SHARE TRANSFER OF FIRMS

Govt deprived of tax on capital gains: ICAB

STAR BUSINESS REPORT

The government is being deprived of tax on capital gains because of transfer of shares of local companies at face value, although net value per share remains higher than the book value, said the ICAB yesterday.

The tax authority could consider the actual value of a company while approving share transfers based on valuation reports on the firm, proposed the Institute of Chartered Accountants of Bangladesh (ICAB).

"The government will get a large amount of tax if it introduces the provision," said ICAB President Mahmudul Hasan Khusru.

He was placing the ICAB's recommendations on tax measures for fiscal 2021-21 for the high-ups of the National Board of Revenue (NBR).

The national professional accounting body also proposed harsher punishments for companies hiring foreigners without first availing permission of the appropriate authorities.

The ICAB said a large number of foreigners work illegally at various industries and businesses and the government was not getting any tax although the salaries were being paid in foreign currencies.

So foreign currencies are in a way being siphoned off illegally, said the ICAB at a discussion at the NBR.

The tax authority organised the event to hear views and issues of businesses, professional bodies and other stakeholders before framing tax proposals for the next fiscal year.

The ICAB also recommended imposing a 2 per cent tax on gross receipts of technological companies which provide digital services, such as advertisements.

At present, a 15 per cent tax at source is payable on digital services.

"The rate is very high and not realistic," said Khusru.

BUDGET PROPOSALS FOR FY2021-22

The accounting body's proposal reflects the expansion of the digital economy, buoyed by increasing participation of people in online marketplaces.

To reach consumers, companies are also focusing on using digital platforms for advertisement and campaigns.

The ICAB said prospects of collecting a higher amount of tax from the digital economy was increasing.

In some specific areas, a Digital Services Tax (DST) has been expanded. The DST will be instrumental in higher revenue collection and in helping the domestic businesses operate, said the ICAB.

Local companies that provide digital ads to platforms of Facebook and Google have to pay a 15 per cent source tax apart from a 15 per cent value added tax (VAT), said Snehasish Barua, convener of taxation and corporate laws committee of the ICAB.

"It means we are not getting taxes from these digital service companies," he said, adding that because of that high rate of taxes, many people do not buy the services directly from Bangladesh, lead to a loss of revenue for the state.

As per a VAT law, he said, these non-resident digital companies would have to appoint VAT agents in Bangladesh. Hence, if the NBR imposes an income tax of 2 to 3 per cent on receipts, information will be readily available from them, he said.

The ICAB also sought a 2.5 per cent reduction in corporate tax for listed and non-listed companies.

Withdraw non-adjustable income tax

Demand cement makers

STAR BUSINESS REPORT

Bangladesh Cement Manufacturers Association (BCMA) wants the next national budget to do away with a non-adjustable 3 per cent income tax and 3 per cent tax at the supply stage, saying this would help keep prices stable.

It also demands an import duty of 5 per cent on clinker, a major raw material of the industry, instead of keeping the current Tk 500 payable per tonne.

"We seek the National Board of Revenue's (NBR) intervention in paying back investors Tk 1,000 crore which has remained stuck since being deposited as advance tax in the past couple of years," said BCMA President Md Alamgir Kabir.

It is basically impossible to develop the infrastructure of a country, be it less developed or developing, without focusing on cement and steel, he said yesterday while placing the industry's proposals for budgetary changes for the next fiscal year.

"If we take a closer look at those who have made improvements, we will understand the importance," he said.

For instance, China's per capita cement consumption is 1,800 kilogrammes (kg), Malaysia 690 kg, Thailand 620 kg, Vietnam 518 kg, neighbouring India 325 kg, Sri Lanka 412 kg and Bangladesh 210 kg.

He said despite having immense potential, the sector received little importance.

Kabir alleged that most of the revenue collection was being done at the source to skip getting it done at the field level.

