

Powered by VAT

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the Power Division don't like tariff, and that it claim rebate so electricity prices won't go up for the increase in VAT to 15 percent from 5 percent now.

Eating at non-air-conditioned restaurants would be costlier as VAT on those would go up to 15 percent from 7.5 percent.

Food and brick prices may also increase towards the end of the existing tariff-value-based VAT.

Many consumers fear they would have to pay more for biscuits, paper and exercise books.

Muhith, however, said the prices of essential commodities are likely to come down as those are exempted from VAT.

Their prices are not supposed to increase under any circumstances, he said.

The new VAT system uniformly spreads the tax burden at every stage of transaction and doesn't create unnecessary tax burden at any particular stage, claimed the finance minister.

"It allows the taxpayers to pay VAT on the value addition they make at their end."

Dr Azharul Haque Azad, president of Fashion Entrepreneurs Association of Bangladesh, said it would be difficult for many businesses to claim rebate.

He said 80 percent of the suppliers of local fashion houses are weavers, and they don't have VAT registration and usually don't keep records.

"So, we will not be able to claim rebate," said the president of the lobby group for local boutique houses.

Ultimately, the burden of the additional VAT will fall on the buyers' shoulders.

"If 15-percent VAT is imposed on handloom saris, their prices would automatically rise. Customers would feel discouraged to buy them and the weavers' production will be affected," he said, adding that only 4 percent VAT is now imposed on branded garments.

VAT is now the biggest source of revenue. It accounted for nearly 36 percent of the NBR's total revenue collection of Tk 150,000 crore in fiscal 2016-17.

The government has set a VAT collection target of Tk 91,344 crore in the coming fiscal year, around 33 percent higher than the revised VAT collection target of Tk 68,768 crore in the coming fiscal year.

At present, VAT rates ranging from 1.5 percent to 10 percent are applicable to more than 80 products, including newspaper, biscuits, paper, rod and bricks, and nearly 20 services.

But the VAT rate would go up to 15 percent with the imposition of a uniform VAT rate from fiscal 2017-18.

"This rate will be 15 percent, which will be unchanged over the next three years," said the finance minister.

Many consumers and businesses have already become accustomed to paying 15 percent VAT since 1991, he said.

A considerable milestone towards implementing the new act was achieved by incorporating structural changes in the new law, proposed by the business community on several occasions, mentioned the minister.

Now the business community is also ready to accept and welcome the new VAT.

VAT appears to be one of the best forms of tax. But some businesspeople don't want to keep accounts at different stages of production, such as delivery under the VAT system, he said.

Of the 8.5 lakh registered firms, only 32,000 pay VAT, the minister pointed out.

The government hopes the number of active firms would go up to 60,000 within the next two years.

To make businesses happy, Muhith suggested raising the VAT-free turnover ceiling to Tk 36 lakh from Tk 30 lakh. Firms with this annual turnover will be completely out of the scope of tax.

Ambitious, populist with eye on polls

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with foreign aid representing even more additional supply of investible resources. That indicates a serious problem of investment tardiness. There is thus a case for setting a high target for public sector investment, albeit within the implementation capacity. The real concerns about public investment are not about money but about the quality of project implementation resulting in cost and time overruns. The provision of "first task" implementation of the large prioritised projects is no guarantee that the situation will improve.

Improving the implementation of public sector projects is not the only area needing reforms. Being the last full-year budget of this government, it provided an opportunity for bringing about deep reforms in economic management to consolidate the gains achieved in the past years of this regime. There are important areas of need reforms in improving the

investment environment, addressing the problem of huge tax evasion, and preventing a free-fall in the discipline of the financial sector. The finance minister has mentioned in his budget speech the strategic importance of improving the policy environment in several areas ranging from improving the investment environment by providing one-stop service, making the newly created Special Economic Zones (SEZs) operational, investing more in improving rural transportation, and investing in human resource development. Ironically, he has left out the reforms that lie in his own domain, namely, in addressing the increasing public defaults and the consequent continuing need for replenishing the capital shortfalls of state-owned banks.

Most of the onus of realising the ambitious revenue target has been put on the introduction of the new VAT system. The main problem with VAT is that the vast numbers of VAT-eligible

businesses currently lie outside the tax net. It is not clear how far the new VAT law by itself can address this problem of compliance. Instead, most of the attention and apprehension are about how the market will respond to the new system and how businesses of different types are affected by it.

