

# Govt cuts corporate tax for garment

## Apparel makers want more benefits

REFAYET ULLAH MIRDHHA

The garment makers have something to cheer for in the proposed budget, as the finance minister has reduced the corporate tax for the sector to 15 percent from the existing 20 percent.

The corporate tax for green garment factories has also been reduced to 14 percent, as they are contributing in saving energy, water and environment.

The much-talked about source tax will be 1 percent for the next fiscal year.

However, the budget has failed to satisfy the sector leaders, who want more benefits from the government, including establishment of more modern infrastructures and smooth operations of ports.

Siddiqur Rahman, president of Bangladesh Garment Manufacturers and Exporters Association, said he is not happy with the proposed facilities given to the sector.

Rahman recommended the government reduce the source tax for the garment sector to zero percent, as the sector has been passing through a bad time due to volatile economic situation in the major export destinations, including the EU and the US.

He also said the government should give 5 percent cash incentive on export receipts and set the corporate tax at 10 percent at least for the next two years.

The garment sector has been witnessing a little above 13 percent growth in the last 10 years, but the growth declined to less than 3 percent in the recent months due to the global instability, he said.

- Corporate tax for garments to be cut by 5 percentage points to 15pc
- Such tax for green garment factories to be set at 14pc
- Source tax to be 1 pc
- BGMEA wants corporate tax to be 10pc
- The garment makers' platform want source tax to go
- They also demand 5pc cash incentive on export receipts



"The next two years are very crucial for us. We need policy support to maintain even a moderate growth."

Bangladesh will face even tougher competition as some of its competing countries have already taken steps to strengthen their apparel export, Rahman said.

The cost of production for the sector has been increasing at 18 percent annually, but at the same time the prices of apparel items are not increasing globally, and even in some cases the prices of clothing items declined, he said.

Rahman said the garment makers have

already spent more than \$1 billion for factory remediation as per the recommendations by the Accord, Alliance and the government.

Rahman said the garment makers' platform will soon sit with the prime minister and the finance minister to press home their demands.

The proposed tax reduction for green garment factories will encourage the owners to establish more such factories, Rahman said.

"The move to reduce corporate tax for green garment factories is a very good idea," said Miran Ali, managing director of Bitopi

Group, which runs one of the highest rated green garment factories in Bangladesh.

It will certainly give a boost to the garment factory owners to go for new green units, he said.

Currently Bangladesh has 67 garment factories which have earned the Leadership in Energy and Environmental Design or LEED certificate from the US Green Building Council, the global authority for certifying green buildings.

Another 222 factories are now waiting in line to be certified by the Council.



Zahid Hussain

Debaripriya Bhattacharya



Ahsan H Mansur

Hossain Zillur Rahman

# Budget a mixed bag

## Say economists

MD FAZLUR RAHMAN

The budget for the upcoming fiscal year is a mixed bag as it finally puts the VAT act into action and also raises doubts among experts over its implementation prospects amid a lack of initiatives needed to speed up reforms.

"The budget is overall a mixed bag," said Zahid Hussain, lead economist of the World Bank's Dhaka office.

He said implementation of the VAT law was a courageous step as the government resisted pressure when it could have easily backtracked, given the elections are only a year away.

"Had the unified VAT rate been cut, the spirit of the law would have been compromised," he said, adding that the government also did not compromise much on turnover tax and the VAT-free exemption limit.

He however, said a lack of adequate attention was visible in case of reforms, particularly in the financial sector. "Even the budget speech has not mentioned the word 'non-performing loans' although it is a major problem and Tk 2,000 crore has been kept as provision for state banks."

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# VAT rate too high

## Business leaders welcome plan to raise infrastructure spending

REFAYET ULLAH MIRDHHA

Chamber leaders and business community welcomed the government's plan to raise infrastructure spending but criticized the 15 percent VAT, saying the rate is exorbitant and will dent business confidence.

In their instant reactions, the chamber leaders said, in the proposed budget

However, the flip side is that many small enterprises have been included in the purview of the 15 percent VAT, he added. This is a matter of concern as those small enterprises do not have the financial capacity to pay that amount of VAT.

The VAT rate should be much lowered for the small enterprises so that those units can run well, he said.

the government, he said. To mitigate the effect, the government plans to borrow Tk 28,203 crore from the banking sector, but it should keep in mind that the move will not negatively affect borrowing by the private sector, said the chief of the apex trade body.

Another good side of the budget is that the government did not withdraw

### TAX SLABS

FY2017-18

CORPORATE TAX	
Non-listed companies	35%
Listed companies	25%
Listed banks, Insurance and NBFIs	40%
Non-listed banks, Insurance and NBFIs	42.50%
Merchant banks	37.50%
Tobacco companies	45%
Mobile phone operators	40% (Listed), 45% (Non-listed)

  

PERSONAL INCOME TAX	
Up to Tk 250,000	No tax
<b>MINIMUM TAX</b>	
● Dhaka and Ctg city: Tk 5,000	
● Other city corps: Tk 4,000	
● Other areas: Tk 3,000	
Tk 250,001-Tk 650,000	10%
Tk 650,001-Tk 1,150,000	15%
Tk 1,150,001-Tk 1,750,000	20%
Tk 1,750,001-Tk 4,750,000	25%
Tk 4,750,001 above	30%

  

TAX-FREE INCOME LIMIT FOR	
women and 65 years plus citizens	Tk 300,000
Challenged persons:	Tk 400,000
Wounded freedom fighters	Tk 425,000

# Budget deficit remains 5pc of GDP

STAFF CORRESPONDENT

Finance Minister AMA Muhith proposed a similar budget like last year to keep the budget deficit within 5 percent of the country's gross domestic product (GDP).

