

Chapter III

A Set of Proposals for
the National Budget
FY2007-08

This document contains a set of proposals from the *Centre for Policy Dialogue (CPD)* to the *Ministry of Finance, Government of Bangladesh (GoB)* for consideration in the upcoming national budget FY2007-08. The overarching objectives of the proposals relate to strengthening of macroeconomic stability, sustaining economic growth and improving

income distribution. The proposed measures are geared to service the interests of revenue generation, investment promotion, export expansion, growth of local industries, balanced regional development, producers' and consumers' price support, needs of the marginalised and reforms of the tax administration.

1. GENERAL FISCAL MEASURES

1.1 Personal Income Tax

- Tax exemption limit may be revised upward to Tk 150,000 from the existing Tk 120,000 considering the rise in living expenses since it was re-fixed two years back in FY2006 from Tk 100,000 to Tk 120,000.
- A mandatory provision may be made for presentation of the TIN at the time of issuance of credit cards, membership of clubs, admission of children in expensive private educational institutions and for similar transactions.
- Deduction of tax at source for the salaried people may be treated as final settlement, similar to other cases mentioned under Section 82C of the Income Tax Ordinance (ITO).
- Campaign may be continued to identify potential tax assesses and broaden the tax net.
- Scope and coverage of the Large Taxpayers' Unit (LTU) may be further enhanced.

1.2 Credit Card

- Government may remove the three per cent advance income tax (AIT) on credit card transactions. Since the introduction of AIT on credit cards transactions, per card spending has fallen and rate of issuance of card has decreased. Greater use of credit card will decrease cash transaction and create transparent records of monetary transactions. Increased usage is likely to raise the level of overall consumer spending in the economy

and prop up growth. Furthermore, it will facilitate wealth assessment of the card-users by providing a proxy for actual incomes of individuals.

- Corporate credit cards may be introduced in order to distinguish between personal and corporate expenditures. To reduce the possibility of misuse/abuse of these cards, use of the corporate credit card may be allowed only against appropriate supporting documents/ evidence.

1.3 Discontinue All Direct and Indirect Provisions for "Whitening Black Money"

- Special tax treatment in respect of investment in house property, land and motor vehicles should be discontinued (Section 19B, 19BB and 19BBB of ITO Part 1).

1.4 Voluntary Disclosure of Untaxed Income

- Taking note of the current drive against corruption and with a view to raising revenue intake on a sustained basis, a scheme involving *Voluntary Disclosure of Untaxed Income* may be introduced under certain conditions for a limited period. Untaxed income may be declared at the highest applicable rate for the corresponding category of assessee plus 5 per cent penal charge. The declared income must be embodied in investments in properties, productive capacity or liquid/semi liquid forms. This proposed scheme for disclosure may be available for a period not exceeding 90 days. These provisions will not absolve

anybody from legal actions if the source of income is later revealed to be illegal and dealt with under appropriate laws.

1.5 Corporate Income Tax

- Tax holiday facilities have to be replaced with accelerated depreciation allowance. With a view to encourage setting up of industries in less developed regions including Chittagong Hill Tracts, additional concessional rates may be considered for these areas.
- The corporate tax slab applicable may be extended in the cases of banks and insurance companies (45 per cent) to other high profit making service industries, such as the mobile telephone companies. Alternatively, the mobile telephone companies will have to enlist themselves in the stock market to avail lower tax rate.
- Turnover tax may be collected from larger SMEs.

1.6 Customs Duty

- To bring transparency in the tariff rates, para-tariffs and quasi-tariffs (e.g. Infrastructure Development Surcharge of 4 per cent) should be integrated in the tariff schedule. Towards the end, the tariff rates should be revised upward to take into account the current effective tax incidence to be reflected in operative tariff schedules.
- Zero rate of duty should be abolished, other than in cases where international treaty

or obligations exist or strong humanitarian reasons prevail, or where it is necessary to reduce tariff to stabilise market price.

- Dispersions of duty rates must be reduced within 4-digit tariff heads.
- Supplementary duty may be enhanced on high-value vehicles and other items generally used by the richer segment of the society.

1.7 VAT

- VAT registration system needs to be streamlined at Division level office.
- Measures must be undertaken to introduce VAT inclusive maximum retail price (MRP) for all products.
- VAT stamps of different denominations can be used for “hard-to-tax” areas.

1.8 Land Price and Registration Charge

- Review the current very low land values used by the GoB and impose location-specific higher and differential tax rates for land used for residential and commercial purposes in large cities (e.g. Dhaka, Chittagong and other city corporations) and apply the same principle in other cities and upazila headquarters. Simultaneously, decrease high transfer registration cost to reduce the propensity to evade tax and to protect the current revenue intake under this head.
- Large agricultural landowners must be brought under the tax net.

