

VAT: A mixed bag

SAJJADUR RAHMAN and MD FAZLUR RAHMAN

The government has proposed to withdraw value-added tax (VAT) on a number of products and services to encourage local industries to grow further.

Pharmaceutical makers will be able to export medicine samples worth Tk 1 lakh free of VAT instead of the existing quota of Tk 30,000.

The 15 percent VAT levied on licence issuance and renewal fee for jute and jute products and solar panel batteries have been withdrawn. The recycling of plastic waste also got VAT exemption.

Nutrition premix in animal food to protect domestic livestock, electricity bill against cold storage service, medicines for acute liver-related diseases, iron scraps, iron oxide, energy-saving bulbs and electricity bills for development of high-tech parks will also get exemption.

Services provided through mobile SIM, cigarettes and private education will be costlier. Credit rating and financial analysis-related activities will be subject to 15 percent VAT.

VAT for retailers and wholesalers have been increased in the proposed budget.

A small retailer who used to pay Tk 3,000 as turnover tax will now pay Tk 3,600, while a 4 percent trade VAT has been proposed for super shops in place of the existing 2 percent.

The finance minister has also increased the VAT on gold and silver products to 4 percent from the existing 3 percent.

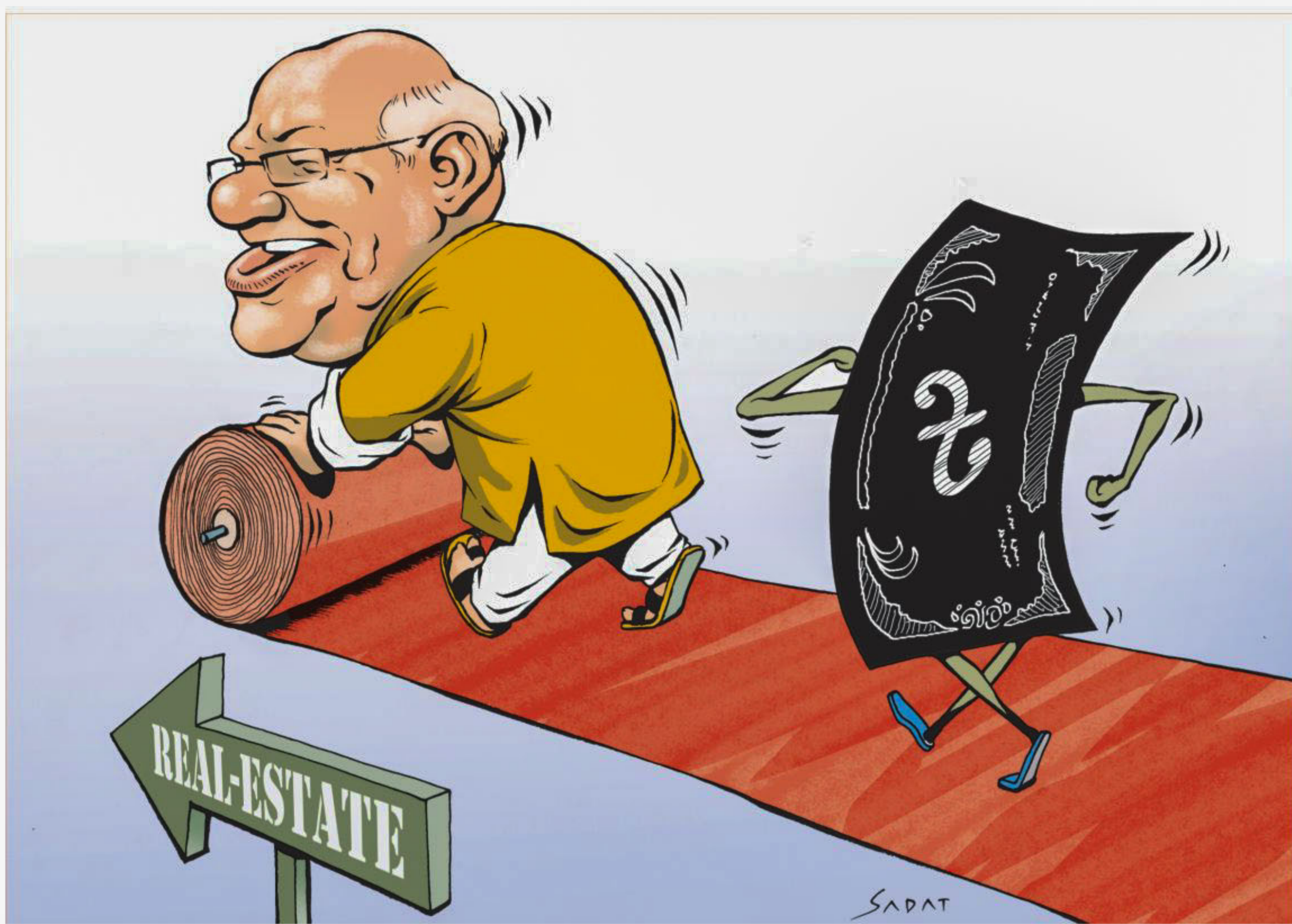
Instead of a flat 3 percent VAT for the construction sector, a VAT structure based on floor space has been proposed.

