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Total Deposit	16628
Total Loan and Advance	12224
Total Remittance	5587
Investment	4090
Total asset	21406
Number of Employees	11443
Number of Branches	867
Subsidiary Companies	2
Online Banking Branches	-

(Taka in Crore)
Financial Position of the Bank as on 31.12.2009 & 31.12.2013

31.12.2009 : 34868 (Unaudited)
31.12.2013 : 20297

Real time Online branches are 190
: All branches for deposit and With drawal
: -

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THE BANGLADESH ACCOUNTANT
April-June 2014
QUARTERLY JOURNAL OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF BANGLADESH

National Budget 2014-15



NATIONAL BUDGET 2014-15
April - June 2014

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The Bangladesh Accountant

QUARTERLY JOURNAL OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF BANGLADESH

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100 Kazi Nazrul Islam Avenue, Dhaka 1215
Tel : 9117521, 9112672, 9115340, 9137847
Fax: +880-2-9125266
Email : secretary@icab.org.bd
Website : www.icab.org.bd

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Budget is believed to be one of the most important economic policy tools of any government. People want to see that a realistic budget is placed instead of an ambitious one and at the end proper implementation is the key to succeed on what the Govt. wants to achieve. The budget should not fall short of people's hope and aspirations. The prioritization of social safety net programs in National Budget increasing the capability of our workforce undoubtedly can pay the dividend in the long run.

As far as the country's 43rd National budget Budget 2014-15 is concerned, the Bangladesh Government unveiled a record 2.51 trillion-taka (about 32.42 billion U.S. dollars) proposed national budget targeting an economic growth of 7.3 percent for the next 2014-15. The total outlay of the proposed budget for the next fiscal year 2014-15 is 2,505.06 billion taka (18.7 percent of GDP), up by about 13 percent over that of the original budget of the outgoing fiscal year 2013-14. According to the proposal, the overall budget deficit will be 675.52 billion taka, which is 5 percent of GDP. Of this amount, 242.75 billion taka (1.8 percent of GDP) will be financed from external sources and 432.77 billion taka (3.2 percent of GDP) from domestic sources. As expected, the total estimated revenue will be taka 1.83 trillion. The size of Annual Development Program for the next fiscal year will be 803.15 billion taka with power and communications sectors getting the biggest share.

However, the economy faces an impossible task of raising private investment by Tk 75,000 crore in fiscal 2014-15 to achieve the desired 7.3 percent GDP growth as revealed

by the Centre for Policy Dialogue. To that end, private investment needs to rise to 25 percent of gross domestic product from the present 21 percent; increase not seen before. The major challenges for the upcoming national budget for FY 15 would be its implementation as well as achieving the revenue collection target. For an emerging country like Bangladesh, much more emphasis on communication, railway, poverty alleviation and power and energy sectors should be fair, but in terms of implementation capacity and lack of efficiency of the various executing agencies of the government, this might be an uphill task.

Sharp reactions from different quarters observed; prominent English daily termed the Budget as 'Lavish Budget but Poor Plan'. Economists expressed concern on the rationality of the different aspects of the Budget. Some feared that the revenue target for the fiscal budget will not be met. Some think that the continuing borrow of money from banks will be worrisome. More investments and long term political stability are very essential to implement mega projects like Padma Bridge. Given the continuing sluggish investment in industries due to fears of political instability the economy has to rely on agriculture and its sub-sectors to boost domestic production to feed an ever increasing population. The wait-and-see attitude of prospective investors in setting up industries is no wonder against the backdrop of last year's political turmoil. The entrepreneurs should not pay a heavy price.

It is a high concern that the share of agriculture in the gross domestic product (GDP) is gradually falling due to structural changes of the economy though it is still a very important sector. The food security of the country's huge population, improvement of their lifestyle and creating employment opportunities for them are directly and indirectly related with agriculture. Unless the policy planners give due attention to promoting further development of the farming sector through research, it is feared that food security in the country will come under serious threat.

Despite many criticisms, the budget for fiscal year 2014-2015 is an expression and integrated part of the perspective plan called 'Vision 2021'. The main objective of the proposed budget is to maintain continuity of existing monetary and fiscal policy strategies and to ensure macroeconomic stability. Another objective of the budget is to facilitate social protection, equity and justice. The budget reveals that the government is shifting its policy to Social Safety Net programmes (SSNPs) to make it more effective, target-oriented and pro-poor. There is an allocation of budget Tk 500 million for children welfare. Preparations will be made to implement a draft child budget on pilot basis in the 2015-16 fiscal year, bringing hope for having a full-fledged children sensitive resource allocation in future. To encourage women to go to hospitals for healthcare, the budget continues an ongoing commitment from last year of turning 30 hospitals into women friendly hospitals by 2016. In this budget, monthly honourarium for freedom fighters have been raised to Tk 5,000 from Tk 3,000. The government is also taking initiatives to ensure housing facilities for the landless and insolvent freedom fighters throughout the country. Some new programmes have also been included in the SSNPs, such as, construction of houses for accommodating the cleaning staff of Dhaka city corporations. A special allocation of Tk 500 million has been proposed in the budget to build similar houses in the divisional and district towns.

To conclude, I would like to mention that, like other years, the April-June issue is dominated with budget discussions. Please feel free to give us your feedback. Your valuable suggestions/opinions would greatly contribute to enrich the 'The Bangladesh Accountant'.

M. Farhad Hussain FCA
Chairman, Editorial Board



TRAINING IS THE KEY TO DEVELOP CONFIDENCE

Since its beginning, ICAB has been playing an important role creating awareness; generating idea and thoughts useful for economic events of our National life. ICAB remains committed to the national development process. ICAB as the national professional accounting body is working closely with the Government and policy making bodies like NBR, Bangladesh Bank, Bangladesh Securities and Exchange Commission, Ministry of Finance, Ministry of Planning and Ministry of Commerce together with Corporate entities.

