Inspiring tax-tweaking

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Currently, the lone listed cigarette maker British American Tobacco Bangladesh pays 40 percent tax.

The tax rate for non-listed companies is likely to remain unchanged at 35 percent, according to the budget proposal for fiscal 2015-16 placed by Finance Minister AMA Muhith yesterday in parliament.

Taxmen said the tax on listed companies, including financial institutions, has been proposed to be slashed with the objective of gradually bringing down the corporate tax rate in line with the tax rate applicable for individuals.

The cut is aimed at giving a boost to the stockmarket and luring investment to prop up the economy, officials added. The National Board of Revenue (NBR) plans to bring down the corporate tax rate to 30 percent by 2019.

Ali Reza Iftekhar, chairman of Association of Bankers Bangladesh (ABB), said this is a welcome move and long due as well, as the loan provision on classified and unclassified loans is not an allowable expense; the effective tax rate has been ranging from 45 percent to 55 percent for banks.

"The most visible impact of this reduction will be on banks' earnings per share, dividend payment capacity and market price of shares," said Iftekhar, also managing director and chief executive of Eastern Bank Ltd.

A senior NBR official said this direct tax cut would cause a loss of around Tk 400 crore for the state.

To offset the losses and generate additional taxes to attain the increased direct tax collection target of Tk 65,932 crore in the next fiscal year, Muhith looks to the non-listed banks, including foreign ones, insurers, financial institutions and mobile phone operators, along with exporters of all items, imposing advance income tax (AIT) on certain imported commodities and AIT on retail prices of cigarettes.

From next fiscal year, exporters of products ranging from garments, jute to frozen fish will have to pay 1 percent source tax on the value of their exported items, up from 0.3 percent source tax for clothing exporters and 0.6 percent for exporters of other items at present.

Taxmen say the hike in source tax on exported items will allow NBR to log an additional revenue of nearly Tk 2,500 crore.

On the new pay scale for public employees that is going to take effect in July, Muhith, for the first time, suggested taxing the salary, bonus and festival allowances from next fiscal year -- a move that is expected to reduce the disparity in taxation between the public and private sector.

So far, government employees had to pay tax on their basic salaries whereas salaried persons in the private sector face taxes on their salaries, allowances and bonuses.

Muhith termed the practice discriminatory and said the new tax measure is proposed to eliminate the discrimination in the taxation system.

More than 15 imported commodities that were earlier exempted from tax at the import stage have been proposed to be brought under taxes.

Some 2 percent source tax has been proposed on the import of commodities like rice, wheat, raw and refined sugar, oilseed, raw and refined cooking oil, crude and refined petroleum, and petroleum products, lubricant, leather, MS rod and steel, and mobile phones.

Another source of increased tax collection is going to be the 3 percent advance income tax (AIT) on the retail price of cigarettes.

"We expect to log handsome amounts by imposing tax on some imported items and through AIT on cigarette sales," said a senior official of NBR.

In addition, the tax rate for non-residents has been specified in the proposed budget to ensure proper collection of taxes from foreigners, who render various services to local businesses for short periods of time.

The tax official expects that the measure would pay off.

The government also looks to supplement its revenue by taxing the poultry industry, which currently faces zero tax.

A poultry company's income of the first Tk 10 lakh will be subject to 3 percent tax, 10 percent tax on the next Tk 20 lakh of income and 15 percent on the rest of the income.

Similarly, taxes will also be applicable on poultry and livestock feed makers, seed sellers, dairy, frog, mushroom and flower cultivation. Currently, 3 percent tax is applicable on the income from these businesses.

Cooperatives that are engaged in businesses other than farming and cottage industry were also proposed to be taxed at 15 percent from next fiscal year.

In addition, the minimum tax irrespective of place of residence was proposed to be increased to Tk 4,000 from next fiscal year. At present, taxpayers living in the cities have to pay Tk 3,000 in minimum tax against their income; people living in district municipalities face Tk 2,000 in minimum tax and those living in the suburbs face Tk 1,000.

To expand the tax net, Muhith also proposed to bring gratuity income over Tk 2.5 crore under taxes.

