend the bank's 16th annual general meeting at Hotel Agrabad in Chittagong yesterday. The bank announced 10 percent stock dividends for 2014.

SYMPHONY

Jakaria Shahid, managing director of Symphony Mobile, opens the 100th brand outlet of the company at Jamuna Future Park in Dhaka recently. Ashraful Haque, head of marketing, and Jafrul Alam Khan, business director of Edison Electronics, were also present.

SME workshop for business reporters held

STAR BUSINESS DESK

A daylong training workshop for business reporters in promoting small and medium enterprises (SMEs) took place at the Bangladesh Bank Training Academy in the capital yesterday.

European Union funded project, Bangladesh Inspired Programme – Component 3, in partnership with training academy and Bangladesh Institute of Bank Management organised the programme.

Abul Quasem, deputy governor, Bangladesh Bank, attended the workshop as the chief guest and distributed certificates to the journalists at the closing ceremony.

Around 30 journalists from newspapers and television channels participated in the workshop.

SME related issues, including the scope of SMEs and their contribution to the economic development of the country, were discussed at the event.

The speakers also focused on how SME businesses are operated in the country and the challenges that the small and medium entrepreneurs face in doing business.

Ali Sabet, team leader of Bangladesh Inspired-Component-3; Sukamal Sinha Chowdhury, former general manager and head of SME of the BB; and Ashraful Alam, deputy general manager, conducted the training.

Call for steps to boost investment

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Debapriya Bhattacharya, distinguished fellow of the Centre for Policy Dialogue, said the government is enjoying six advantages in formulating the budget for the next fiscal year.

The advantages are: the inflation is within the central bank's target of 6-7 percent; banks' lending rates are on a downward trend; the exchange rates are stable; the budget deficit is within limits; the overall balance of payments is positive; and the lower prices of petroleum and fertiliser at international markets offer the scope to adjust subsidies, he said.

Bhattacharya also turned his attention to the challenges the budget will face. He said the government would have to work to bolster revenue generation, disburse and attract more foreign aid and augment public investment to spur private investment.

He also called for the need to implement big projects in time, as their implementation cost goes up if they are not finished timely.

Bhattacharya criticised the government for not strongly using the tools under its control to spur investment.

Because of the failure in administrative reforms, the allocation under the public-private partnership framework has remained unused, the economist also said.

"Besides, questions about financial transparency have surfaced over the PPP projects which have been undertaken to date."

He said the government piloted district budget in Tangail, but nothing has been achieved as promised by the government.

"The budget has to be pro-reforms. Otherwise, it will be tough to come out the 6 percent GDP growth cycle."

It is unfortunate that local farmers are not getting fair prices for their produce because of oversupply; but a lot of rice is being imported, Bhattacharya said.

"There is also doubt about the quality of the rice being imported. But the government is not using any regulatory measure to stop this import."

Inam Ahmed Chowdhury, an adviser to the chairperson of Bangladesh Nationalist Party (BNP), said the government is silent about curbing the growth of population.

"If we can rein in it, people will not have to die in the jungle of other countries."

He also said the budget should particularly look at how it can offer more opportunities to women to empower them.

AB Mirza Azizul Islam, a former finance adviser to caretaker government, said the government will have to raise the allocation for social safety nets as a huge number of people still live below the poverty line.

"The leakage in the safety nets also has to be stopped to take the benefits to the real beneficiaries."

Finance Minister AMA Muhith said the GDP growth would be the highest in the tenure of his government, which has been ruling the country since 2009.

"We hope we will be able to move out of the 6 percent growth regime next fiscal year."

The minister also said the government wants to turn the "districts into countries" as the country is too decentralised. "There is a psychological challenge here."

Muhith said although there has been a gargantuan increase in power generation capacity, the production has not gone up as expected because of problems in transmission and distributions systems.

"We will pay attention to these two areas in the next fiscal year."

He also said there has to be a change of expectation of profitability in the country. "On one hand, businesses want cuts in bank lending rates. On the other hand, when these businesspeople sit on the board of banks, they want profit."