As part of its regular exercise, ICAB submitted its proposals with comments/justifications regarding VAT and Income Tax towards National Budget 2014-15 to National Board of Revenue (NBR) in April 2014 through its Taxation & Corporate Laws Committee (TCLC) pointing out Tax Policies of 58 areas and VAT policies of 37 areas which would increase government revenue, remove procedural flaws and ensuring social justice. On the eve of the announcement of the National Budget 2014-15, the ICAB and the Daily Prothom Alo jointly organized a Pre-Budget Roundtable discussion in May at CA Bhaban. Prominent Chartered Accountants, Economists, Budget Analysts, former Advisers of the Caretaker government, Journalists

participated in the discussion. Speakers at pre-budget discussion put forwarded important suggestions regarding Government's Borrowing, Budget Deficit, ADP, Inflation, Investment, use of Foreign Loans, introduction of Sovereign Bonds etc. which surely gave food for thought to the concerned policy makers. The suggestion of ICAB's Members particularly on widening the VAT net with the inclusion of Joint Venture associations, branches and liaison offices of foreign companies, exemption of VAT to facilitate commercial import, imposing VAT on the import of software, justification of ADR in resolving the conflict in Tax issues, encouraging investment and hinder the outflow of capital from the country; reducing the rate of Tax on the organizations adding value to the economy as well as SMEs of the country needs further consideration.

The World Bank (supported by the ICAB) organized a Policy Note Dissemination Workshop on 'Promoting Public Private Partnership for Improved Public Sector Auditing in Bangladesh' in April 2014 where Sr. Financial Specialist, World Bank, presented the Policy Note in the presence of Hon'ble C&AG of Bangladesh. Mentioned that this WB financed

project is the continuation of MoU signed on 07 November is 2012 where ICAB is working as a Consulting body to strengthen strategic relationship between ICAB and OCAg addressing the challenges of accounting and auditing practices for improving Audit Assurance quality in Public and Private Sectors in Bangladesh. I believe, by overcoming the challenges, the Partnership will leave profound impact in the Audit and Assurance Quality.

It is a matter of great joy that like the previous year's, this time also a good number of Bangladeshi companies received 'SAFA BPA Awards' in Islamabad in May 2014 which was hosted by ICMA Pakistan. With everyone, I take the pride to say that this is otherwise the outcome of ICAB's effort to yearly event of SAFA Best Publishing Accounts which encourages the stakeholders to produce more transparent and standard disclosure.

I firmly believe, ICAB is putting its best endeavour to gain international standard despite many odds and eventualities. ICAB projected its present state of quality and standard in the meeting with Asian Development Bank (ADB) Team held in May 2014 on 2003 ROSC Report of the World Bank. ICAB briefed the



delegates about the advancement of ICAB since the introduction of ROSC Report highlighting the standard of education, quality assurance, and Investigation & Disciplinary functions. It is needless to mention that ICAB's signing MOU and MRA with ICAEW and CPA Ireland respectively is the recognition of its progress towards excellence.

ICAB is not only self reliant, it is also providing training to Bangladesh Bank, National Board of Revenue, regulatory bodies and Non-Government Organizations routinely. ICAB believes that training is the key to build professionally rewarding Chartered Accountants. This will make them leaders with confidence in any area they are engaged. Keeping that view ICAB is organizing different training activities throughout the year. In this quarter, ICAB and Bangladesh Bank jointly organized a Workshop on 'Anti-Money laundering (AML) and Terrorist financing' for ICAB Members and Officials in the month of April and May 2014 at CA Bhaban, Dhaka. The training focused on the compliance requirements of

Professional Accountants on AML Issues and their role specially practicing Accountants for preventing Money Laundering in the country. Important aspects of AML & Relevance with Accountants, Money Laundering Prevention Act 2012 & Anti-Terrorism Act 2009 (Amendment in 2013) were the subject matter of the Workshop. ICAB also organized Training on 'Public Procurement Rules and Public Finance Management (Treasury Rules, General Financial Rules, Budget etc.)' for ICAB Members and partly qualified Students under the World Bank financed Project 'Promoting Public Private Partnership for Improved Quality Audit & Assurance'. A total number of 82 participants under 4 batches attended the training program held in April 2014 at National Academy for Planning and Development (NAPD). In addition, ICAB organized Training program on 'The Art of Leadership' in April and May aiming to grow leadership and build confidence amongst CA professionals particularly targeting young members. Resource Persons from ICAB and experts from outside

made the Training program fruitful and a huge response was received from the members.

In fine, I would like to express my satisfaction on the publication of Quarterly Journal of ICAB 'The Bangladesh Accountant'; April-June 2014 issue with special emphasis on National budget 2014-2015.

I also pledge that we are determined to move ahead with our professionalism and deliver the best for the Institute and our beloved country as a whole. I also thank everyone associated to bring out this enlightening issue to us.

Showkat Hossain FCA
President, ICAB



Budget 2014-15: A Review of ARMS & LEGS and Implementation

Dipok Kumar Roy ACA



Budget should not be a traditional updates of facts and figure with a simple incremental plan of revenues and expenditures. Both the source and process of revenues and expenditure should be designed strategically sharpening the strengths, overcoming the weaknesses and availing the opportunities with deterring of threats of the country. There should be a comprehensive research based analysis to find out the priority issues of revenues and expenditures because of resource limitation. The revenue plans are designed based on plan of expenditures for the betterment of the countrymen. So, designing the expenditure plan in different sectors to accelerate the development of the country with enhancing living standard of life is a crucial job. Expenditures in some sectors with appropriate policies as per plan of the budget build a platform of source of income of the countrymen like Agricultures (A), Readymade garments (R), Manpower (M) and Second-best sectors(S), may be termed as ARMS. The ARMS ensure the income, employment creation, increasing per capita income and enhancing standard of living index. Expenditures in some other sectors with appropriate policies as per plan of the budget build a basement or ground on which a nation stands and the activities of ARMS are carried on like Liberty &

democracy (L), Education (E), Governance (G) and Seminal needs & infrastructure (S), may be termed as LEGS. The LEGS ensure an image of stronger nation with attractive field of investment & the best use of national resources. At the age of 43 years, is Bangladesh strong enough with its ARMS (Agricultures, Readymade garments, Manpower and Second-best sectors) and LEGS (Liberty and democracy, Education, Governance and Seminal needs & infrastructure)? ARMs are stronger sectors and the sectors that have potential to be stronger which have made the nation stronger. The LEGS are ground of ARMs on which the performance of ARMS depends. The national budget should focus the aforesaid ARMS and LEGS strategically to build a stronger, enlightened and smarter nation.