For instance, a 1.5 percent VAT has been proposed for spaces of up to 1,100 square feet, 2.5 percent for 1,101 to 1,600 square feet and 4.5 percent for over 1,600 square feet.

Mustafizur Rahman, executive director of the Centre for Policy Dialogue, said some measures have been taken to protect the local industries.

"But tax or duty is just a part of a total business cost. The cost of doing business must be reduced to enhance the competitiveness of domestic industries," he added.

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Govt may increase aid utilisation target by 40pc

MD FAZLUR RAHMAN

The government is looking to bump up its foreign aid utilisation by about 40 percent in fiscal 2015-16 over current year as it looks to reduce reliance on high-cost domestic borrowing to fund the budget deficit.

Finance Minister AMA Muhith is aiming to disburse Tk 30,134 crore, or \$3.92 billion, from development partners -- optimistic given that the government has always missed its target.

In the first ten months of the current fiscal year, \$2.38 billion were disbursed against the full year target of \$3 billion.

Inefficiency, excessive bureaucracy and abrupt changes in project directors are blamed for the historically low levels of foreign aid utilisation despite the availability of funds.

Subsequently, the government is forced to borrow funds from domestic sources at 7 to 8 percent interest in contrast to 1 to 2 percent rate for donors' funds. Furthermore, the excessive domestic borrowing by the government crowds out private sector investment.

"If we can increase spending from the piled-up foreign aid, we will be able to reduce reliance on domestic borrowing to a large extent," Muhith said during his budget speech yesterday.

A record \$20 billion of foreign aid has piled up due to the government's failure to utilise the low-cost resources timely.



You can still whiten your black money

REJAUL KARIM BYRON

The scope for whitening undisclosed money remains in place in the proposed budget for the upcoming fiscal year with only a couple of changes to the provisions.

Legislating untaxed incomes by investing in real estate, which was introduced last year, has been made easier by decreasing the tax rates.

At the same time, the government has shrunk the scope for whitening money by paying a 10 percent addi-

tional tax, offered in 2012-13 fiscal year.

For the FY 2015-16, tax rates on buildings and apartments in municipalities in the district areas have been cut down to Tk 600 to Tk 800 per square metre of floor space from Tk 1,000 to Tk 1,500.

At upazila levels, it has been fixed at between Tk 400 and Tk 600 depending on location, down from Tk 700 to Tk 1,000 in the FY 2014-15.

For voluntary disclosure of black money, a new provision has been

introduced prohibiting use of the sectors enjoying tax exemption or reduced tax rates in availing the opportunity.

Many use these sectors for whitening their money so that they have to pay less tax. This means they resort to illegal ways for legalising black money, said officials of the National Board of Revenue (NBR).

They also say that the proposed changes aim to stop tax evasion and boost investment in real estate outside the metro cities.

Despite criticisms, Finance Minister AMA Muhith has always defended allowing black money to be whitened.

"These two provisions can be extended as they are necessary to ensure balance in the tax payment system. It should be mentioned that the privilege will not apply to money obtained through terrorism and corruption," he had told parliament the day before passing the budget for the current fiscal year.

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Some relief for income taxpayers

MD FAZLUR RAHMAN

The proposed budget relieves income taxpayers a little with restructured thresholds for different income slabs.

Thus, the tax burden in fiscal 2015-16 will be a little lighter for many, but might end up somewhat regressive in implementation, said Aminur Rahman, a former member of the National Board of Revenue.

