



The government should be pragmatic while addressing challenges such as the rising prices of essential commodities, said the Institute of Chartered Accountants of Bangladesh. The photo was taken from a grocery shop in Bandar Bazar of Sylhet city recently.

PHOTO: SHEIKH NASIR

# Be pragmatic to deal with budget execution challenges

## ICAB urges govt to raise VAT collection, number of taxpayers

### STAR BUSINESS REPORT

The government should be pragmatic about addressing the challenges it will face while implementing the budget for the upcoming fiscal year, said the Institute of Chartered Accountants of Bangladesh (ICAB) yesterday.

The country may face the challenges while containing inflation and enhancing domestic investment, utilising funds available through foreign assistance, ensuring timely completion of high priority projects, and finishing the projects in the education and health sectors on time.

The government will also have to increase the collection of value-added tax, raise the number of individual taxpayers, maintain stability in the exchange rate of the taka, and keep the foreign exchange reserves at a comfortable level, said the ICAB.

Additional subsidies might be required for the increased prices of gas, power and fertilizer in international

markets.

Any failure to address the challenges properly may destabilise the economy, said Shahadat Hossain, president of the ICAB, at a webinar.

The ICAB organised the virtual discussion styled "Salient Features of Finance Bill 2022-2023 and Macroeconomic aspects of National Budget 2022-2023".

According to Hossain, the causes of inflation at the global level include accelerating prices in trade partners, a spike in oil prices, the depreciation of the taka against the US dollar, the disruption in the global supply chain, and the Russia-Ukraine crisis.

And these are largely beyond the control of the government, he said.

The government is targeting an average inflation rate of 5.6 per cent in the coming fiscal year. And containing the inflation will depend on the fiscal policy and/or monetary policy as well as external elements and influences, according to the ICAB chief.

"However, we have confidence in the government that it can manage inflation rate somehow as targeted."

Hossain said the tax net expansion is essential to improve the tax-to-GDP ratio, which is one of the lowest in the world.

"The government needs to take further steps to expand the tax net."

The ICAB is implementing a document verification system (DVS) in association with the National Board of Revenue. The system is expected to change the financial ecosystem of the country.

"We believe that the implementation of the DVS will help achieve targeted revenue. We also believe that this initiative will ensure transparency and accountability in the financial sector," said Hossain, adding that tax reforms can also contribute to improving the present tax-to-GDP ratio to a new height.

The institute thinks that the introduction of a 12 per cent tax rate for general industries exporting goods

and services and a 10 per cent for green factories will encourage diversification of exports of goods and services.

"In addition, integration and changing the definition of research and development, refinement of pre-launch costs and separate provisions for start-up businesses will serve as motivating factors to the new generation business and creative ventures."

The input tax credit on business services, the proposal to increase the VAT rebate period from two tax terms to four, the reduction of fines from 100 per cent to 50 per cent and a maximum 100 per cent, the operation in bonded warehouse electronically are certainly timely and business-friendly propositions, according to the ICAB.

Snehasish Barua, a partner of Snehasish Mahmud & Co Chartered Accountants, and MBM Lutful Hadee, proprietor of Hadee Lutful & Co Chartered Accountants, presented keynote papers on various features of the budget.

## ADB gives \$143m to help enhance cross-border trade

### STAR BUSINESS REPORT

The Asian Development Bank (ADB) will provide a \$143 million policy-based loan to Bangladesh to improve the volume, efficiency, predictability, and security of cross-border trade in the country.

To this end, the ADB signed an agreement with Bangladesh on June 15, the bank said in a press release yesterday.

Fatima Yasmin, secretary of the Economic Relations Division, and Edimon Ginting, country director of the ADB, virtually signed the agreement.

Addressing the event, Ginting said aligning with Bangladesh's policies and strategies, the ADB is helping enhance export diversification and competitiveness for accelerating growth with industrialisation and trade and expanding sub-regional trade and commerce.

The ADB assistance will help increase the volume of imported and exported cargoes at the Akhaura, Sonamasjid, and Tamabil border crossing points (BCPs) by 50 per cent by 2027 while reducing average customs clearance and cargo trans-shipment time by 50 per cent, he said.

"E-payment at the three BCPs will be implemented, with their capacity increased to handle 520,000 tonnes per year of international transit cargoes, and a central customs laboratory, customs warehouse, and customs regional training academy will be designed," he added.

## Migrants sent home \$605b in 2021: UN

### AFP, Rome

Migrant workers sent home an estimated \$605 billion to low- and middle-income countries last year, a UN study said Thursday, boosted by an increase in payments sent via mobile phones.