A snap of ARMS and critical review:

Agricultures

The allocation of agriculture and rural development is 7.6% of the national budget and approximately 1.42% of GDP, the 5th largest allocation for the year 2014-15. The traditional subsidy in the form of seeds, fertilizer, irrigation, agricultural equipment etc has been allocated for 9,000 crore, equal to the same allocation in 2013-14, which is



“ **THOUGH THE BUDGET IS A FINANCIAL BLUE PRINT, IT IS NOT A TRADITIONAL PRESENTATION OF NUMBERS ONLY. IT IS A MIRROR OF OUTLOOK OF THE RULING GOVT. INSTEAD OF UTTERING A LOT OF WORDS ON DAIS POLITICALLY, THE GOVT. SHOULD GIVE EFFECTIVE PLAN OF ACTIONS THROUGH BUDGET FROM YEAR TO YEAR.** ”

under a big question of proper distribution. The Bangladesh Bank has also taken extensive initiatives to finance target based agricultural financing which will be continued for 2014-15 as well. Only proper distribution of subsidy and financing will not ensure the sustainability of farmers and not be able to increase the productivity of agriculture. The media and research report of experts highlights different issues technically to address for development of agriculture like adoption of technology including use of fertilizer through soil test, specialized research based cultivation, availability of inputs, proper marketing and market linkage, insurance, fair pricing and govt. buying and warehousing to protect the distress sale of the farmers. Frequently we observed abnormal price fall of different agricultural products like vegetables, milk, salt, rice etc. The price is far below than their production costs whereas in the market the final consumers buy it with higher price. To ensure the fair price, the government has the capacity to buy and store 19.38 lakh MT foods in go downs which will be increased to 25 lakh MT by 2020. The buying policies and strategy fail to ensure fair prices in many cases. The Govt. strategy is not perfect enough to

increase the productivity and save the farmers. We have discovered genome sequence of jute and water buffalos with initiative of government and private institution respectively. We need to implement and promote the research findings and obtain intellectual property right. Considering all of the issues above, the budget should focus specifically on (a) Technical and technological support of the Government (b) promotion of research & development and implementation of research findings with obtaining intellectual property right from World Intellectual Property Organization (WIPO) under United Nations (c) Availability of Inputs specially modernized and research based inputs (d) Backyard and Forward Linkage (e) Cluster Financing (f) Crop & live stock Insurance (g) forming agriculture fund with development partners to be managed by private equity fund manager (h) Engaging Venture Capitalist in cluster financing (i) Crops specifications (j) Pricing (k) Govt. Buying & Warehousing. In the budget 2014-2015, the plan on fisheries & live stock is something specific than the plan of crops. As per statistics of ministry of agriculture about 62% of total labor force is engaged in agriculture and the contribution of agriculture to GDP is

23.50% where as the contribution of only crop to GDP is 13.44%. This statistic could be significantly higher if the Govt. can focus on agriculture more strategically with proper budget allocation and effective implementation.

Readymade Garments

Bangladesh is the second largest garments exporting country in the world. 80% export proceeds of the country are from readymade garments. Considering its expansion from year to year, the policy supports including easy credit facility, export incentive and tax incentive have been given to garments industry. Such supports will be continued this year as well. The industry earned US\$ 23.5 billion in last year and provided jobs of 4.4 million workers. No other sectors have emerged yet to inflow substantial foreign currency to the economy and to adopt 4.4 million garments workers. So, it is dire need for the country to ensure sustainability of the industry with proper policy assistance and initiatives to resolve the crisis instantly. Some issues like minimum wages, compliance including safety work environment and security of job have been crucial for garments workers as well as concern for buyers. The Govt. should have an action plan to resolve the crisis to attract the buyer and revive the GSP facility of USA which was suspended temporarily and to retain the EU buyers with their business interest comfortably, legally and ethically. The budget states two points on this aspect ; (I) a tripartite work plan consisting of Govt., owners and workers association has been initiated to reward minimum wages and (ii) the accord signed between BUET and EU at the initiative of ILO and the alliance has been established at the initiatives of importers to identify



the factories with deficiencies. An immediate compliance and review of compliance with rectification measures are necessary for implementation of the above steps. The budget could frame the following issues for its sustainability and to make the industry more vibrant to buyers (i) the strategy to resolve the crisis based on the action plan (ii) to establish workers' welfare fund contributed by Govt., owners and buyers with a view to ensuring welfare of workers families under certain specific conditions and establishing health clinics for garments worker for providing health services at free of costs and/or at a subsidized rate under certain terms and conditions and (iii) to set up the Institute of Garments Industry for exploring market, ensuring safe investment and return and training of officers/workers (iv) to impose penalty tax/surcharge for the factory found with deficiencies and gradually significant increase of rate to keep on pressure for resolving the deficiencies.