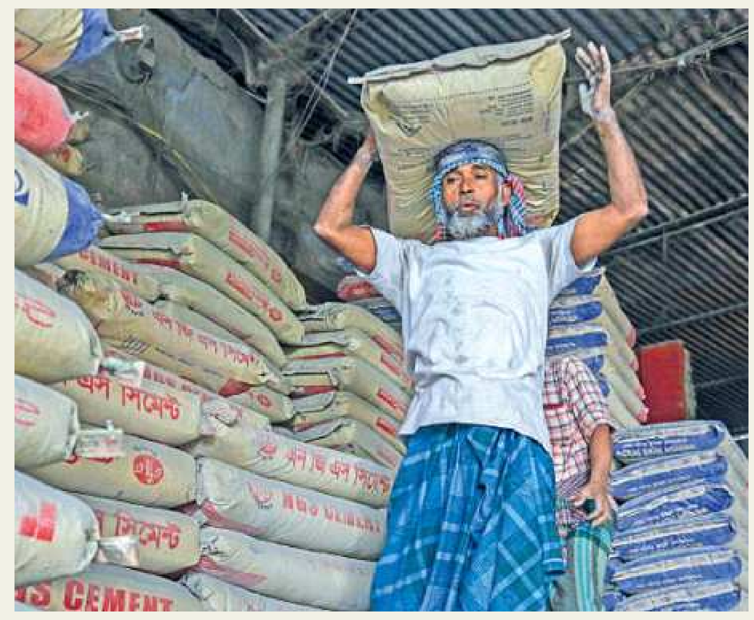
There is an unwritten rule to go for the source collection, without increasing scope for revenue collection, and this leaves scope for collection targets to be missed, he said.

DEMANDS

- Withdraw non-adjustable 3% advance income tax
- Lift 3% tax at supply stage
- Set import duty for clinker at 5% instead of fixed Tk 500 per tonne

THE SECTOR AT A GLANCE

- Per capita consumption: 210kg
- Active mills: 35 (local and foreign)
- Total annual demand: 4cr tonnes
- Annual production capacity: 8.4cr tonnes
- Total investment: Tk 42,000cr



Kabir said all raw materials of cement depend on imports, so the import duty, VAT and taxes were all deducted at the import stage.

"We have been repeatedly requesting that no government organisation fix a minimum profit for any private sector," he said.

However, 3 per cent advance income tax has been made mandatory in this sector which is not adjustable or refundable, which is ultimately a liability. This is not only wrong but also unjust in a democratic system, he cited.

He said the import duty on clinker was Tk 500 per tonne, which was 11 per cent of the total cost. But it should not be over 5 per cent, he said.

"We are not getting back the adjustable advance tax which was deposited in the last couple of years and the amount is around Tk 1,000, which is one of the reasons for a shortage of cash capital," said the BCMA.

However, he said, as per an income tax ordinance of 1984, the depositors deserve an interest rate of 7.5 per cent against the money deposited.

"But we are not getting back our deposit from the NBR," he said.

According to the industry insiders, all the raw materials for cement sector in Bangladesh depend on foreign countries, so if the price of raw materials varies in the international market, its impact falls on the country.

For example, the price of the raw materials has been increasing in international markets for the past two months, pointed out the BCMA president.

According to him, a major reason for this price increase is that transport or shipping fares have almost doubled, since last December.

The transport cost was $11 per tonne but currently it is $23 and so where this would lead to in the future can not be predicted, he said.

The cement industry has been playing an important role in the economic development of the country.

At present about 35 local and foreign companies are producing cement in Bangladesh.

The annual demand of cement in the country is about four crore tonnes against which there is a production capacity of about 8.4 crore tonnes.

The sector has been exporting finished products for the past 15 years.

Moreover, the industry directly and indirectly involves millions of construction workers, employees and officials.

The industry's investment stands at around Tk 42,000 crore.

More than Tk 5,000 crore a year is deposited in the government treasury in the form of customs taxes.

GLOBAL BUSINESS

China crackdown cuts Big Tech down to size

AFP/FILE

A woman jogs in front of Alibaba headquarters in Hangzhou in China.

AFP

Tighter regulations, billions in lost overseas share value and government pledges to get even tougher -- Chinese tech giants are reeling under what looks like a sustained Big Brother assault on innovation and enterprise.

But there's a reason why the escalating crackdown is largely drawing shrugs from Chinese consumers: it is widely seen as necessary.