Besides, people who are not covered by the income tax exemption threshold will have to pay at least Tk 4,000 in taxes. In the outgoing fiscal year, the tax was Tk 3,000 for taxpayers living in the city corporations, Tk 2,000 for district level municipalities and Tk 1,000 for taxpayers at rural areas.

Business leaders welcome proposed budget

They term the budget business- and investment-friendly



Abdul Matlub Ahmad, Syed Nasim Manzur, Atiqul Islam, Hossain Khaled, Asif Ibrahim

REFAYET ULLAH MIRDHA

Businessmen and chamber leaders yesterday welcomed the proposed budget for 2015-16 as the finance minister announced some good initiatives to help domestic industries thrive.

The business leaders also urged the government to ensure proper implementation of the proposed budget and to simplify the taxation system to encourage more people to pay taxes.

"I am very happy with the budget proposal as it will help support local industries. There are a lot of measures to help local industries grow," Abdul Matlub Ahmad, president of the Federation of Bangladesh Chambers of Commerce and Industry, said.

"The budget is business-, industry- and investment-friendly. The government has also moved to reduce bank interest rates. This budget would create vitality in the economy as its implementation will generate a lot of employment."

"We appreciate the government for such a good budget proposal."

The government should simplify taxation system, Syed Nasim Manzur, president of Metropolitan Chamber of Commerce and Industry, told Bangladesh Television, a private television channel.

The government should also

widen the tax net, he said. "The government should not allow the scope of whitening black money," the MCCI chief said.

"Proposing 1 percent tax at source on export value is discouraging for the garment exporters," said Atiqul Islam, president of Bangladesh Garment Manufacturers and Exporters Association.

"We will lose our competitiveness because of the tax as our cost of production will increase further due to the proposal. We want continuation of the current rate of 0.3 percent," he added.

"We are receiving low prices from the international retailers, and have lost significant bargaining capacity because of the higher costs of production."

He said they would soon meet the prime minister and the finance minister to lower the tax at source.

The international inspections have increased operating costs of garment makers, and many small and medium factories may face closures from the higher costs and devaluation of US dollar and Euro, he said.

Hossain Khaled, president of Dhaka Chamber of Commerce and Industry, praised the government for taking some positive measures like halving import duty on capital machinery to 1 percent, as well as

The government should not allow the scope of whitening black money

MCCI CHIEF SAYS

reducing it for imports of textile sector chemicals.

He also welcomed the proposal to cut listed companies' corporate tax by 2.5 percent, but suggested the government also reduce tax on non-listed companies.

"I don't see much anti-business initiatives in the budget. A lot of positive measures have been proposed in the budget which will benefit the country's industries."

"I also welcome the proposal of building more special economic zones and giving special incentives to entrepreneurs who invest in those zones, as it will help widen our industrial base," he said.

He said only the industrial sector should get the scope of legitimising the black money.

Khaled echoed other business leaders in suggesting an easier taxation system to help widen the net and boost collections.

The government must cut the hassles of paying taxes, he said.

The GDP growth target of 7 percent is achievable; but only with political stability and a rise in private sector investment, said Asif Ibrahim, chairman of Business Initiative Leading Development, a public private initiative for trade policy formulation.

Increase in public sector investment is noticeable but private sector investment has not responded accordingly, he said.

"Reduction of VAT for the garment sector's compliance related items is a good decision. The implementation of the special economic zones must be expedited to increase the investment to GDP ratio," he said.

Increase in import tax for transformers is not a good decision, as industries require the machine as a source of power, he said.

Overall the budget is in line with the government's vision; however, more incentives for the private sector would have been nice, said Ibrahim, also a former DCCI president.

Allocation for health sector draws flak

PORIMOL PALMA

The falling share of funds for health in the proposed budget has drawn sharp criticism from experts.

They argue that the proposed financial plan for the health sector does not go in line with sustainable development targets.

The budget for fiscal 2015-16 proposed Tk 12,695 crore for the health and family welfare ministry.

Though the amount is a Tk 1,157 crore hike from the outgoing fiscal year's allocation, the sector's share in the total budget has declined 0.51 percent.