Manpower

Manpower has been burden to the nation due to unemployment. It may be strength of the country if the Govt. plans to make the nation a skilled force in different level through different types of programs with a view to using them for inland economic activities and exporting to other countries as skilled manpower under bilateral agreement. About 8 million people work in different countries and most of them are unskilled. They work with low paid wages and sometime have lost their work having little or no skill on the job. The good and updated international ranked education systems and appropriate training by the government on specified profession would make the manpower skilled capable to work inside and outside the country efficiently. The educated people are job oriented rather than tending to be self employed with proper training. In the budget 2014-2015 it has been focused on different issues like expansion of exporting manpower with a plan of



expansion, training centers and institutes, the model of exporting including G2G (Government to Government), draft Overseas Employment Policy 2014 etc. A nation will be empowered like an emerging tiger when the men and women will be on the same dais in strength. Keeping this view in mind, the government focuses women development policy in 2013. In the budget speech under women empowerment nothing specifies as to programs or strategies on women empowerment excepting a work plan. So the budget should design specific programs to improve the capacity and capability of manpower to make the total population of the country as strength of the nation. In order to strengthen the manpower capacity and best utilization, the budget could design a plan of (i) proper education (ii) technical education and skill based training (iii) professional training (iv) G2G focus of manpower exporting after training (v) Agriculture and SME focusing training.

Service sectors

The highest contributor of GDP is service sector. The service sector

generally contributes about 50% of GDP whereas the industry provides around 30% of GDP. The trend of growth of GDP of industry is upward slightly. The growth of manufacturing unit under industry has a record of consistent growth and needs a robust growth to increase the share of GDP. In addition to readymade garments and textiles we have some potential sectors to emerge like jute and jute products, leather and leather goods, tea, information and communication technology (ICT), handicrafts, ceramic products, plastic industry, ship building, light engineering, frozen foods, pharmaceuticals, fruits and flowers, vegetable etc. The budget continues tax incentive for some of the above sectors and need to provide policy support based on research findings.

About 6 million SMEs are in Bangladesh and to make them corporatized and larger, the role of venture capitalists and private equity fund is essential. The SMEs are still underserved financially by Banks, Financial Institutions (FIs) and Micro Finance Institutions (MFIs). The SMEs are too big to MFIs and have limited access to Banks and FIs due to (i) lack of

collateral (ii) requirement of longer-term capital (iii) mismatch of repayment, i.e. not matched with cash inflow (iv) risk perception of banks and financial institutions (v) lack or non-credibility of financial information and controls (vi) higher costs of fund for banks and FIs for setting up office, due diligence, recovery and monitoring in the area where SMEs exist substantially. Under this circumstance, venture capital and private equity fund model may be the best fit to promote SMEs in Bangladesh. The private equity investors may be attracted with policy. Corporate Social Responsibility (CSR) fund also could be used as private equity to develop SMEs. The budget could focus to incorporate SMEs Venture Fund with policy support for venture capitalists and private equity investors & fund manager.

In addition to digitalization, ICT has opportunities to export and can lead the market like readymade garments. Income from ICT is tax exempted. The govt. needs to patronize the private level research and development of software to penetrate the world market.

Tourism may be another emerging subsector. Most attractive tourism spots and attributes represent our historical precedence and values. Our rhythmic cultural heritage & delicious foods would attract the tourists to the peoples to be united with the wave of joy. We should make Bangladesh a brand in tourism through infrastructure development of tourist spots and promoting internationally. The budget has initiative to develop exclusive tourist zone under Public Private Partnership (PPP) initiative. The implementation is necessary to make Bangladesh a brand of tourism.



The second best sectors need policy support, consistent investment friendly tariff plan, tax incentives, easy capital repatriation process, access to finance, political and democratic stability, good infrastructure, digitalized environment and good governance. Each of the second best sectors as stated above needs to be ranked on priority basis with supports and initiatives required for development. The budget has efforts to provide policy, access to finance and fund, tariff and tax incentives for the growth of manufacturing unit but needs to focus more specific and extensive care based on priority list of development.

A snap of LEGS and critical review:

Liberty and democracy

Budget 2014-2015 states to continue programs to preserve the glorious history of our great liberation war which includes indentifying the battle field, slaughter ground and mass grave and establishing museums and libraries at the memorials of

liberation war. Of course, it is a very good attempt to present the history to the nation with pride to encourage the nation to be patriot. Liberation war opens the door of national liberty and democratic practice with a view to ensuring rule of law in the country. A nation cannot be stronger unless they have liberty in culture, religion and politics and in expression accordingly. Literally we have the liberty through our independence in 1971. We have started our parliamentary democratic journey as well since ninety decade in spite of being slipped frequently. Liberty in expression i.e., what we think and feel better is difficult to express under our existing democratic practice. We are so partial politically that we divide ourselves going beyond our national prestige and pride. We fail to express our rational and legal judgment. We have a very little practice of democracy in the politics to build a nation on consciousness basis. The liberty in thinking and expression will open the door of novelty and the practice of democracy will find the avenues of speeding up the nations economically and socially. In addition to numerical

presentation, the budget should have a political commitment of the liberty of the people and democracy of the state. A nation is how far historically in lightened and stronger and free from corruption depends on the liberty and appropriate democratic practice of the state.

Education

Quality education is must for nation building! Quality education makes a nation lightened. An enlightened nation is always ahead in civilized and development race. Development of education does not mean only to increase the rate of literacy and passing in the exam. In order to ensure quality education we should reform the existing education systems to match with international quality. How does the budget 2014-15 focus to develop the quality of education to upgrade the nation to the mark of international quality? Our education and technology is 2nd largest allocation which is 13.1 of total budget and approximately 2.43% of GDP. As per UNESCO, the education budget of a nation should be 20% of the budget and 6% percent of GDP. The budget allocation is far below than UNESCO declaration. Bangladesh's existing education system needs reforms for good schooling at all level uniformly with high quality trained teacher, digital equipment, high tech modern library and online access of famous writes, resources, universities and educational institutions. Profession as teaching should be dignified in all level in terms of payment and social position so that most of brilliant students might determine to be teacher. In order to make the education systems upgraded international quality in all level from primary to universities and form villages to divisional cities,



products and activities and to reduce tax and tariff rate to make the sectors investment friendly. The country has only about 5000 people paying surcharge on wealth. Significant well-off persons are out of surcharge tax net and evade tax abusing the laws. They must be brought under tax net. Some issues are focused to ensure good governance in a table presented in the budget. We miss the implementation strategy in many cases including enhancing the collection efficiency of tax authority fighting against corruption. The nation wants a firm commitment, strategy and implementation of good governance.

this sector needs to be more focused with plan, strategy and required budget for that for a smarter and lightened nation.

