

## Budget for the FY 2014-2015

A government budget is a legal document that often passed by the legislature, and approved by the chief Executive or president. The two basic elements of any budget are the revenues and expenditures. In the case of the government, revenues are derived primarily from taxes. Government expenditures include spending on current goods and services, which economists call government consumption; government investment expenditures such as infrastructure investment or research expenditure; and transfer payments like unemployment or retirement benefits.

The honorable Finance Minister of Government of the People's Republic of Bangladesh announced the Budget for the fiscal year 2014-2015 on 5 June and the budget was approved by the parliament on 28 June 2014. The budget is:

- Total Expenditure Budget : Tk. 2,50,506.00 Crore
- Total Income Budget : Tk. 1,82,954.00 Crore

**Budget Deficit : Tk. 67,552.00 Crore**

The revenue income for FY 2014-2015 has been estimated at Tk.1,82,954 crore which is 13.7 percent of GDP, of which NBR tax revenue is Tk. 1,49,720 crore (11.18 percent of GDP). Revenue from non-NBR sources has been estimated at Tk.5,572 crore (0.4 percent of GDP). Tk.27,662 crore (2.07 percent of GDP) will be collected as Non Tax Revenue (NTR).

The total expenditure for FY 2014-15 has been estimated at Tk.2,50,506 crore (18.7 percent of GDP). The allocation for non-development and other expenditure is Tk.1,64,161 crore (12.3 percent of GDP). Expenditure for ADP has been estimated at Tk.86,345 crore (6.45 percent of GDP). GDP size for the FY 2014-2015 is estimated Tk. 13,39,500 crore.

The overall budget deficit will be Tk.67,552 crore which is 5.0 percent of GDP. Of this amount Tk. 24,275 crore (1.8 percent of GDP) will be financed from external (foreign) sources and Tk.43,277 crore (3.2 percent of GDP) will be financed from domestic sources. Of the domestic financing, Tk.31,221 crore (2.3 percent of GDP) will come from the banking sources and Tk.12,056 crore (.9 percent of GDP) will come from non-bank sources. For the purpose of financing the deficit Government is giving emphasis on mobilizing the concessional loans from external sources as before.

### Break up of Income Budget

- Tax Revenue from NBR: Tk.1,49,720.00 Crore (11.18% of GDP)
- (ii) Tax Revenue out of NBR: Tk. 5,572.00 Crore (0.4% of GDP)
- Non Tax Revenue: Tk.1,55,292.00 Crore
- Tk. 27,662.00 Crore (2.07% of GDP)
- **Total: Tk. 1,82,954.00 Crore**

### Break up of NBR Revenue

- (i) Value Added Tax: Tk. 54,420.00 Crore (36.35% of TR)
- (ii) Import Duty: Tk. 14,580.00 Crore (9.74% of TR)
- (iii) SD : Tk. 22,060.00 Crore (14.73% of TR)
- (iii) Income Tax: Tk. 57,500.00 Crore (38.41% of TR)
- (iv) Other: Tk. 1,160.00 Crore (.77% of TR)
- **Tk.1,49,720.00 Crore**

### How to meet the deficit Budget

■ (i) Foreign Source:	Tk. 24,275.00 Crore (1.8% of GDP)
■ (iii) Internal Bank Lome:	Tk. 31,221.00 Crore (2.3% of GDP)
■ (iii) National Savings Certificate & others:	<u>Tk. 12,056.00 Crore (.9% of GDP)</u> <b>Tk. 67,552.00 Crore</b>

### Changes in Value Added Tax Act, 1991

1. To reduce discretionary power of the VAT officials, penalty in lieu of confiscation of goods is fixed not less than twenty percent and not exceeding fifty percent of the evaded amount of tax [Sec-41]
2. Imposition of 1 (one) percent "Environment Protection Surcharge" on all manufacturers who are responsible for the pollution of environment. This surcharge shall be collected as and when the local VAT is collected;
3. Imposition of 1 (one) percent "Health Development Surcharge" on all Tobacco products (cigarette, bidi, jorda, gull etc). The surcharge shall be collected both in import and local supply as and when VAT is collected.