Global remittances rose 8.6 per cent compared to 2020 and are projected to grow to \$630 billion in 2022, according to the International Fund for Agricultural Development (IFAD).

Such payments are a major source of income for many low-income households, with around 800 million family members expected to benefit in 2022.

Between now and 2030, global remittances will amount to \$5.4 trillion, the equivalent of twice the GDP of Africa in 2021, IFAD has estimated.

"Remittances lift people out of poverty, put food on the table, pay for education, cover health expenses, allow housing investments and many other family goals beyond consumption," IFAD president Gilbert Houngbo said.

However, the report warned that the upward trend would likely slow this year as inflation erodes wages, and as a result of Russia's invasion of Ukraine.

Many countries in central Asia depend on remittances from Russia, with payments accounting for as much as 30 per cent of their GDP, said the report.

## NBR toughens rules

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space needed to intervene when needed.

Tax deducted at source (TDS) accounts for roughly 60 per cent of the overall direct tax collection by Bangladesh's tax administration.

Taxmen said the ratio of collection of withholding tax should be higher in view of the development activities carried out by the government, and purchases of goods and services by private firms.

In the July-April period of the current fiscal year, taxmen collected Tk 43,994 crore in withholding tax which was 63 per cent of the total receipts of Tk 69,780 crore, according to the NBR data.

Taxmen said overall collection would have been much higher had all government and private entities ensured deduction of the TDS and deposited it to the state coffer.

"We do not have a pleasant experience regarding the TDS although the globally effective model for revenue collection is the TDS. What we find is that this regime is totally undisciplined," said a senior official of the NBR.

The official said all public and private organisations were in practicality the withholding tax deducting authorities and these entities are to deposit the money to the exchequer after deduction.

However, in absence of any penalty or punitive measure, there has been a lax attitude on the part of many agencies regarding the TDS collection.

"This is why we are for

tightening the rule," said another official of the NBR.

The tax administration also wants to empower its field offices regarding verification and enforcement of deduction or collection of taxes.

As such, it brought changes in the income tax law seeking to empower field offices to have full and free access to the premises, places, books of accounts, records of economic activities and electronically preserved information.

Taxmen would also be able to extract data, images or any inputs stored in the electronic records and systems for purpose of enforcing proper deduction and tax collection.

If the entry or access is obstructed to the premises or places, the tax offices would be able to slap up to Tk 50 lakh in penalty, according to the Finance Bill 2022.

Snehasish Barua, partner at chartered accountancy firm Snehasish Mahmud & Co, said this may increase the arbitrary power of tax officials.

He said penalty for non-compliance with the rule for the failure to deduct and deposit withholding tax may overburden the person approving the payment who is also serving on behalf of the direction of owner, he said.

"This provision is illogical and should be withdrawn as we are yet to establish corporate culture," he added.

Besides, as the NBR has taken initiatives to collect tax through an online e-TDS system, the provision for imposing such a huge

penalty for obstruction to offices and premises may turn out to be a barrier to an effective e-TDS system, added Barua.

Md Alamgir Hossain, former member of income tax policy of the NBR, said imposing fines was not the objective of the law.

"The main objective is to ensure proper compliance. If anyone complies with the rules fully, there would be no question of penalty," he said.

Hossain said on many occasions, public and private offices do not deduct tax properly or deduct less than the applicable rates because of a lack of awareness.

For this reason, the tax administration framed rules for submission of withholding tax return and audit related to withholding tax collection, he said.

Taxmen might have faced difficulties in accessing proper cooperation and information from the agencies. This may lead to the introduction of the new provision for penalty for obstruction, he said.

Hossain suggested that the NBR formulate a withholding tax audit manual, clearly set audit processes and define the issue of obstruction or hindrance clearly so that audit processes remain transparent for everyone.

At the same time, taxpayers should be given the opportunity for self-defence, he added.

"This will reduce discretionary powers of tax officials and fear of harassment of taxpayers," said Hossain.

## Firms unlikely

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instead of making the refund, he added.

"The corporate tax reduction will not benefit us," said Rizwan Rahman, president of the Dhaka Chamber of Commerce and Industry.

"More than 99 per cent companies will not be able to get the corporate tax cut benefits because fulfilling the conditions is absolutely impossible."

Rahman thinks a source tax cut could be more effective than the reduction in the corporate tax.

Sadhan Kumar Dey, chief operating officer and chief financial officer of RAK Ceramics, says it is quite tough to avail the corporate tax benefit for RAK Ceramics since it can't say that it will not sell on cash.

He says RAK Ceramics can ensure that it will not make any payment on cash. However, it can't give the same guarantee when it comes to receipts.