Governance

The Governance should be by quality in line with rule of law instead of power. Good governance can lead a nation to reach the peak of the development and the ship of the national development may sink due to lack of good governance. What does a good governance system entail? It generally entails (i) introducing a good set of laws, rules, regulations and policies (ii) framing a good structure of the public administration with accountability and (iii) ensuring rule of laws. We have the lack of accountability and ensuring rule of laws. As such, corruption seizes the nation like a giant. Corruption is so intensive that about 2-3% GDP growth is lost each year due to corruption as per World Bank estimate. Per capita income could be double if the Government could restrain corruption, TIB estimated. Corruption leads the tax evasion and failure of the govt. projects making others illegally wealthy.

Over the last 10 years Bangladesh registers over 6% growth rate that could be about to double digit if corruption could be controlled and rule of law could be enforced in administering the resources. Budget does not focus the combating strategy against corruption with necessary steps and accountability of all level peoples to the state in spite of firm commitment in the budget. Rather to provide any chance to use the black money year to year in investing or expending some specified sectors like this year in purchasing flat paying a certain percentage of tax is really to open the door to pocket the black money more. We have drowned in the sea of corruption. The budget focuses strengthening Anti-Corruption Commission (ACC). A lot of initiatives taken and to be taken including strengthening revenue sector, insurance sector, financial sector, capital market, business environment, parliamentary activities, and rule of laws for combating corruption to ensure good governance has been stated in the budget. The budget has taken initiatives to widen tax net imposing super tax on wealth, surcharge on socially harmful

Seminal needs and infrastructure

The seminal needs and infrastructure include health and family welfare, food security & safety, power & energy, physical infrastructure, digitalization, social protection, sports and culture etc. If these have not been developed gradually, the dais of working ARMS cannot be stronger. In addition to the above meaningful liberty & democracy, quality education and good governance the nation who has the good health, sufficient food security and safety, the adequate water resource management, the required power & energy, vibrant financial sectors, adequate physical infrastructure and digitalization, the awful social protection to balance the social imbalance and outstanding performance on sports and culture, the nation gets a stronger dais to work with ARMS.

A good health depends on the national strategy of health cares. The budget allocation under health is BDT 111.46 billion, 4.4% of Budget and 0.82% of GDP approximately, which is traditional



updates. The health care programs are very few like immunization, birth control, maternal and child care programs etc. The Govt. run hospitals provide the general public health care services in a very limited scale. The hospitals has lack modern equipment & its maintenance and the workforce including doctors have the apathy to work morally for the people of the country. The community clinic as stated in the budget may be a very good basic health care service provider to mass people ensuring good governance. The capacity and quality may not increase overnight unless reforms measures are taken but the capacity at exists need to ensure good service by the government with good governance. Health care needs good governance and reforms to provide quality health service to the nation for good health and life expectancy.

Government has taken sufficient steps to ensure food security. But in question of food safety, Bangladesh is now under threat of acute and chronic illness. The inferior quality, non-hygienic and chemical mixed foods are putting the whole nation in a well of danger. We see some scattered steps to control this which should

be planned and conducted in organized manner. The Pure Food Act 2013 has been enacted. An act to control the use of formalin is in process. To ensure food safety we need a national consciousness & movement. The budget should have an allocation to implement the headstrong policies with national consciousness and movement to ensure food safety for the nation.

Physical infrastructure like construction of bridge, culvert, flyover, roads and highway, transportation including air, water and water, urbanization plan, internet services and digitalization are essential to decentralize the worst livable Dhaka city with a view to making it livable. The development of physical infrastructure of the country would lead the people to live outside Dhaka with the same facility in the capital city. The country will be a hub of business and living. The budget allocated 9.8% under transport and communication. The budget should have an extensive plan of development of physical infrastructure and digitalization all over the country that leads to decentralize the Dhaka city and make it livable.

One of the most important factors of the industrial development is the power and energy. When a country has a lack of sufficient power and energy, the industrial growth becomes either stagnant or slow over the consistent periods. The government has remarkable plan to increase the capacity of electricity, alternative and renewable energy and to find more gas field. The allocation of power and energy is 4.6% of the budget against 3.4 % of last year. The proper implementation of the projects under power and energy would get a momentum of industrialization if other factors of industrialization work favorably.

The society has different groups of people who are differently able with different identities and vulnerabilities. These groups face different realities, obstacles, and opportunities and have different needs and priorities. If these groups are not streamlined with national workforce and basic livelihood, the significance of growth of GDP will be turned down. The allocation is 152.81 billion against 204.05 billion in last year. The implementation with strict policy is challenging and essential rather than increasing its allocation.

The initiative of digitalization of the present government is a mentionable breakthrough of traditional state services of the government. A lot of actions have been taken to digitalize the local government services, government level services and private sectors including 3G services. Yet, the ultimate development is not remarkable as per the report of "Global Information Technology Report 2014" of World Economic Forum (WEF). Bangladesh ranked down to 119th position in 2014 from 114th position in last year out of 148 countries. Out of 10 pillars,

the pillar Skills is stagnant in 128th position like last year and the pillar of business usage ranked 127th position from 132th positions of last year. Internet services should be reached to mass people level. Digitalization would save man hour, reduce corruption, increase efficiency and quality of output, making the nation compatible, updated, communicative, sovereign strength etc. So, the Government should have extensive plan to cover national digitalization with mass people access and budget should address that plan.

The budget has also adequate allocation for water resource management, national defense and sports & culture. The appropriate process of implementation as budgeted to manage and develop of them would make a stronger dais of the nation.