2. EXPORT PROMOTION AND IMPORT SUBSTITUTION

2.1 Export Promotion

- The production unit of a company may happen to be located in a place different from the main export centre. In that case when the manufactured items are sent to the main export centre belonging to the same company, such transactions may be treated as “deemed export.” Therefore, VAT may not be imposed on these commodities at the factory level.

- For clearing the backlog and stocklot in the RMG sector, the bond period may be extended to 24 months from the current limit of 15 months.
- Concessional import duty on raw materials for major export industries and also for industries having export potential may continue.
- All dyes, chemicals and other raw materials

used in textile sector may not have more than 5 per cent import duty.

- For providing incentives to the backward linkage domestic textile sector and to enhance competitiveness of the apparels sector in the international market, the existing 5 per cent cash incentive may continue.
- To develop and strengthen backward linkage textile industry and the country's traditional jute industry, a Technology Upgradation Fund may be introduced (perhaps with an allocation of Tk 100 crore). Credit provided under this scheme on concessional rates of interest will assist the industries to undertake technological restructuring initiatives, modernise their plants through installation of new machines and state-of-the-art technologies.
- The coverage of the *Equity Entrepreneurship Fund* (EEF) may be expanded beyond agriculture and IT-related projects. It may cover other potential areas, such as light engineering, plastic, melamine, and electronics. The allocation may be enhanced from Tk 200 crore to Tk 300 crore.

2.2 Domestic Protection and Import Substitution

- Rationalisation of tariff rates needs to be continued so that raw materials are not taxed at a higher rate than finished goods.
- Concessional customs duty may be extended to import substituting industries (e.g. electronic industries, not manufactured locally) for import of parts and components.
- Customs duty on newsprint may be reduced to 10 per cent from 25 per cent. The effective tax rate on newsprint is currently 48.75 per cent.
- For maintaining quality of products of agro-

processing industries, import of vitamin and micro-nutrients may be exempted from any duty.

- Import of maintenance-free lead acid batteries used for assembly of import substituting rechargeable lamps and UPSs having good demand in the domestic market may be exempted from the VAT net.
- Presently hand tubewell/irrigation pumps are VAT exempted at the production level. On the other hand, major parts of installing tubewell and irrigation pump i.e. PVC pipes, filters, hose pipe, coil pipes are subject to VAT. These items may be exempted from VAT.
- Import duty on particle board /melamine board may be reduced to develop furniture industry of the country.
- Twenty-five per cent additional duty can be charged on imported stainless steel used to make hospital beds, medical surgical or veterinary furniture. S.S. pipe's duty may be reduced from 25 per cent to 10 per cent in order to support the domestic medical equipment industry.
- Voltage stabilisers imported in finished form may have a duty of 25 per cent.
- To ensure SME sectors' access to credit facilities and considering high cost of financing and also with a view to provide encouragement to the banks and financial institutions, a *Refinancing Scheme* was introduced in the national budget for the FY2007 with an allocation of Tk 100 crore. The upcoming budget may continue this support with enhanced allocation for providing credit at concessional interest rate. The *modus operandi* of the *SME Foundation* may be reviewed.

3. SOCIAL SECTOR AND SOCIAL PROTECTION SCHEMES

- Government has allocated money for *Skill Development Fund for the Readymade Garment Workers* but this has remained unutilised. It will be better if the government introduces a *Contributory Provident Fund* (CPF) for garment workers with equal amount of contribution

from the Government and the company. The amount paid by the company as CPF maybe declared as tax-free.

- *Allocated funds in the budget 2006-2007 for a number of projects including Agro-Based Industries*

Assistance Programmes, Fund for Assistance to Small Farmers Affected by Natural Disasters, Seasonal Unemployment Reduction Fund were not utilised and were often viewed as a cost-cutting options. There is a need to be more selective in this context and the projects may be more appropriately identified.

- *Fund for Housing the Homeless* to address the housing problems of the homeless, the poor and the low income group, particularly the rural families and people affected by slum eviction, may continue and be enhanced this year (from Tk 50 crore to Tk 200 crore).
- Government could consider creating a development fund under the Ministry of Overseas Employment and Expatriate Welfare for the development of skill through language course and other training facilities for workers going overseas.
- The Government allocated Tk 50 crore in FY2005-06 and an additional amount of Tk 55 crore in FY2006-07 for seasonal employment creation. Unfortunately, the allocated fund remained unused. This fund may be utilised through services of organisations such as the

Grameen Bank, BRAC, RDRS, PKSF which are working for *Monga* mitigation.