"A company needs to honour customers' preference whether they pay on cash or through banks."

As a construction-related products seller, RAK Ceramics also has to sell products even on Fridays or Saturdays when banks usually remain closed, Dey said.

"If transactions are made through the banking channel, it ensures transparency, so as an auditor, we can't appreciate cash transactions," said Muhammad Farooq, a former president of the Institute of Chartered Accountants of Bangladesh.

"However, it might not be convenient for businesses.

But still, they should explore ways how they can carry out transactions through the banking system."

In Bangladesh, there are many companies that rely completely on cash transactions, so they will be in trouble if they want to comply with the conditions to qualify for the reduced tax rate, Farooq said.

"The socio-economic situation should be prepared step by step for a low cash transaction."

Earlier, Snehasish Barua, a partner at Snehasish Mahmud & Co, a chartered accountancy firm, said some big companies collect demand drafts or pay orders and then deliver their goods. For them, it is very easy to comply.

But most companies collect cash from customers whenever they can, depending on the credit period. "Sometimes, it is difficult to recover money, let alone bring it through the banking channel," said Barua.

## Relaxed policy extended

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to waive 50 per cent of the interest on NPLs.

The defaulters will get the waiver facility after they repay the entire amount of the bad loan within a year.

The relaxed repayment facility will be annulled if the defaulter fails to pay back the loan on time.

NPLs in the country's 34 NBFI's stood at Tk 11,757 crore as of September last year, up 17 per cent from nine months ago, central bank data showed.

## Budget gives no comfort

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The government spends more in implementing projects through reallocations, so the real development budget is much lower than it looks, he said.

The government has continued to raise the budget for government officials, but the poor and the lower-income groups have remained ignored, he said.

It reduced the budget for actual social safety net programmes and the Trading Corporation of Bangladesh's (TCB) open market sale (OMS) programme, he added.

"The budget formulation process needs to be changed as there is no provision for consultation with the members of parliament," said Anisul Islam Mahmud, a former environment and forests minister.

About the opportunity to whiten black money, he said he does not see any logic except for the fact that it would encourage money laundering.

Planning Minister MA Mannan said the inflation figure was different as some took into consideration a handful of data from a narrow perspective but

the Bangladesh Bureau of Statistics (BBS) availed a wide range of data.

Mannan refuted data manipulation allegations of Amir Khasru, saying if that was the case, ensuring the Padma bridge, Karnaphuli tunnel, metro rail and electricity for all would not have been possible.

The government talks to businesspeople before and after the budget proposal but none talks to blue-collar workers, for which they remain ignored in the budgets, said Socialist Workers Front President Razekuzzaman Ratan.

Shusmita Anis, a director of ACI, said the tax-free income threshold should be raised to Tk 5 lakh at least.

The government has proposed a corporate tax cut by 2.5 percentage points on a precondition that all receipts and incomes as well as all expenses and investments of more than Tk 12 lakh had to go through banks.

In reality, meeting this precondition will not be possible, she added.

Rizwan Rahman, president of the Dhaka Chamber of Commerce and Industry, said the government aims to borrow from the banking sector

to meet a portion of its budgetary deficit.

But this might crowd out the private sector as banks always prefer the public sector when deciding on giving out loans for the guarantee of repayment, he said.

He said the proposed money whitening opportunity will encourage capital flight.

"Who will pay the 25 per cent tax if they can whiten money in exchange of only 7 per cent tax? If an honest taxpayer becomes dishonest, who will take the responsibility?"

While chairing the event, Fahmida Khatun, executive director of the CPD, said the fiscal and monetary measures that have been taken to guard the poor and the lower-income groups are inadequate.

"There was an opportunity to lessen the burden of higher prices through the cut in duties of imported items and lowering of taxes domestically. The government should also have raised the tax-free income limit from the current level."

Khondaker Golam Moazzem, research director of the CPD, made the keynote presentation.

Non-performing loans have increased to some extent after the coronavirus pandemic, said Hussain, also managing director of Brac Bank.

"We are now taking several initiatives to rein in bad debts. I reckon the ongoing states of default loan will improve within the next 5-6 months."

## BB to review FBCCI plea

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The central bank had given a moratorium facility to borrowers throughout 2020, after which they were allowed to avoid the default zone by repaying 25 per cent of their total instalments payable in 2021.

Selim RF Hussain, chairman of the Association of Bankers,

Bangladesh, a forum of managing directors of banks, told reporters after the meeting that Bangladesh Bank would take a decision to this end.

"But more time will be needed to know the result," he said.

"We are now exerting on speeding up our loan recovery," Hussain added.