Though the budget is a financial blue print, it is not a traditional presentation of numbers only. It is a mirror of outlook of the ruling govt. Instead of uttering a lot of words on dais politically, the govt. should give effective plan of actions through budget from year to year. A budget is development plan of the country. A big sketch of budget of BDT 2505.06 billion is achievable in spite of having resource limitation. We need to ensure skill and efficiency in implementation. Our ARMs are becoming weaker due to misleading policies and lack of national steps needed to focus. The LEGS are weak as well to attain complete advantage compared to other countries. The government is working on these undoubtedly but it could be more effective and sharpened if we do not pass our time on the road simply for chaos for power and if we can work together with plan & budget for

national interest irrespective of political interest. Goldman Sachs named Bangladesh one of the "Next Eleven." In April 2010, Standard & Poor's, an American Financial services i.e. rating company, awarded Bangladesh a "BB- Stable/B", the sovereign credit rating, for a long term in credit rating which is bellow India but well over than Sri Lanka and Pakistan in South Asia. We have strength to go beyond with what we are achieving now. Where are we blocked? Analyst and expert say, we are not poor, we are poorly managed.

The Author is Associate members of Institute of Chartered Accountants of Bangladesh & Chief Financial Officer of Venture Investment Partners Bangladesh Ltd.



An Analytical Credenda on Bangladesh National Budget for Fiscal Year 2014-15

M Jalal Hussain FCA



Preamble

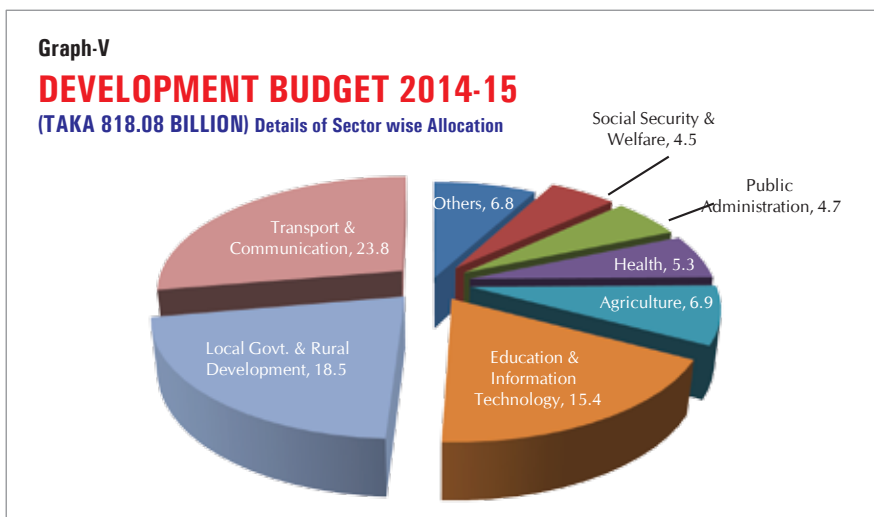
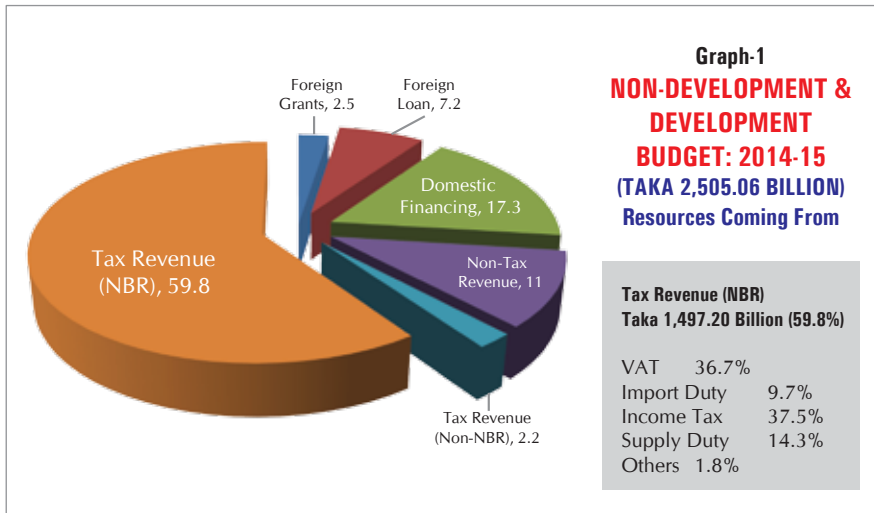
In the 21st century every country irrespective of its economic status quo, prepares National Budget. The success or failure of National Budget, which is also known as Fiscal Budget, depends on how it helps achieve sustainable economic growth, create employment opportunities, improve capital markets, anodyne poverty and suchlike economic activities. Economic, financial and social problems get exacerbated due to weak and flawed budget prepared and implemented in many countries. Budget is one of the most economic policy contrivances that impinge the income, savings and lives of all class of citizens: elderly, young, men, women, children, rural and urban people of a country. People of a country are the end users or stakeholders of a National Budget and it should not be an enigma to the commoners. Extra prudence, diligence, expertise and professionalism are strikingly essential while preparing a National Budget. The financial crises and economic turmoil in many countries in Europe, America, Asia and Africa in recent times are the accumulative denouements of astigmatic budgets of those countries.

Bangladesh Finance Minister presented a National Budget of Tk 250,506 cr for the Fiscal Year (FY) 2014-15 to the Parliament

which some economists, analysts termed as “over-ambitious”, “un-real” and “un-achievable” budget. The breakdown of Tk 250,506 cr budgets is: Total size (Revenue and ADP) Tk 250,506 cr; Annual Development Program (ADP) Budget is Tk 80,315 cr, Non-ADP Budget is Tk 170,191 cr; deficit of Tk 67,552 cr (5% of GDP) financed by bank borrowing Tk 31,221 cr, foreign source of borrowing Tk 24,275 cr and by non-banking borrowing Tk 12,056 cr. Total deficit in the proposed budget represents 27% of the total size of the budget. The GDP growth and inflation target shown in the budget is 7.3% and 6% respectively.