The new VAT law imposes the same uniform tax rate, instead of the existing progressive rates, at every stage of value chains from production and import to the wholesale and retail sale points along with the provision of claiming deductions for VAT already paid at earlier stages. While VAT is a smart modern system of taxation, we are applying it in our circumstances of not so smart an economy where tax evasion is rampant, business record-keeping is of dubious quality, tax administration is poor, and the informal and formal businesses are intermingled in the supply chains. The tax authorities will need to monitor its implementation and should be ready to adjust and make changes so that all

the stakeholders get a fair deal while there is also the need exempt items from tax collection.

For appeasing the business community, most of VAT-exempt items have been widened at the last moment. It is doubtful if the new items included in the list can be categorised as essential items for claiming such exemption.

One main weakness of our tax system is that instead of dealing with the difficult problem of tax evasion, we take the easy route of finding short-cuts and extracting more taxes from those who are already in the tax net. The enhanced rates of wealth tax, which is in fact a surcharge on income tax, impose an excess burden on the existing taxpayers who diligently show their wealth, while tax dodgers and the earners of black money go scot-free. The increase rates of excise duty on bank deposits, again, can hardly be justified by any sound tax policy, particularly when the interest rates on deposits remain extremely low.

Subsidised food for the poor

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about the steps.

"Why had the government allowed the food stock to deplete in the first place leaving the traders take advantage over the poor? Why had the government failed in public granaries, the government should have gone for import in quick time," he said.

Government's rice stock had a nosedive to less than 2.5 lakh MT in May, a seven-year low at a time when early flashfloods damaged, in most conservative estimates, over 10 lakh MT of Boro rice in several Haor districts with Sunamganj being the hard-hit.

Prices of coarse rice rose by at least Tk 10 a kilogram in this May-June compared to the same period last year. The government went for floating tenders to buy 1 lakh MT of rice from the international market last month.

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vulnerable group feeding (VGF), open market sale (OMS), food for work (FFW) and numerous other programmes.

With next general elections approaching, this budget also sees a rise in number of beneficiaries of the social safety net programmes (SSNs) under which the government plans to give more allowances to old people, widows, lactating poor mothers, transgender and bedde community people.

Asaduzzaman, however, said the concept should have been how to address the "widening wealth gap" in the society, instead of giving highly subsidised food to the poor.

In the budget, the government kept Tk 9000 crore as agricultural subsidy though last fiscal year's similar amount of allocation had ultimately been trimmed to Tk 6000 crore.

Besides, finance minister offered some boost in farm machinery in the form of tax relief.

Muhith said, "Use of modern method or mechanical procedure in the agricultural sector has been increased in the past few years before. We have to import these machineries. However, in order to manufacture the major portion of agricultural machineries locally, last year we issued a statutory order fixing

only 1 percent duty on the raw materials and components of such machineries. This year some more equipment has been proposed to be included in the list."

It is hoped, as a result, most of the agricultural machineries would be produced in the country and farmers would be able to buy them at a cheap price.

He proposed a net agriculture budget to the tune of Tk 24430 crore, an over 4,000 crore more than the outgoing fiscal's revised budget.

Except for description of some ongoing projects, which Muhith said, would help protect the haor regions from flashfloods, there was nothing additional in the proposed budget for recouping the losses the Haor people suffered in the form of lost paddy, livestock and fishery.

The finance minister noted that "Nowadays, the real wage of agricultural labourers is increasing with overall hike in wage rates across the country, which in turn, plays a vital role in reducing poverty and inequality. We need to continue providing necessary credit and input assistance in the agriculture sector to prevent rise of unemployment in this sector."

No evidence in victims

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on May 7, the two girls were taken to Dhaka Medical College for forensic tests. Doctors collected swabs from the girls' bodies, the CID and several other departments of the college for analysis.

After receiving all the reports, the five-member board prepared the final forensic report and handed it to the investigating officer.

"We mentioned in the report what we found on their bodies," Sohail said when asked how much contribution the report would make to prove the allegations of rape.

The alleged rapes in the Raintree Dhaka hotel on March 28, which was reported over a month afterwards, sparked widespread protests on the streets and on social media amid allegations of negligence in dealing with the case by Bangladeshi police.

All the five accused in the case have been arrested and are now in jail. Of them, Ahmed Shafiq, son of Dildar Ahmed Selim, one of the owners of Apam Jewellers' and his friend Nayem Ashraf alias Halim confessed to raping the girls.

The three other accused, Shafiq's brother-in-law, Hossain, bodyguard Rahmat and the victims' friend, Shadman Sakif, admitted their involvement in the incident.

Invited to Shafiq's birthday party on March 28, the two girls went to the hotel around 9.00pm. After the party ended around midnight, Shafiq and Nayem raped them, one of the victims said.