Other measures include imposing a 4 percent capital gain tax on lease money and sale of possession by agencies other than the government, 15 percent source tax on rent compensation and signing money to be paid by real estate developers to land owners. Source tax on advertising income of print, electronic and online media has also been proposed to increase to 4 percent from 3 percent at present.

The advance tax on soft drinks and bottled water was also proposed to be increased to 4 percent from present 3 at percent. The source tax on commission of buying houses was also recommended to go up to 10 percent from 7.5 percent at present.

TAX WAIVER

Apart from the measures to increase tax collection, the government also offered tax benefits to some sectors.

These include extension of a tax break for the IT sector, exemption of cottage industry from source tax on exports, waiver of upfront tax on the interest income of treasury bonds and bills and seven types of bonds -- Wage Earners Development Bond, US Dollar Premium Bond, US Dollar Investment Bond, Euro Investment Bond, Euro Premium Bond, Pound Sterling Investment Bond and Pound Sterling Premium Bond.

TAX CUTS

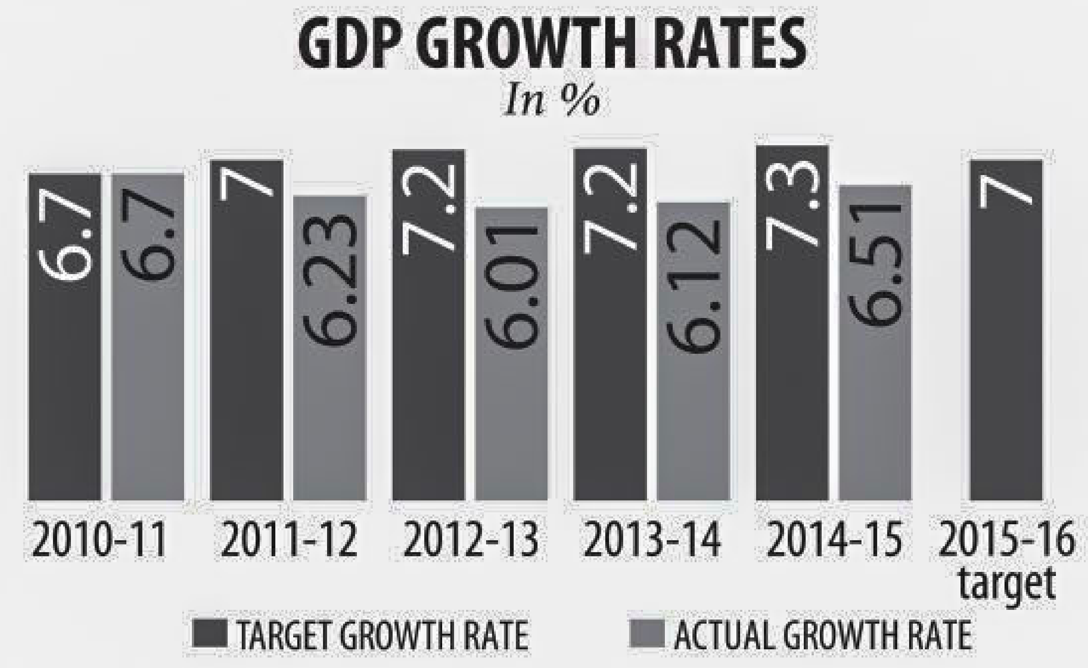
Muhith proposed to reduce specific taxes for the purchase of residential buildings and flats through undisclosed incomes in locations beyond city corporations to encourage small investors to invest in housing.

Some tightening measures

To curb fraudulence in audited financial statements, Muhith proposed imposing Tk 1 lakh as fine along with imprisonment of taxpayers for submitting fake audit reports. Some 2 percent penalty has also been recommended for failure of the companies, particularly the foreign ones, to submit statements of their international transactions.

Some Tk 50,000 has been recommended as fine for not examining the validity of Taxpayer Identification Numbers (TIN). Currently, 25 agencies are supposed to check the validity of TINs in rendering services. In addition, measures have been tightened so that cigarette makers cannot adjust their losses in other businesses with incomes of the cigarette business.

Goal high on hopes



Growth rate targets in fiscal11 to fiscal15 were set in accordance with the 'Sixth Five Year Plan'. According to this plan, growth rate was supposed to reach 8% by 2015. However, actual growth rates fell short of targets in all years except in fiscal11. The recent political violence in 2013 and 2015 took a toll on the economy. According to the World Bank, losses caused by political turmoil in 2015 could be around 1% of GDP.