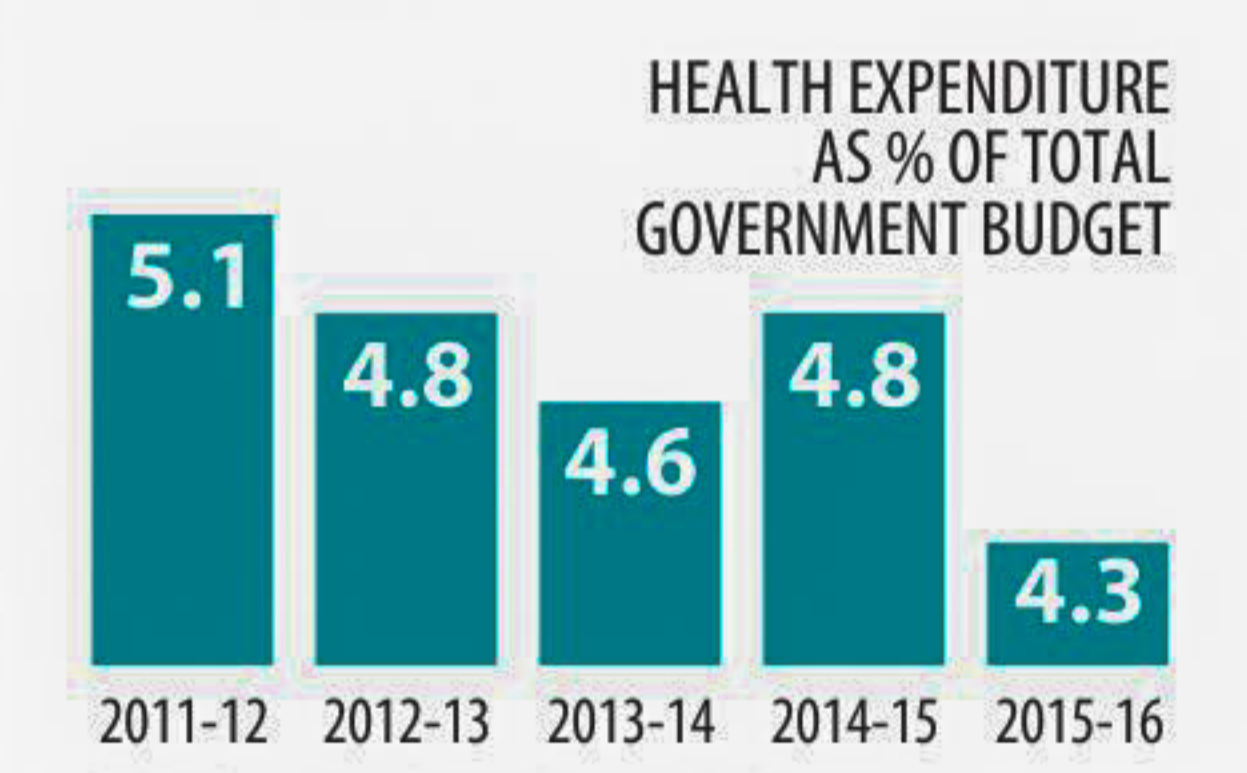
"Health is a cross-cutting issue and has become more important as we look towards the Sustainable Development Goals from next year," said noted economist Dr Hossain Zillur Rahman.

"However, nothing of this sort has been reflected in the budget," he said.

In terms of the Universal Health Coverage, the scenario is not comfortable at all in Bangladesh, Zillur said.

The higher ratio of allocation for health and statements on improving its governance were much expected, but the budget says nothing about it, he observed.

The World Health Organization recommends \$54 per capita spending on health, but it is only \$27 in Bangladesh.



SOURCE: MINISTRY OF FINANCE
The health expenditure as a proportion of government budget has fallen over the years. Given that health is an important component of HDI (Human Development Index), expenditure on health needs to increase.

On the other hand, out-of-pocket expenditure for health in Bangladesh is 63 percent of total health expenditure.

The high health expenditure pushes 4 to 5 million people into poverty every year, while many fail to seek healthcare, according to the National Health Account 2011.

Dr Hossain Zillur, executive director of Power and Participation Research Centre, argued that while poverty rate has dropped in Bangladesh, poverty vulnerability has increased due to private health expenditure.

"Also, health is linked to worker productivity. Not only skill, but also good health of worker has direct consequences on economy."

"So, health must be given high priority as we are talking about reaching middle income status in near future," he told The Daily Star.

Prof Syed Masud Ahmed, director at the Centre of Excellence for Universal Health Coverage at the Brac Institute of Global Health, said it was true that there was a huge governance problem in utilising resources.

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