- The government may consider introducing a *Rural Employment Guarantee Scheme* for the unemployed. For a beginning in view of regional disparity, in three Divisions of Rajshahi, Khulna and Barisal. This scheme may seek to provide guaranteed employment for one member of each household below a threshold income level for at least 100 days a year, especially in the lean (*Monga*) season. The minimum wage could be Tk 100 per day. Technical experts can draw plans for individual villages in consultation with local leaders, elected representatives and community leaders. Local government along with NGOs/CBOs may be involved in implementation of this programme. This scheme will be particularly suitable for *Monga* affected areas, and could be implemented in a phased manner.
- *Allowance for Destitute and Widow Women* may be raised from the current level of Tk 200/person to Tk 300/person and the number of recipients may be increased to 10 lakh.

4. PRODUCER'S AND CONSUMER PRICE SUPPORT

- Government needs to introduce zero tariff for selected essential commodities (currently zero import tariff has been provided for rice and wheat), considering domestic price situation and international market price; this is more pertinent particularly for commodities whose import price is high (e.g. lentil).
- Government needs to replace the existing ad-valorem tariff structure by "specific duties" for selected essential commodities. National Board of Revenue (NBR) may analyse the import data of essential commodities for the last few years and recommend a product-specific flat rate per tonnage replacing the existing tariff rates for the selected commodities.
- Government may reduce or withdraw the high supplementary duty on certain commodities (e.g. currently 15 per cent for

whole cream milk powder, crude soybean oil, and crude palm oil). However, the government may negotiate with the packaging agents and distributors of these commodities before implementing such measures to make sure that the benefits originating from such moves are received by the consumers. For this to happen, a maximum retail price ought to be negotiated and fixed.

- The government may review the cash incentive programme for vegetable export which is currently 20 per cent of the CIF value. Due to the supply shortage of vegetables in domestic market, this cash incentive programme may be reviewed and current rate of 20 per cent may not be increased.
- Government needs to provide subsidy directly to the farmers who are using diesel for

irrigation. Modalities for this subsidy may be developed with strict monitoring mechanism (so that only the genuine farmers get benefited). Tight border security to prevent smuggling has to be put in place. To this end, issuance of *Entitlement Card* may be considered, till the *proposed national (voter) ID card* is available.

- As the government and private entrepreneurs are supplying only 12.5 per cent of the total demand for seeds, initiatives may be taken to import hybrid seeds and distribute those among farmers at a subsidised rate. This will reduce production cost and raise productivity.

- Social safety net programmes such as FFW, VGD, TR have to be expanded to support disadvantaged sections of the populace, particularly in view of the ongoing price hike.

- Due to the recent inflationary trend, government employees have experienced a 15.8 per cent reduction in their income in real terms since the last salary readjustment in 2005. Government may consider an *Ad hoc (Dearness) Allowance* for government employees and employees of statutory bodies. The allowances can be fashioned in three tiers with 15 per cent for the lower, 10 per cent for the middle and 5 per cent for the higher scale employees.

5. REGIONAL DEVELOPMENT AND SECTORAL MEASURES

5.1 Regional Development

- Recent evidence on poverty dynamics shows that Bangladesh, notwithstanding the fact that it is a small country, is showing high degree of regional imbalances in development. Analysis reveals that Barisal, Rajshahi and Khulna are the most poverty stricken and employment-starved divisions. Chittagong Hill Tracts and other areas inhabited by indigenous communities are also pockets of underemployment. A preferential tax holiday scheme has been inadequate to alleviate the situation. Accordingly, GoB has to devise a special and substantial public expenditure package targeted to these regions, particularly focusing on development of infrastructure (e.g. interconnecting roads, electricity and gas supply).

5.2 Agriculture

- Extend income tax exemption period on income from fish farming, poultry and dairy farms and poultry feed production up to 30 June 2010 (instead of 30 June 2008).

- Continue the existing policy of exemption from all duties and taxes on raw materials for dairy and poultry feed, medicine, other medical inputs and capital machinery required by the livestock sector.

- Continue zero tariff/ low tariff for import of different kinds of seeds, breeding animals, broodstock (mother fish).

- Continue existing customs duty (25 per cent) on poultry products (meat, eggs).

- Continue 20 per cent subsidy on electricity bills of *Palli Bidyut Samities (PBSs)* for electricity and waiver of minimum charge for all electricity connections throughout the country for irrigation with effect from 1 July 2005.

- Extend coverage of rural electrification and ensure regular supply of electricity to reduce cost of irrigation and sustain economic activities in rural areas.