Concern is rising in China over chaotic online lending and accusations of powerful platforms squeezing merchants and misusing consumer data, reflecting global unease with Big Tech that has Facebook, Google and others also facing scrutiny at home and abroad.

"With China, it immediately becomes about the Communist Party. But if the UK government were doing this, people would probably be OK with it," said Jeffrey Towson, head of research at Asia Tech Strategy. "These actions look quite reasonable."

"Companies such as e-commerce giants Alibaba and JD.com, along with messaging-and-gaming colossus Tencent, are among the world's most valuable businesses, feasting on growing Chinese digital lifestyles and a government ban on major US competitors.

But they have become victims of their own success. The troubles burst into public view last October when Alibaba co-founder Jack Ma committed the cardinal sin of publicly criticising China's regulators for their increasingly dire warnings concerning his company's financial arm, Ant Group.

Ant Group's Alipay platform is ubiquitous in China, used to buy everything from meals to ride-hailing, groceries and travel tickets. Slow-footed regulatory oversight also allowed Ant to expand into loans, wealth management, even insurance. Tencent's fintech profile also has risen.

Consequently, they have become "overly powerful actors capable of pushing regulatory boundaries without regard for systemic risks," Eurasia Group consultancy said in a research note.

These ambitions have collided with Beijing's years-long campaign to purge its chaotic financial system of a dangerous debt build-up.

Chinese debt spiralled to 335 percent of gross domestic product by the end of 2020, according to the Institute of International Finance. Previous lower levels had already prompted International Monetary Fund concern.

The official response to Ma's unusual outburst has been uncompromising: Ant's record-breaking $35 billion Hong Kong-Shanghai IPO was abruptly suspended, Ma disappeared from public view for weeks, and regulatory screws have been tightened.

China is expected to force Ant and Tencent to begin running their lending operations like banks, with resulting higher scrutiny and financial liability -- things the fintech leaders had largely avoided. "They'll have to meet capital requirements and set up financial holding companies. They can't escape it," said Ke Yan, lead analyst at DZT Research. The Wall Street Journal reported last week that Alibaba was also being pushed to shed wide-ranging media assets, including a potential sale of Hong Kong's South China Morning Post.

The tumult has sliced billions off Chinese tech firms' share values. In China's crackdown, size matters.

While just over 20 percent of US retail spending takes place online, China is forecast to surpass 50 percent this year. Major Chinese platforms boast hundreds of millions of users, amplifying concerns about industry concentration and data privacy.

Ma's unusual outburst was seen by many as a direct Big Tech challenge to Communist Party authority and influence. But Ke says: "I don't think (the crackdown) was triggered by Jack Ma. It's been planned for a long time.

"Unease over tech's growing influence is not unique to China. "Most major governments globally are focussed on this issue in a way they weren't two years ago. Everyone seems to think that Big Tech has gotten too powerful," Towson said.

Why many companies steer clear of bitcoin

REUTERS

Accounting for and storing highly volatile asset are headaches, and few willing to risk reputation on it

When Mr Elon Musk's Tesla became the biggest name to reveal it had added bitcoin to its coffers last month, many pundits were swift to call a corporate rush towards the booming cryptocurrency. Yet there is unlikely to be a concerted crypto charge any time soon, say many finance executives and accountants loath to risk balance sheets and reputations on a highly volatile and unpredictable asset that confounds convention.

"When I did my treasury exams, the thing we were told as the No. 1 objective is to guarantee security and liquidity of the balance sheet," said Mr Graham Robinson, a partner in international tax and treasury at PwC.

"That is the fundamental problem with bitcoin, if those are the objectives for treasurers, then breaking them could get them in trouble."

Proponents of the cryptocurrency see it as a hedge against inflation at a time of unprecedented government stimulus, a falling dollar and record-low interest rates that make attractive high-yielding assets hard to find.

While the moves have prompted more boardroom discussions though, headaches from bitcoin's volatility to accounting for it and storing it are likely to preclude a big wave of companies holding large amounts on balance sheets in the short term, according to over a dozen financial officers, board members and accountants interviewed by Reuters.