### Changes in Value Added Tax Rules, 1991

- (i) In case of shifting business place or any other change of business except transfer of ownership the registered person shall undertake in the non-judicial stamp of tk. 150 regarding payment of outstanding revenue with documentary evidence of the cases pending. [Rule-12];
- (ii) No undertaking shall be needed in supplying the machineries by the manufacturer if the H.S.Code of the said machines exists in the machineries S.R.O [Rule-20];

### VAT Exemption

With a view to protecting interests of agriculture, industry, health, education and export sectors, VAT has been exempted from the following goods and services:

Sl no	Heading no	Name of Goods	Stage of Exemption
1.	3004.90.91	Kidney Dialysis Solution	Manufacturing
2.	30.02-30.04, 30.06	Goods of family planning, Insulin, Vaccine for human medicine, Vaccine for veterinary medicine, Homeopathic medicine, Kidney dialysis solution, Medicine for preventing cancer	Trade
3.	3507.90.10	Streptokinase (an enzyme)	Trade
4.	9018.39.20	Insulin pen/Insulin cartridge	Trade
5.	S099.40	Meditation Service	Service
6.	S037.00	Bone of cow & buffalo for producing gelatin capsule	Service (Procurement provider)

Withdrawal of exemption from VAT (imposition of VAT)

Sl no	Heading no	Name of Goods	Stage of Exemption
1.	41.04-41.07 (Related)	Crushed leather	Import & manufacture

	H.S.Code)		
2.	89.01-89.07 (Related H.S.Code)	Sea vessel (loading capacity above 5000 BWT)	Import & manufacture

#### Change of Supplementary Duty in Local Stage

Sl no	Heading/H.S.Code	Description of Goods	Previous Rate	Current Rate
1.	24.03 (related H.S.Code)	Sewing Tobacco & gull	30%	60%
2.	48.13 (related H.S.Code)	Cigarette paper	0%	20%
3.	85.39 (related H.S.Code)	Electric filament bulb	15%	0%

#### Change the Price slab in Cigarette

Segment	Previous price range	Current price range	Rate of SD
Low	12.10-12.30	15.00-16.50	43%
Medium	24.75-25.25	32.50-35.00	60%
High	36.20-39.50	50.00-54.00	61%
Premium	66.00 & above	90.00 & above	61%

#### Price slab & SD of Bidi

Description of goods	Existing Tariff value & unit	Proposed Tariff value (10% increased)	Existing SD rate	Proposed SD rate
<b>Handmade (without machine) bidi [Without filter]</b>	<b>Tk. 1.24</b> (8 sticks per packet)	<b>Tk. 1.37</b> (8 sticks per packet)	<b>20%</b>	<b>25%</b>
	<b>Tk. 1.86</b> (12 sticks per packet)	<b>Tk. 2.05</b> (12 sticks per packet)	<b>20%</b>	<b>25%</b>
	<b>Tk. 3.88</b> (25 sticks per packet)	<b>Tk. 4.27</b> (25 sticks per packet)	<b>20%</b>	<b>25%</b>
<b>Handmade (without machine) bidi [With filter]</b>	<b>Tk. 2.11</b> (10 sticks per packet)	<b>Tk. 2.32</b> (10 sticks per packet)	<b>25%</b>	<b>30%</b>
	<b>Tk. 4.22</b> (20 sticks per packet)	<b>Tk. 4.64</b> (20 sticks per packet)	<b>25%</b>	<b>30%</b>

#### Truncated base value has been changed

Sl No	Name of the service	Previous rate (%)	Proposed/current rate (%)
1.	General Restaurant	6	7.5
2.	Motor car garage & workshop	4.5	7.5
3.	Dock yard	4.5	7.5
4.	Land developer	1.5	3
5.	Building developer	1.5	3
6.	Photo studio	4.5	7.5
7.	Jeweler	2	3
8.	Air-conditioned bus service	10	15
9.	Air-conditioned launch service	10	15

10	Air-conditioned railway service	10	15
11	Transport contractor (Except Petroleum product)	4.5	7.5
12	Immigration consultant	4.5	7.5
13	English medium school	4.5	7.5

### **Bricks Field**

VAT on brick is paid in 3(three) installment from 31 December to 31 March within the financial year. A bank guarantee of equivalent payable VAT shall be submitted to local VAT office with the declaration. Bank guarantee shall be refunded after complete payment of VAT.