- Distribution of seeds for chickpea, lentil, onion, and true potato seed at a subsidised rate in higher potential areas would be helpful for increase in the production of these crops.

- The government has to ensure supply of good quality seeds, fertiliser and irrigation. A mechanism for regular market monitoring has to be put in place towards this. In this context, public and private enterprises and interested NGOs need to be provided with appropriate incentives through fiscal measures, and related support (provision of Breeders' Seed at a subsidised rate).

- Special support may be given for production of Breeders' seed of jute, recently released varieties of rice and other crops. This support may be provided as an additional allocation to the agricultural research institutes to be used for production of Breeders' seed which will be distributed at a nominal price to the Bangladesh Agricultural Development Corporation (BADC) and private seed companies and NGOs for subsequent production of truthful level (TFL) seed to be used for cultivation by farmers.
- Farmers of the Chita (unfilled grain) affected area may face problem with accessing quality seeds for Boro season next year. Therefore, special efforts for supplying quality Boro seed by the Department of Agricultural Extension (DAE) may be undertaken on an urgent basis.
- Special project for development and management of broodstock of fishes may be undertaken for such types of fish as Rohu, Catla, Tilapia for facilitating quality supply of fingerlings. The current focus is rather limited in this regard.
- Government needs to undertake special programmes for vaccination of poultry birds to reduce the possibility of epidemics. Actions for cure and prevention of bird flu may be enhanced and strengthened further.
- Allocate more fisheries officers and veterinarians in intensive fish cultivation and poultry production zones such as Gazipur, Narsingdi, Bhaluka and Daudkandi.
- Strengthening extension and marketing services for horticultural products is necessary through more allocation in these areas.

5.3 Capital Market

- Simplify tax filing procedures, including measures such as treating the 10 per cent tax on dividend income at source as final settlement (similar to tax at source on interest income on bank deposits).
 - Introduce a minimum threshold limit (e.g. 25 per cent excluding pre-IPOs, institutional placements, and the quota for mutual funds)
- for offloading of shares to the public for consideration as a listed company.
- Design a time-frame for the currently listed companies to offload at least 25 per cent (or more) of their shares to the public for being treated as a listed company for tax purposes.
 - Introduce a limit on the maximum number of shares of a company that can be held by its sponsors in order to be considered as a listed company.
 - A limit could be placed on the extent to which a company could charge a premium on its IPO as well as on the issue of right shares in the public interest.
 - Divest the shares of profitable state-owned enterprises (SOEs) to increase availability of good shares in the stock markets.

5.4 Real Estate

- Three-tier tax or VAT may be introduced: Lower tax or VAT for low-cost housing in the suburban area; moderate tax or VAT for apartments less than 1600 square-feet; and higher tax or VAT rate for luxurious apartments of 1600 square-feet and above.
- For developing the secondary housing market, a reduced registration fee may be charged on transfer of second-hand homes (e.g. 50 per cent of the tax charged for registration of a new apartment).

5.5 Telecommunications

- In view of the robust growth of the telecom industry and level of profit accrued to the competing firms in the market, the government may ask all licensed mobile telephone companies to float IPOs in the stock exchanges at a specified percentage of the equity (say 25 per cent) and by the end of 2007. These firms may enter the domestic capital market to broaden the source of finance, and more importantly, to allow for public ownership. It has been recommended earlier in this text that the companies should be charged corporate tax rate equal to that for banks and insurances, unless they enlist in the stock market.

5.6 Energy

- Adequate fund may be earmarked for new plants for power generation.

5.7 RMG Sector

- To promote and support the process of upgradation in apparels and to access high-end markets, a *Technology Development Fund* needs to be put in place. This can be managed in collaboration with private sector associations in the industry.
- A *Cluster Development Fund* may be set up for entrepreneurs to obtain financial support and develop specialised service facilities in various RMG-factory zones.
- The *Skill Development Fund* for RMG workers, for which funds worth Tk 20 crore were allocated in the budget FY2007, may be strengthened, with public-private sector partnership, to ensure higher labour productivity, particularly for female workers.
- A *Workers' Livelihood Improvement Fund* may be set up to support NGOs for providing various kinds of health, nutrition, medical and child care support to garment workers.
- A *Fund for Relocation of Factories* may be created to provide concessional loans to RMG enterprises for encouraging them to relocate RMG plants from Dhaka and Chittagong zones to designated garment villages.
- A credit support scheme may be developed to encourage acquisition of advanced technology by RMG enterprises.
- The policy of zero-tariff access for RMG machineries and spare parts may be continued to allow enterprises to acquire new technology and scale up their production levels.
- As in the national budget for FY2007, the government may continue to provide concessional import duty on raw materials for the textile sector.
- A reduction in customs duty on effluent (waste water) treatment plant from 25 per cent to zero per cent may enable the entrepreneurs to set up industrial units with

effluent treatment facilities. The proposed *Technology Upgradation Fund* could also provide support for modernisation and technology acquisition initiatives in the textile and RMG enterprises.