Highly deficit financing proposition

The proposed National Budget for FY 2014-15 has the provision of Tk 67,552 cr deficit which represents 5% of GDP and 27% of total size of the budget. This huge deficit of Tk 67,552 cr will be financed by: bank borrowing Tk 31,221 cr (46%), foreign source Tk 24,275 cr (36%) and non-banking Tk 12,056 cr (18%). Budget for FY 2013-14 had a deficit of Tk 55,032 cr (4.6% of GDP). The deficit has been increased by 23% in this current year. The deficit financing scenarios show that the financing of the national budget is ensnared with the continuous processing



Source: Ministry of Finance Budget FY 2014-15

of borrowing money from various sources to cover the huge gap of revenue earned and revenue spent for non-development and development expenditure. Deficit financing of the National Budget intensely matters the success or failure of the budgetary policies. Borrowing costs are always involved when a government borrows from domestic sources or from foreign sources and in contrast some economic benefits are there if the borrowed fund is utilized for sustainable economic growth.

The proposed budget kept the provision for borrowing from domestic banking sectors for Tk

31,221 crore (46% of total deficit). Borrowing from local banks drastically affects the private investments as expressed by most of the analysts and economists. After the recent financial crisis in Europe, America, Asia and Africa, most of the government of the developed and developing countries have been planning to cut deficit in their Fiscal Policies. Bangladesh, a developing country, on the contrary has been increasing the deficit. The economists and analysts have been feeling disquiet and misanthrope about the future financing of the National Budget. High deficit financing is not benignant for pragmatic fiscal policy. High deficit

“ THE ECONOMY OF THE COUNTRY HAS BEEN EXPERIENCING A DECELERATING RATE OF GDP GROWTH RATE DURING THE LAST TWO FISCAL YEARS. IN FY 2010-11 THE GDP GROWTH RATE WAS 6.71%, WHICH LATER DECLINED TO 6.23% IN FY 2011-12, THEN FURTHER FELL TO 6.03% IN FY 2012-13. THE PROPOSED NATIONAL BUDGET FOR 2014-15 MADE FORECAST OF 7.3% GDP GROWTH RATE THOUGH THE GDP GROWTH RATE FOR FY 2013-14 WAS 6.3% AND TARGETED INFLATION RATE AT 6% WHICH MOST OF THE ECONOMISTS AND ANALYSTS TERMED AS HIGHLY AMBITIOUS TARGET, DEEM CHANCE TO ACHIEVE. ”



budget relieves short-term pains of a country but plunges the country in the long-term and endurable pains. Greece is an example, among the EU countries that adopted high deficit financing policy and ended up with serious economic and financial problems, which were temporarily encountered by bailout programs of IMF and EU. According to BBC Business News, May 13, 2014 Australia's government aims to nearly halve its budget deficit over the next year through a combination of tough spending cuts and tax increases. Under their plans, the deficit is forecasted to fall from Australian \$ 50 billion to \$30 billion.

Federal Reserve Board Governor Edward M. Gramlich explained the connection between deficits and the future economy at a Concord Coalition policy forum: "Fiscal policy can have important long-run effects on the health of the economy, particularly through its impact on national saving and the growth of productivity. National savings can be generated privately, by households and business, or publicly, by government. Although

fiscal policy can, in theory, help boost private saving, this has proven difficult, in practice. Instead, the most important effect of fiscal policy on national saving has been through the direct government budget. When the government runs deficits, it siphons off private savings (reducing national saving), leaving less available for capital investment. With less capital investment, less new equipment is provided to workers, and, all else being equal, future productivity growth rates and levels are lower."

FY 2014-15 Budget Affects the Volatile and Moribund Stock Market

Bangladesh stock market has been suffering staggeringly for the last three years. The index of Dhaka Stock Exchange and Chittagong Stock Exchange has drastically affected by stock market crash and has been declined from 9000 to 4400. Stock market contributes substantially to GDP growth of any country and that's why it needs support from the Government through its fiscal and monetary

policies. National Budget 2013-14 had some provisions for stimulating the stock market. Those provisions have been removed in the FY 2014-15 Budget. In addition, this year's Budget proposed capital gains tax on individuals ranging from 3% to 5% to be deducted at source. These capital gains taxes on individuals have already affected the volatile stock market. "Stocks fell 2.03 percent in the first two and a half hours of trading at Dhaka Stock Exchange today as investors went for a selling spree following what they said "unfriendly budget" for the capital market. DSEX, the key index of the DSE, went down 89 points to stand at 4,307 points till 1:00pm" reports by Daily Star. The economists, analysts and stock market experts in Bangladesh have the unanimous opinion that the proposed budget for 2014-15 should revoke the provision of imposing capital gains tax on individuals. Failure to do that will drastically affect the fragile and frivolous stock market, the private investment and achievement of targeted GDP growth at 7.3% would be a dream. "Fiscal policy causes budget deficit, which can lead to higher interest rates and the crowding out of private investment, which is anathema to the stock market" said Professor Peter Navarro, PhD of University of California. He further said "The fiscal and monetary policies of the government have an enormous impact on stock prices because they affect economic growth and potential earnings."

Outrageous and High Corporate Tax Rate

The corporate tax rate of Bangladesh is very high in comparison with the corporate tax rates of other countries in Asia, Africa, Europe and America.