Muhith proposed the budget for the outgoing fiscal year Tk 1.12 lakh crore or 28 percent of the total budget. In terms of GDP, the deficit is estimated to be 5 percent. In the revised budget for the outgoing fiscal year, the deficit remains same of the proposed one.

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Shafiqul Islam Mohiuddin

Abul Kasem Khan

Siddiqur Rahman

Mahubul Alam

for fiscal 2017-18 many of their expectations have been addressed, while many others have been excluded.

Some positives of the proposed budget are that the finance minister has kept many basic commodities out of the purview of the 15 percent VAT and proposed good strategies to improve the much needed infrastructure, said Shafiqul Islam Mohiuddin, president of the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI), in his reaction.

"If the government can execute the proposed budget properly, I think the country would be benefited," Mohiuddin said.

The government can implement the Annual Development Programmes by borrowing money from the banks; it would not be a wrong decision to do so, he added.

However, the government should maintain a regular inflow of money in the markets, so that investment is not hampered due to bank borrowing by

supplementary duties as a whole. Rather, it proposed to continue supplementary duties on some products that will eventually protect the domestic industries.

However, the government should implement the Special Economic Zones (SEZs) as soon as possible so that the inflow of both local private investment and foreign direct investment increase in the national economy, he said.

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# Local software to be cheaper, imports costlier

MUHAMMAD ZAHIDUL ISLAM

The government is going to withdraw the value-added tax from locally developed software according to the proposed budget, which will help boost the sector, said experts and developers.

Currently, there is a VAT of 5.5 percent both on locally developed and imported software. According to the proposal, the government is declaring it a VAT free product to incentivise the locally developed software industry.

On the other hand, Finance Minister AMA Muhith proposed to increase the supplementary duty on all kinds of database software to 25 percent from 2 percent, and other computer software to 10 percent from 5 percent.

Software developers have congratulated the government for its decision, terming it a milestone decision that will ultimately help achieve digitisation.

This will be an important decision in boosting the industry, said Mustafa Jabbar, president of Bangladesh Association of Software and Information Services (BASIS).

"Our software market is on track to hitting the billion dollar mark and a VAT free situation will help increase our local developers' stake," said Jabbar.

"This decision is implemented, local software will be cheaper where as imported

software will be costlier, which will also give an added advantage in bidding for government projects.

Through this decision, on one hand we withdraw tax from the locally developed software and on the other hand, they will get protection from imported software," said Muhith in his budget proposal.

Jabbar said local engineers are now developing smart and sophisticated software, competing with imported software as well.

Currently, the country earns more than \$700 million a year to export software. However, some banking and financial software are still imported.

The government is purchasing a huge amount of software every year; the local developers will be in a competitive position after the decision is implemented, said Jabbar.

Recently, some banks and financial institutions have also chosen local software, as their quality has advanced.

Shameem Ahsan, former president of BASIS, said so far, they are getting positive recommendations of the budget and they are welcoming it.

However, he also expressed his frustration as there is nothing mentioned about corporate tax on e-commerce businesses.

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### KEY POINTS

- Exports were around \$700m in fiscal 2016
- Local market is of \$1b
- Govt proposes to withdraw VAT from distribution level
- Customs duty for import may be increased
- Local developers will be benefited from govt procurement

# FOREIGN AID UTILISATION

## Govt sets a huge target

REJAUH KARIM BYRON

Finance Minister AMA Muhith has unveiled a plan to utilise an unprecedented amount of foreign aid next fiscal year with a view to successfully implementing the last full budget of his career.

In the next budget, the foreign aid utilisation target has been set at \$7.6 billion (Tk 60,817 crore) which is 67.78 percent higher than the current fiscal year's goal.

The ambitious target comes as the government feels it has augmented its foreign aid utilisation effectively sufficiently in the past several years and some individual countries have also made commitments to large projects.

Traditionally, Bangladesh has been getting large sums of assistance from the World Bank, the Asian Development Bank and Japan.

Now India, China and Russia have come forward with big amounts of assistance. Though their interest rate is low, they come with terms and conditions that will ultimately bump up the project costs.

More than half of the aid utilisation target fixed by Muhith for next year will be utilised from individual countries.

If one-fifth of the aid in pipeline can be utilised, it is assumed that the utilisation is at satisfactory level and in recent years the ministries and divisions have almost

reached that level.

In fiscal 2008-09 the amount of aid utilisation was less than \$2 billion, which crossed the \$3-billion mark in fiscal 2013-14. And for the next three years more than \$3 billion was expended.

Last fiscal year, \$3.53 billion was used. As of January, total foreign aid in the pipeline stood at \$36.54 billion, according to planning ministry statistics.

Of the amount, Russia committed nearly \$12 billion in Roopnar Nuclear power plant, meaning it would not be too difficult for the ministries to fulfil the ambitious target set for the next fiscal year.

Muhith yesterday told the parliament that one of the assumptions on which the budget was framed was that the disbursement of committed assistance would increase.

In the aid utilisation plan for next year, more than \$2 billion has been earmarked for the transport sector, whose live projects include the Dhaka Mass Rapid Transit, Karnaphuli tunnel, Dohazari-Cox's Bazar-Gundlun rail line and the Padma Bridge rail line.

Above \$1.5 billion of foreign assistance will be utilised for construction of various power plants including the Matarbari ultra-supercritical coal-fired power plant.

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