NOTE: BASE YEAR 2005-06 USED FOR FISCAL 13, 14 AND 15

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With a glut of big projects already in place, many of which are dragging, he actually had little new projects to showcase for next year.

His ambitious revenue target -- 27 percent higher than this year's revised figure -- will be challenging to achieve although the wisely proposed threefold increase in advance income tax on garment exports will rake in huge money.

Muhith's tough call will be to ensure a 40 percent higher foreign funding for projects by removing the bottlenecks in the pipeline. He himself is doubtful as he states "if we can increase disbursement from the huge pipeline". That "if" sticks out like a sore thumb.

And if that does not happen, the economy will be caught in further domestic borrowing with incidence of interest rate payment going up. Or in the alternative scenario, expenditure will be cut to make up for a likely shortfall in revenue collection.

The net impact of this will be again to be caught up in the 6 percent growth cycle.

The finance minister has prepared his recipe of growth on accelerating aggregate demand through improvement in energy, roads and economic zones. Pay rise, he hopes, will generate consumer spending.

But his budget book shows no new road plans other than the ongoing Dhaka-Chittagong and Dhaka-Mymensingh ones. His energy chapter contains no major announcement on infrastructure while the ongoing ones are slow-going. Economic zones will take years to materialise.

Muhith knows that an increase in private investment holds the key to higher growth but he has yet to find an answer about how that will happen in the face of a sluggish bureaucracy, dearth of good governance, a crippled Board of Investment, and above all the great political uncertainty that he has ranted about a lot. The factors he himself listed as impediments to private investment -- delay in getting utility services, institutional complications, high interest rates or land scarcity -- remain unresolved.

Good governance prospect does not look bright. He promises little on public administration, police force and judiciary. And strengthening the local government, a crucial ingredient for development, remains full of empty talks. On top of that he now mulls devolution of power, another far-fetched idea.

Muhith instills no new hopes on roads, gas supply, and traffic jam in Dhaka city that hurts the economy so bad. There is no remedy for a wilting agriculture or the flagging manpower export.

In short, Muhith in his budget wants good growth with a clear idea of what needs to be done, only that the specific actions are missing once again.

Relief for individuals

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years, the government has planned to raise the minimum tax-free income to Tk 2,50,000 -- up by 14 percent from the existing Tk 2,20,000.

Finance Minister AMA Muhith in parliament yesterday proposed the new tax exemption ceiling, attributing to inflation and living cost.

In the last two years, nearly seven percent average inflation hit the country, stretching the wallets of the low- and fixed-income people.

The proposed budget also increased the tax exemption limit from Tk 2.75 lakh to Tk 3 lakh for women and elderly citizens aged over 65.

For physically challenged people, it will be hiked from Tk 3.50 lakh to Tk 3.75 lakh and for gazetted wounded freedom fighters from Tk 4 lakh to Tk 4.25.

Also in the budget proposals for the FY 2015-16, the income slabs have been reorganised, keeping the corresponding tax rates unchanged. Each of the slabs has been raised by Tk 1 lakh.

The proposed measure is going to reduce tax burden on middle-income people as well as the super rich, said Syed Md Aminul Karim, former member of income tax at National Board of Revenue.

UNIVERSAL INCOME YEAR

Companies and firms, except for banks, insurance and financial institutions, will have to adopt July-June as the income year. It has to be effective from July 1, 2016, said Muhith.

Under the current tax legislation, a taxpayer is allowed to adopt his own income or accounting period as per their own choice, he said.

Some taxpayers, namely banks, insurance and financial institutions, follow the calendar year (January-December); others keep with different accounting periods as their income years, he added.

According to the proposed budget, government is also going to impose 50 percent additional tax or Tk 5 lakh on persons for employing unauthorised foreigners.

Despite the existence of large unemployment among local eligible workforce, huge numbers of foreign nationals are being employed in the country and most them are not in tax net, Muhith said in his budget speech.

"We have already started registering foreign nationals working in our country and they will be brought under tax net soon," he said.

"I propose to impose 50 percent additional tax or Tk 5 lakh [whichever is higher] for the persons employing unauthorised foreign nationals."