The minister also said the subsidy system has created a jungle over the decades. "We have to clean it."

Water Resources Minister Anisul Islam Mahmud said the country has been unable to raise the GDP growth rate to 7 to 8 percent because of low investment, high bank interest rates and shortages of gas, power and land for industries.

"We have been able to more than double the power generation, but the quality of electricity has not improved," he said.

Migrant workers are one of the major pillars of the economy, he said. "But we are not giving them anything in return for the contribution. We have to take rehabilitation programmes when they come back as well as use their remittance productively."

The budget should give more attention to primary, secondary, vocational and nursing education, he said.

In a recorded interview aired at the discussion, Mustafizur Rahman, executive director of the CPD, said the budget should be in line with the goals of the Seventh Five-Year Plan.

He said the planned budget size of Tk 3 lakh crore does not seem big given the needs of the country.

"But we will have to raise revenue collection and use the resources efficiently."

In the same recorded interview, Ahsan H Mansur, executive director of the Policy Research Institute, said the government would strengthen revenue collection efforts, as the implementation of the reforms in the area are gradually being delayed.

"As a result, the revenue generation is not going up as we expect."

Muhammad Abdul Mazid, a former chairman of the National Board of Revenue, said there is scope to raise the tax-GDP ratio to 16 percent from 11 percent now.

"The gap here is equal to the budget deficit we normally have. There is money in the GDP but we are not being able to realise it. The NBR has to take up projects to increase revenue generation."

Mahbubul Alam, president of the Chittagong Chamber of Commerce and Industry, said the investment would not pick up if there was no adequate supply of gas and power as well as available of bank loans at single digit of interest rates.

"The government will have to set up special economic zones as soon as possible to provide land to foreign investors," he said.

Abdul Matlub Ahmed, chairman of Nitol-Niloy Group, said the government should not reduce supplementary duties on the imported finished items that are produced locally.

Shameem Ahsan, president of Bangladesh Association of Software and Information Services, demanded tax incentive facility for the ICT sector up to 2024 and also tax exemption for e-commerce.

Mohammed Raisul Uddin, a director of Junior Chamber International Bangladesh, the government should give special incentives, including low-cost funds, to young entrepreneurs and set up industrial parks.

Speaking from New York, Mahmud Hasan, a non-resident Bangladeshi, said the government would have to create an environment for wooing investment from Bangladeshis living abroad.

Shah A Sarwar, managing director of IFIC Bank, said the banks are facing a sort of bashing although the lending rates have come down to 12 percent.

Mohammad Hatem, former vice president of Bangladesh Knitwear Manufacturers and Exporters Association, said the factory owners still have to pay a lot of VATs, although the garment sector is out of the purview of VAT net.

PRI suggests taxing tobacco

FROM PAGE B1

PRI said the government can collect a huge amount of money from payroll withholding taxes.

Payroll withholding taxes are the taxes that an employer is required to deduct from its employees' gross wages, salaries, bonuses and other compensation. Payroll withholding is the most important source of income tax collection in all developed and emerging economies.

Tapping this most important source of income at source, that is, at the stage the payroll is distributed, is the most secured way to maximise income tax collection, said Mansur. "The tax administration in Bangladesh is very weak in this respect. For example, Bangladesh collects only 2-3 percent of the total income from payroll, compared with more than 87 percent in the UK and 63 percent in Australia."

The NBR direct tax wing needs to set up a dedicated department to monitor withholding agents, get the withholdings linked to the payroll of staff provided by the business enterprises and follow up on persons who have paid withholding tax but not submitted their income tax returns, he added.

PRI also suggested the government increase the tax rate on apparel exports in the upcoming budget.

The garment and textile sector is the most dynamic sector in Bangladesh and it is the most under-taxed sector as well. The tax rate on apparel exports was slowly increased from 0.25 percent of export volume to 0.8 percent in fiscal 2013-14.

However, in order to mitigate the high costs incurred by the sector due to political unrest, the rate was temporarily cut down to only 0.3 percent in fiscal 2014-15.