The finance minister proposed imposing Tk 800 Excise Duty instead of existing Tk 500 in cases where the balance, whether debit or credit limit, is between Tk 1 lakh and Tk 10 lakh.

"It seems the government wants to cut up our hard-earned savings," said Md Rizuzzaman, a banker by profession.

"Yes, it will help the government to earn some extra revenue but we will not get any extra benefit from the state. So, why should depositors have to cut up their savings?" he asked.

Go slowly, get costly

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special importance to implementation of the projects," he said, proposing the formation of a national project implementation authority and stressing learning from China, India or any nation's implementation of large projects.

Prime Minister Sheikh Hasina took the helm of the fast track projects -- Padma Bridge, a deep sea port, Metro Rail, 1,200MW Rampal Power Plant, 2,000MW Rooppur Nuclear Power Plant, and the LNG Terminal for importing liquid gas.

She had instructed all concerned to execute the projects timely and let those not get stuck in red tape that eats up time.

Over the years, more projects were included in the fast track initiative and the government separately allocated Tk 18,727 crore for eight such projects last year.

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The intention is clear: the government wants to make progress of the projects visible before the next parliamentary election at the end of 2018.

Yet, Muhith did not say anything about how implementation pace will be ensured and how the efficiency of project operation would be improved, something experts said was key.

Prof Shamsul Hoque, who is involved in a number of infrastructure projects, said time extension of projects was causing cost escalations and this had become common for Bangladesh.

Pointing to the lack of efficiency in handling mega projects, the teacher of Buet's civil engineering department said, "When projects are taken, everyone assumes the officials will be able to handle it smoothly, land will be acquired easily but it does not happen in the implementation stage."

Overall, most of the mega projects have now been delayed by two to four years. Some of them may face even more delays.

For instance, the prime minister inaugurated the Payra Sea Port project in January. The project was included in the fast-track initiative in January 2015, with an aim to have it completed in 2021.

Under the new budget, even technology, a key to driving growth, has not been spared. Smartphones, which made people's lives a lot easier, will now see an imposition of excise duty on its import to encourage the local industry. The initiative, many

the project saw hardly any progress, apart from the signing of three MoUs.

The fate of Padma rail link project is similar. The project was still at the primary stage as its finance was yet to be managed. This delay means no train operation will be improved, something experts said was key.

There are also projects that were taken some years ago but were yet to kick off. Dhaka Elevated Expressway is a glaring example. Hasina inaugurated the construction work of the 21km expressway 2013 but the project is still in the ground as its financier could not be finalised.

Constructions of Metro Rail in the capital, Bus Rapid Transit (BRT) from Gazipur to Airport and Dhobari (Chittagong)-Gundum rail track are also facing delays.

Finally, where there should be a silver lining, none could be found. While the government proposed VAT exemptions for some products, there was no impact. Finance Minister AMA Muhith said, as a result of these exemptions, the market price of the daily necessary commodities would be expected to go down and not supposed increase under any circumstances.

But people got little benefit from the provisions due to lack of a proper monitoring system.

This year the prices of rice and other grocery items have shot up, and so have other expenses including house rent, rickshaw fares, children's tuition fees, prices of books, paper and a range of other goods and services.

project design and implementation, he said.

"But more often it can also be the outcome of deliberate and rather convenient scheme of profiteering in which implementing contractors collude with a section of relevant officials and influential rent-seekers," he said.

The TIB official said, "The end result is unwarranted increase in per-unit cost of infrastructure projects which is already one of the highest by global standards. The irony is that the burden of all these is borne by the common people of the country who have nothing to do with the reasons behind the increased costs and loss to the economy."

Despite the frustrating picture of mega projects, Principal Secretary to the Prime Minister's Office Kamal Hossain said, "The government is aware about progress of the projects and their benefits."

"Capacity development is crucial for any project implementation. We are putting emphasis on it through training the officials to increase their capacity," he told The Daily Star, claiming that many people who do the projects was much better now than before.

Dr. Zaid Bakht, chairman of Agrani Bank, said, "There is no small good news for the middle class people though the VAT exemption area was widened. If the tax-exempted income-threshold for individual tax payers was increased, middle class people would get some relief."

Yesterday, many people could be found watching the budget session on the television to find some relief. Having found none, they would switch back to the Bangladesh team's cricket match. In 2017, perhaps in distractions is where the Bangladesh middle-class can find some semblance of solace. Although, Bangladesh's eventual loss meant there would be one less thing to cheer for.