

EquityBD position paper on national budget 2012-13

**National budget shouldn't use a revenue increasing tool ignoring the poverty reduction target
Emphasis on the direct tax and withdrawal stress creating new proposed VAT in national budget 2012-13**

Government has declared the national budget 2012-13 titled “Achievement three years and future road map”. This budget is the dossier of our next future and the target of development and poverty reduction. Since the post liberation, we have achieved a remarkable progress in our economy, but people are living still under the poverty which is near about 50 million in number according to the government statement. This is being happened due to concentration of achieved resource to a few people and their vested tribe. Nevertheless, these quarter are getting facilities and served through the government yet, unjustly applied of state policies which now reflecting in the approach of national budget. There are no reflections seen of government “Vision-2021” in the budget targeting poverty reduction. That’s why the budget is becoming a cause of hardship for our poor people in every year. Though, the budget is being prepared focusing the growth, but lacking effective distribution of this growth is ultimately facilitating the vested quarters, concentrating their resource and increasing the poverty and hardship.

In 2012-13 fiscal years, our honorable finance minister has announced the national budget as BDT 191738 corer or US\$ 23.967 billion and proposed the revenue earning target as BDT 139670 corer or in US\$ 17.45 billion. But the strategy of revenue collecting will deprive and create hardship for the poor people and contradictory with Vision-2021 as because the approach will facilitate in consolidating the resource to the vested quarter end.

In the amount of estimated revenue collection, BDT 35300 corer (US\$ 4.41 billion) will be collected as direct tax which is only 25% of total target and rest of the 75% (US\$ 13.04 billion) will come from indirect tax including VAT, supplementary duties and other service are main sources. As, most of the people of our country is poor will be victimized of this new proposed strategy of tax collection.

Towards revenue collection and resource mobilizing through domestic source, poor and developing countries should follow the constriction policy in their public expenditure which would be supportive to ensure increasing supply of resource delivery. In the mean time, we observing that, many rich countries especially Greece and France started to practice such type of policy in the situation of existing recession, whereas our country don’t feel any interest to follow such practice and failed to deliver necessary resource in the Annual Development Plan (ADP) despite have an remarkable achievement in revenue mobilization. In last years, government has increasing their expenditure those are unnecessary in many cases. Thus, government has to prepare deficit budget, depend on credit for development expenditure and domestic & external debt burden become looming due to ensure necessary finance in the ADP in every year.

On the other hand, government cannot depend on the external support, because aid behavior is deteriorating due to ongoing global recession and a cause of imposing undue conditionalities from donor. That’s why; domestic sources are targeted mainly to collect the resource where our government has selected the VAT as prime among the sources. Government has already failed to collect direct tax according to the volume of existing industrial and service sector in GDP and imposed all sort of liabilities to poor people’ shoulder.

This is common practice in many rich countries in accumulating the necessary resource through increase the direct tax, which is very different in practices in our country. Government has set a target in the national budget 2012-13 to collect the tax revenue as BDT 139.000 corer (US\$ 17.45 billion). This target is easily achievable through direct tax considering the volume of our GDP. But our finance minister has failed to adopt this strategy and imposed VAT as an easy way of collecting revenue which is incoherent with tax justice issue.

Now we want to look on the sectors, where our finance minister has proposed to impose the VAT for 2012-13 fiscal years in the name of our development.

- Finance minister has proposed to increase the minimum income tax up to BDT 3000 for new fiscal year instead of previous rate as 2000. In this regard, he kept the slab of minimum income level unchanged as previous, which was BDT 180,000. The purchasing capacity lower income people has been turning down day by day due to high rate of inflation, which would be more deteriorate indeed by this new proposal of tax increase.
- Government has proposed to increased income-tax deduction at the source of all sorts of interest income of bank deposits. This rate will be 15% instead of previous 10% in practice. According to the information from central bank, there are 55 million deposit holders across the country where average amount of deposit as BDT 80,000 per account. Among these holders, small farmers are near about 10 million. They have no taxable income and no TIN (Tax Identification Number), but tax have to be paid.
- Additional surcharge has proposed on the mobile phone service, which added as a new area of earning tax. We are paying VAT while making call, but government has proposed to impose 2% tax on phone bill and BDT 0.20 per call as surcharge in the new budget.

BTRC (Bangladesh Telecom Regulatory Authority) has provided information, where 90 million users are using the mobile. In that case, tax will have to pay on minimum recharge obviously. Government has created a new fund (Energy Fund, that to subsidized energy related expenditures), where this tax and surcharge form mobile phone will be deposited. Apart from this; all road and highway will bring under tax & toll net toward subsidizing the energy fund. If this proposal accepted, people have to pay tax for using the road also.

Now let we come to the point of VAT exercise in Bangladesh. In the new fiscal year, finance minister has said that the policy of VAT exercise will be to protect and promote the domestic industries and business, but intention of expansion of VAT under new budget is questionable. E.g.

- Government has proposed to increase VAT from existing 0.6% to 1.2% on the export of garments products. In favor of this proposal, minister argued that this proposal would create level playing field for business.
- Government proposed to withdrawal present 35% tax on imported movies in new fiscal year. So now the question has risen, what sort of level playing field will create despite the existing hardship of our domestic movie industries?
- In the new budget, 20% regulatory duty is proposed to withdraw fully on imported motor cycle. Government has also proposed to withdraw full regulatory duties on imported refrigerator. We think that new proposal of tax relinquishment will ultimately fall the domestic manufacturers in an uneven competition.
- We are observing an uncontrolled and dominance of VAT in revenue collection model in the new fiscal year budget. However our minister announced that the VAT will come into fore by 2015, but scenario doesn't said accordingly. In the new fiscal year, VAT is proposed to impose as increasing rate from 2% to 4% to all sorts of import, production, services, food and daily essential, whole sale and all sort of retail level business. This resulted to increase production cost for small entrepreneurs and will have to face tough competition to survive.

So it is reality that the new fiscal year, budget has proposed new rate of tax imposition on the business and consumers bypassing all taxation policies, human values and even business ethics. People have no scope to relief themselves from the burden of taxation if they are very poor and also non taxable person considering the level of income and their hardship of livelihood.

What we demand in the new fiscal year and revenue mobilization

- There are very less contribution of direct tax in case of revenue mobilization in Bangladesh which is only 25% in last few years, whereas other developing countries are prevailing more higher like India is 33%, Sri Lanka 31.5% and even rich countries are more than 70% mobilization through direct tax. So we have to follow and to expand the direct tax net for increasing the revenue mobilization bringing all economic activities and incomes under direct tax net.
- Though it's called that the VAT is progressive technique for effective revenue mobilization, but in case of poor country absolutely regressive, considering its nature of impose Bangladesh as a poor and so called developing country where corruption is common phenomenon and direct tax doesn't collect properly due to its hiding economic activities. That's why burden will go to the poor and this is happening ultimately in our country. So if we really committed to reduction poverty, must have to give space to the poor that possible through relief from the tax burden. So withdrawal new proposed VAT fully is only the way of achieving poverty reduction target.

Aminul Hoque
EquityBD
www.equitybd.org