He also suggested prosecution and punishment, and cancellation of tax holiday and other tax exemption facilities for what he said was "unscrupulous entities engaged in such unlawful acts".

Hard to achieve

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The noted economist soon turned his attention to the challenges the budget for the 2015-16 fiscal year faces.

He said he was concerned about some overarching targets in the new budget.

For instance, Debapriya said, the total revenue growth in the last three years never exceeded 10 percent. "But the new budget aspires to achieve 27.5 percent revenue generation growth. It is actually 36 percent more than the final figure of 2014-15."

Similarly, the expenditure growth averaged below 10 percent in the last three years, but the proposed budget has stipulated the growth to be 23 percent, said Debapriya.

"Again, the new growth target is 42.5 percent higher from the closing figures of the outgoing fiscal year.

"In the budget, we have not found any list of measures to drive this kind of beyond-the-trend growth," he told The Daily Star, adding that similar trends might also be observed in the


Debapriya


Mirza Azizul


Salehuddin


Sayeed Murshid


Zaidi Sattar

case of deficit financing.

Mirza Azizul Islam, former finance adviser to a caretaker government, said first it has to be seen whether the government would be able to mobilise adequate financing.

"Secondly, we have to see whether the government has the administrative and institutional capacity to implement the budget even if the fund is mobilised. If it can't do so, the budget is ambitious."

The NBR revenue target is nearly 30 percent higher than that of the revised budget of the outgoing year, he said. Bangladesh has never in its history achieved such year-on-year higher growth."

Islam also said there is apprehension among investors and businesspeople that the NBR might push for reaching its revenue generation target. "If that happens, it will hamper private investment."

The former CG adviser also said if the government borrows more from the banking sector, it would obstruct credit flow to the private sector, thus disrupting private sector investment.

He also said the government's target on sales on savings instruments to manage deficit financing might overshoot in the next fiscal year as it happened in the outgoing year, putting pressure on the government in repaying interest on borrowing and curbing the budget's ability to spend more on productive sectors.

Mirza Azizul Islam, however, supported the finance minister's priority for transport, energy and power, human resources development, health, education and social safety net programmes.

Former Governor Salehuddin Ahmed of Bangladesh Bank said implementation of the budget is the major challenge.

Zaidi Sattar, chairman of Policy Research Institute of Bangladesh, said he has not found anything in the budget that is consumer-friendly, though ideally a budget should be friendly to consumers.

He said the GDP target of 7 percent is ambitious but sometimes there is a need to be ambitious, especially when the country has for long been trapped in the 6-plus percent economic growth.

"But achieving 7 percent GDP growth will be transformative and it will not be easy to attain," he said.

Sattar also does not think that the budget which is 17.2 percent of the GDP is that large. "Nepal's budget size is 21 percent of its GDP, while it is about 17 percent in many of our neighbouring countries."

He said the finance minister has unveiled a big budget riding on the macroeconomic stability which the country has been enjoying for a while. "There is also incentive for high target."

Extrapolating from the country's past experience, Khan Ahmed Sayeed Murshid, director general of Bangladesh Institute of Development Studies (BIDS), said the budget may not be implemented fully.

He said the country can't raise its GDP growth without the much needed investment. "The private sector is not making investments. Although there are talks about innovative financing, we don't see any innovation."

"Public-Private Partnership has played key roles in many countries including China. But we have yet to be serious about it ... If we can't be serious about innovative financing, public financing alone can't meet the country's huge needs," he added.

Modi due tomorrow

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grant-in-aid projects.

In a Facebook post last night, Modi said: "On 6th June I will begin my 2-day visit to Bangladesh. It is with a great sense of enthusiasm and delight that I visit a nation with which India's ties have been very strong."

In Bangladesh, he would attend several programmes, which include meeting with PM Sheikh Hasina "who has played an important role in strong India-Bangladesh ties," he said, adding that there will be delegation-level talks and signing of agreements as well.

"I will join the programme to unveil the plaques for various Grant-in-Aid projects. At the Prime Minister's Office, plaques of railway, cultural and road projects will be unveiled. Similarly, plaques for various development projects will be unveiled at the New Chancery," Modi said.