"This rate should now go back to at least the original level of 0.8 percent in FY16 and should further go up in the coming years. The revenue impact from this move would be about Tk 600 crore," said Mansur.

Sadiq Ahmed, vice chairman of PRI, stressed raising public revenue, increasing spending on health, education and social sector as a share of GDP, increasing the use of foreign aid pipeline and providing a clear statement of expenditure reforms for the seventh five-year plan.

Syed Nasim Manzur, president of Metropolitan Chamber of Commerce and Industry, asked the government to rationalise the supplementary duty to reduce the cost of doing business in the country.

He also urged the government to focus more on utilisation of unused foreign aid.

Mustafizur Rahman, executive director of Centre for Policy Dialogue, said Bangladesh has to maintain macroeconomic stability by focusing on higher investment and increasing productivity.

The National Board of Revenue has set its revenue growth target beyond its capacity in the last few years, he added.

Mohammed Farashuddin, former governor of Bangladesh Bank, stressed the need to strengthen the monitoring of VAT collection from a number of sectors such as sweets shops, jewellery and pharmacy.

Anis A Khan, vice chairman of Association of Bankers Bangladesh, urged the government to make a merger and acquisition policy, especially for the banking sector as most banks' financial strength is not good.

AMA Muhith, finance minister, said the government will seriously consider the proposals made by PRI in the upcoming budget. The withholding of payroll tax is very interesting, he said, adding that the government will pay special attention to it.

The tax rate on garment exporters will obviously change in the upcoming budget, he added.

Muhith is also frustrated over the number of e-TINs in the country. The country now has only 1.8 million e-TIN holders. "We have 160 million people. I think each person should have an e-TIN." The minister also agreed that the current taxation policy on the telecom sector is not good.

Denim opens big export opportunity

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Mostafiz has been organising the shows. Almost all renowned retailers and brands will participate in the show and Mostafiz is also planning to organise a similarly large scale denim-exclusive exhibition in Europe soon.

Besides the retailers, denim producers from India, China, Pakistan, Germany, Thailand, Turkey, the US, Japan, Spain and Thailand will showcase their denim products at the exhibition. Of the total 25 booths at the show, nine are booked by local denim makers. The fair expects more than 350 global invitees and guests.

Denim Expert supplies its BlueXonly brand products to boutiques in different European countries, including the Netherlands, Belgium, Hungary and Italy. It makes jeans for both men and women, and 60 percent of its products are sold under its own brand.

On the growing strength of the sector, Mostafiz said by 2020 every four out of five denim products in Europe would be sourced from Bangladesh.

Currently, 25 denim factories are operating in Bangladesh, who produce around 20 million yards of the fabric every month to meet half of the local demand. The rest is imported. Total investment in the sub-sector stands at Tk 6,500 crore. Five new companies are also setting up factories.

Local entrepreneurs supply denim products to major retailers and brands, including H&M, Levi's, Uniqlo, Nike, Tesco, Wrangler, s.Oliver, Hugo Boss, Puma, Primark, JC Penney and C&A.

The global denim market will cross $65 billion in the next four to five years, Mostafiz said, adding that denim will contribute around $2 billion to the country's garment export target of $50 billion by 2021.

Among the global players in the $60 billion denim market, Bangladesh stands behind China, the US, Italy and some Latin American countries.

Currently, Bangladesh is the third largest denim exporter to the US after Mexico and China with an 11.3 percent market share, according to the US Department of Commerce.

Bangladesh exports denim products worth more than $500 million to Europe a year, according to industry insiders.

Anwar-ul-Alam Chowdhury Parvez, managing director of Argon Denims, said the response in the first exhibition was very good.

"The brands and retailers could know from the exhibition that Bangladesh is a major player in the global denim market. Our next major business opportunity is denim, as orders are shifting from China to Bangladesh," Parvez said.

He produced 13.21 million yards of denim in 2014 and aims to manufacture 18 million yards this year. "We have huge potential in denim business, but we need an adequate supply of gas and power to utilise it," he said.