### **Benefit to 100% export oriented industry:**

The following services, procured by 100% export oriented industry, deemed exporter and industry in EPZ, are exempted from VAT:

1. Procurement provider;
2. Security service;
3. Transport contractor;
4. Service procured from abroad

### **Advance Trade VAT:**

- 1) No advance trade VAT is applicable on Cargo aircraft for carrying goods
- 2) Manufacturer, exporter and industry shall get ATV exemption benefit showing registration of BOI as alternate documents of VAT-7

### **Tariff Value:**

- a) Tariff value of rape seeds oil, colza seeds oil and canola oil Tk. 6667/MT
- b) Tariff value of Scrap/ship scrap is Tk. 2000/MT instead of Tk. 1500/MT;
- c) Tariff value of CR coil from HR coil is Tk. 8250/MT instead of Tk. 7500/MT;
- d) GP Sheet from CR coil, CI sheet from CR coil, GP sheet from HR coil, CI sheet from HR coil- Tariff value has been increased by 10%;
- e) All goods of MS product, tariff value has been increased by 10%;
- f) All goods of GI wire, tariff value has been increased by 10%;
- g) Nails and corrugated nails, tariff value has been increased by 20%;
- h) Nut, bolt, screw, join (connector), electric line hardware & pole fittings, tariff value has been increased by 10%

### **VAT single highest source**

Bangladesh government collects four types of indirect taxes namely, (1) Value Added Tax (VAT), (2) Supplementary Duty, (3) Import Duty, and (4) Export Duty. Import and Export Duties are solely imposed on foreign trade merchandise. Supplementary Duty is imposed on both imports and domestic production.

Previously, most of the revenues were used to be collected from import duty. At present, the contribution of import duty has gone down to one-third of the total revenue. Currently, domestic Value Added Tax is the single highest source of government revenue. This domestic source of revenue has high growth potential in the context of our growing economy.

### **Implementation of VAT online project:**

The Value Added Tax and Supplementary Duty Act, 2012 will be implemented from 1<sup>st</sup> July, 2015. In order to reach the target, a time-bound implementation plan has been prepared with the assistance of IMF. Moreover to support this initiative, a project costing Tk. 551 crore has also been taken up. This includes 60 million dollar financial assistance from the World Bank. Procurement work under the project is in progress. Online VAT registration will be launched on 1<sup>st</sup> of January, 2015 and online filing of return will begin by end of June 2015. In order to create an enabling environment for both the taxpayers and the tax officials, a comprehensive taxpayer's

education program will be launched very soon. As part of that program, a massive publicity campaign has already been launched to make the people aware of the salient features of the new Act. Under the implementation plan of the Act, a nationwide modern technology based computerized tax network system would be established.

### **Reform Program**

Bangladesh government policy is to augment tax revenue by implementing massive reforms and automation in tax administration. Consistent with the Hon'ble Prime Minister's vision for Digital Bangladesh, NBR has already brought under automation most of the units of customs and tax administration. NBR also has taken up a program for expanding the coverage of automation in the near future.

The reform program already implemented and the agenda of reforms to be undertaken are as follows:

- i) Alternative Dispute Resolution(ADR) to reduce the number of revenue related litigations has been introduced;
  - ii) e-Filing system for income taxes has been introduced on a limited scale;
  - iii) Online tax payment system has been introduced;
  - iv) Online TIN/BIN registration system will be introduced by next September and the process of verification of online information will be interfaced with the National Identity Card Database of Election Commission;
  - v) Steps have been taken to process submission, assessment and tax refund of VAT and IT returns centrally and online;
  - vi) Steps are being taken to preserve VAT related data and returns submitted by the SMEs under an automated system;
  - vii) Steps have been taken to introduce ASYCUDA World technology for full automation of customs administration;
  - viii) 140 Assistant Commissioners and 100 Assistant Revenue Officers have been recruited recently for customs and VAT administration to cope with the increasing volume of work. In addition, recruitment of 800 Assistant Revenue Officers is under process;
- Training is being provided to the officials of all levels of revenue administration both at home and abroad to enhance their efficiency;

### **Fundamental Principles of Revenue Mobilization**

Government wants to raise revenue income particularly from domestic sources. The Revenue Department has already demonstrated its efficiency and dedication which resulted in increased revenue collection every year. The fundamental principles of revenue mobilization are as follows:

1. Reducing the opportunity of interpersonal communication between the taxpayers and tax collectors;
2. Limiting the discretionary powers of tax officials;
3. Finding easy and alternative solutions to tax disputes and litigations {Alternative Dispute Resolution (ADR)};
4. Creating business and tax payer-friendly environment;
5. Using IT in all spheres of tax administration and transforming the tax collection system from manual to online;
6. Increasing the efficiency & effectiveness of Tax administration;
7. Close monitoring & evaluation of tax collection;
8. Increasing public awareness through publicity in print & electronic media;
9. Prevention of tax evasion using intelligence, return examination and audit;
10. Collection of tax deducted at source;