The Indian PM said he would pay tributes to martyrs of the 1971 Liberation War at the National Mausoleum and he was eager to visit Bangabandhu Memorial Museum and "pay tributes to the great Sheikh Mujibur Rahman" whom he described as "a friend of India and a pillar of strength and democracy in the South Asian region".

"It will be my privilege to receive the Award of Liberation War Honour on behalf of Atalji [former Indian PM Atal Bihari Vajpayee]. Atalji, as Foreign Minister and as PM, placed great emphasis on strong ties with Bangladesh and had visited Bangladesh in 1999," he went on.

Terming the ratification of the Land Boundary Agreement (LBA) as a "watershed moment in our ties with Bangladesh," Modi said: "I must highlight the support of political parties as well as Chief Ministers of various states that led to the smooth passage of this amendment bill."

"A few weeks ago, the Indian Parliament unanimously approved a Constitution amendment bill to give full effect to our Land Boundary Agreement of 1974 with Bangladesh and the related 2011 Protocol.

"I will be visiting the Ramakrishna Mission in Dhaka. It was founded by devotees of the Belur Math in 1899. I will also visit the famous Dhakeshwari Temple.

"I am certain my visit will be beneficial for the people of both our nations and in the larger good of the South Asian neighbourhood," Modi wrote.

MAMATA ARRIVES TODAY

West Bengal Chief Minister Mamata Banerjee, who was invited by Modi to accompany him during his Bangladesh visit, is coming alone and around 15 hours ahead of him.

"She will land at 8:30pm tomorrow [today] from Kolkata and will return the next evening [tomorrow] after witnessing some official engagements between Modi and Bangladesh Prime Minister Sheikh Hasina," said a senior foreign ministry official.

State Minister for Foreign Affairs Md Shahriar Alam will receive Mamata at the VIP Terminal of Hazrat Shahjalal International Airport in Dhaka.

Indian PM Modi is scheduled to arrive in Dhaka at 10:15am tomorrow for his 34-hour visit and Hasina will receive him at the airport.

Mamata and Modi are not only travelling separately but also will be staying in separate hotels and return on separate dates.

While Pan Pacific Sonargaon Hotel has been booked for Modi's entourage,

Mamata will stay at Radisson Hotel, according to a foreign ministry official.

She is the only Indian chief minister visiting Dhaka during Modi's visit. The chief ministers of Assam, Meghalaya and Tripura are not coming, although they played crucial roles in the LBA ratification.

On May 28, West Bengal Education and Parliamentary Affairs Minister Partha Chatterjee first broke the news that Mamata would accompany Modi during his Dhaka trip, ending speculations on the contrary.

Diplomatic sources in New Delhi say Mamata's decision not to accompany Modi clearly shows that she is still not ready to sign the Teesta Water Sharing Agreement with Bangladesh.

A couple of days ago, Mamata said the Teesta issue was not on her agenda.

Mamata had earlier backtracked at the eleventh hour and pulled out from the delegation of former prime minister Manmohan Singh during his Dhaka visit in 2011, raising objection to the Teesta deal.

Political analysts in Dhaka and New Delhi think domestic conflicts in Indian politics have surfaced outside the country. Mamata in fact wants to convey the message that she is a leader of her own, they believe.

NEW TRANS-BORDER BUS

Mamata yesterday flagged off the new Kolkata-Dhaka-Agartala bus service.

Terming it historic, she said it would bring people of India and Bangladesh closer.

However, the Volvo bus that was scheduled to take 27 media people and some senior officials to Dhaka could not start due to mechanical glitches which were noticed barely five minutes before the flag-off ceremony at Nabanna, the West Bengal secretariat, reports our Delhi correspondent.

Later, the passengers were put into another bus, which travelled to a place near Kolkata airport and was waiting for the official bus to be repaired. If the bus cannot be repaired in time, another air-conditioned bus would be sent to Dhaka, officials said.

Mamata, however, symbolically flagged off the bus.

"The launch of Kolkata-Dhaka-Agartala bus service makes this day forever memorable and historically significant for us," she said, adding: "This will bring both India and Bangladesh closer and strengthen our friendship."

Distance between Agartala and Kolkata via Dhaka is 500 kilometres, but it is 1,650km if one travels through the 'chicken's neck' connecting West Bengal to the northeast and Assam capital Guwahati.