- A penalty should be imposed on those RMG units which will not implement the minimum wage structure by the stipulated deadline of June 30, 2007.

5.8 New Ports and Bridges

- Allocations have to be made for modernisation of Chittagong and Mongla Ports as well as towards preparatory works for the proposed new deep sea port.
- Allocations have to be made for the Padma Bridge as well as for preparatory works for a second bridge on Jamuna.

5.9 Environment

- *Polluters Pay Principle* may be applied on polluting and non-compliant industries. A pollution tax or *Green Tax* of 5 per cent may be levied on all inorganic waste generated by different industries, particularly if effluent treatment plants (ETPs) are not installed within the stipulated period.
- Government may allocate funds for SMEs to encourage and promote clean production technology for those units which lack adequate resources to do so.
- Soft loans may be provided for investment in pollution prevention and pollution control equipments.
- Soft loans for SMEs for consultancy fees for designing pollution prevention and pollution control system and construction fees may be arranged.
- Excise rebate on recycled products, such as recyclable paper, may be provided.
- Funds raised through pollution tax could be used to pay for grants towards installation of low pollution technology in the polluting industries.

6. NEEDS OF THE MARGINALISED

6.1 Access for Persons with Disabilities

- An income tax exemption of Tk 10,000 per child per family with physically or mentally challenged children may be introduced for the purpose of supporting education and training of children with disabilities.
- Tax exemption for equipments for disabled people (e.g. hearing aid, wheel chair) is still limited. The government may reduce the duty on import of these items.
- VAT on physiotherapy services for disabled people may be exempted to reduce cost of medical support for this particular group of people.
- Tax on raw materials used for locally made educational and mobility equipment for the disabled may be reduced.
- Government has reduced the allocation for *Fund for Rehabilitation of the Acid Burnt Women*

and the *Physically Handicapped* in the budget for FY2007. Government may consider increasing the fund under the social safety net programme.

- Government may allocate fund for setting up separate wards for acid burnt women in all public hospitals.
- Allocation may be made for helping poor women who face domestic violence to help them seek medical and legal support.

6.2 Slum Dwellers

- The government may prepare a master plan for rehabilitation of the 1.0-1.2 million slum dwellers (and those evicted) living in Dhaka city and its suburbs. Suitable locations (e.g. in Savar, Narshingdi, Tongi and Gazipur) may be provided to these people so that they could commute easily to the city for work and return after work.

7. RESTRUCTURING THE TAX ADMINISTRATION

- A database should be maintained at the NBR, containing the TIN of each assessee which will allow verification of the amount of tax collected from the respective TIN holder on a random basis to learn about tax payments and detect tax evasion.
- Tax collection service should be taken to small businesses and entrepreneurs. On the spot tax assessment, based on the rough and ready estimates of turnover carried out with the help of the respective market committee, could prove to be an effective way to bring a large number of new people and enterprises under the tax net and generate revenue without harassment.
- Aggregation of the HS codes would reduce the scope for tax evasion and abuse of discretionary power.
- Evasion of customs duty could be reduced

substantially if a proper monitoring system is developed within the NBR. For this purpose, data on revenue collection could be passed on to the NBR monitoring cell on a speedy and regular basis if online network is developed between the customs points and the NBR.

- For ensuring that honest and regular tax payers receive justice at taxes appellate tribunal, the tribunal may be reconstituted in line with the past provisions of having a member from the judiciary.
- A revised committee, or a member of the NBR may be entrusted to examine appellate orders as well as tribunal orders. Proper remedy should be made available to tax payers if the orders are found to be injudicious and defective.
- In the event an assessee defaults in paying

taxes, the DCT has the authority to impose a penalty up to the amount of the defaulted tax. In this context a specific rate of penalty would reduce the scope for abuse of the discretionary power of the tax official.

- VAT registration through commercial banks will simplify the registration process and reduce the scope of harassment of importers.

- An exhaustive and clear definition for charitable purposes may be given in the Act to avoid confusion as to the identification of charitable institutions for the purpose of income tax exemption. The ambiguity in the current definition often allows opportunities for discretion and assessing officers are often found to exclude charitable institutions that ought to be allowed exemption.