Bangladesh Corporate Tax Rate Proposed in FY 2014-15 Budget	
Particulars of Company	Rate of Tax%
1) Publicly traded company	27.50
2) Publicly traded company who fails to declare 10% dividend and fails to pay within stipulated time	35.00
3) Non-publicly traded company	35.00
4) Bank, Insurance, Financial companies	42.50
5) Merchant Bank	37.50
6) Cigarette manufacturing company	45.00
7) Mobile phone operating company	45%

Source: Proposed Finance Bill 2014

Name of Country	Corporate Tax Rate FY 2013%	Corporate Tax Rate FY 2014%
Afghanistan	20	20
Australia	30	30
Austria	25	25
Canada	26	26.5
China	25	25
Denmark	25	24.5
France	33.33	33.33
India	33.99	33.99
South Korea	24.2	24.2
Malaysia	25	25
Singapore	17	17

Source: KPMG Global

The shareholders of the companies have to pay 10% tax on the dividend paid to them and this is deducted at source at the time of payment. This means the shareholders of banking and mobile operating companies, for example, have to pay tax 52.5% and 55% tax on their investments which appears to be very high in comparison to other developed and developing countries. Financial and investments professionals, specialists term the corporate rate of tax is very high, swank and acts as a stumbling block to investment growth and suggest a dispassionate review of the corporate tax structure of the country.

Flamboyant and Overambitious GDP Growth Rate and Inflation Rate

The economy of the country has been experiencing a decelerating rate of GDP growth rate during the last two fiscal years. In FY 2010-11 the GDP growth rate was 6.71%, which later declined to 6.23% in FY 2011-12, then further fell to 6.03% in FY 2012-13. The proposed national budget for 2014-15 made forecast of 7.3%



GDP growth rate though the GDP growth rate for FY 2013-14 was 6.3% and targeted inflation rate at 6% which most of the economists and analysts termed as highly ambitious target, seems for from achieving. During the FY 2013-14 the country had 7.7% inflation. Economists cast doubt about keeping inflation rate at 6% in FY 2014-15. They expect that huge

deficit financing of ADP (84%) budget will antagonize the inflationary situation of the country. Bangladesh's inflation rate is much higher than other developed and developing countries and deserves special attention in the Fiscal and Monetary Policy of the country.

Country	Bangladesh	Australia	Canada	China	India	Malaysia	South Korea	Japan
Period	Jun-13	Jun-13	Jun-13	Jun-13	Jun-13	Jun-13	Jun-13	Jun-13
Inflation Rate %	7.86	Jan-00	0.7	2.1	4.7	1.8	1.4	-0.3

Inflation Rate June 2013: Source Trading Economics August 2013

Education and Human Capital Sector Needs More Budget Provision

Education and IT sector got 15.4% allocation in the proposed budget FY 2014-15. According to the Director General of the National Academy for Educational Management, the budgetary allocation for education is the lowest in Bangladesh among 10 other Asian countries. Educationalists have expressed disappointment over the budget for the education sector, stating that it was inadequate and would make it difficult to implement the education policy. As the number of students is increasing; the education sector would face problems if adequate budget provision is not made in the upcoming budget. The ratio of education budget to GDP remains static at around 2.0 per cent over the years. This means, education sector investment is declining proportional to overall national growth. Educationists and social scientists insist that at least 20 per cent of the total budget should be

allocated to education sector. The UNESCO declaration states that the allocation for education should be at least 20 per cent of the national budget or 6 per cent of the gross domestic product. The National Budget of developed and developing countries put a target of increasing employment opportunities but Bangladesh National Budget 2014-15 doesn't have any such target. Human capital development is sine quo non for employment generation and the National Budget needs to make adequate budgetary provisions in this obeisance.

Conclusion

Bangladesh National Budget FY 2014-15 has been presented to the Parliament amidst great challenges the country is facing with boosting economic growth, providing employment to the millions of unemployed and under employed people, controlling inflation and on and on. Bangladesh is one of the most populous countries in this century. 43% of its population is still illiterate, 40% of the

populations are deprived of the electricity connection, interrupted electricity supply makes the lives of general people opprobrious and hapless. National Budget is prepared every year with huge amount but the Budget doesn't fulfill the yearning of the general people in the fields of education, electricity and human capital development. The country's stock market remains neglected in FY 2014-15 Budget. Some stimulus package should be in the National Budget and the proposal to introduce 3% to 5% capital gains tax on the individuals should be abolished considering the continuous unhealthy position of stock market. The inflation rate is very high and fiscal supports are extremely desiderated to control the existing inflation rate and abridge to optimum level.

The Author is the Group Financial Controller of a Private Group of Industries and a Fellow Chartered Accountant of ICAB



Why 'BLACK' should be 'WHITE'

Chowdhury Md. Rakibul Kamal ACA



I can remember, in 90's, watched a Hollywood movie- 'The Color of Money', where Paul Newman, Tom Cruise & Mary Elizabeth were walking into a crowded pool room, Paul says "Do you smell that"? Tom Cruise replies "Smoke"? Mary replies to that "No, Money". Is it so, can we smell 'money', can we see color of money? no, not actually. We, the general people can't smell or differentiate color of money. But Economy can't accept all sorts of 'money'; it excludes 'Black' money from total pot. How we can trace that? These 'cash' or 'kind' can't follow the fair route. This 'Black' money is earned through illegal activity and, as such, is not taxed. Who are the owners of these black money?? Is it necessary to provide the chance of converting black money to white every year?? If it is so then why these is the system of paying income tax every year??? Our politicians (relates to Financial policies) say "Politics is the highest art of compromise"; I agree with them. But in this case, Compromise with whom; any political parties, Public or any specific group? Every year this discussion comes into lead before submission of yearly Budget by our Finance ministry.

If the government gives such chances every year then what is the use of giving income tax? The person earning a handsome amount yearly usually cuts

about 25% of his earning as his income tax. Now onward he can make his money illegal and next year he will whiten his money by paying so called amount against 25%. Is it fair or unfair with the honest people, who all pays tax properly?

So what would u like to say about this?? Is it fair or unfair? Will it help to increase or decrease corruption from our country??

The economy of Bangladesh is like a Zebra. It is difficult to state of which about 200 thousand was on the tax roll and 300 thousand whether the black money operations occur in the background of a was evading tax. On the basis of the above analysis the Commission white money dominated system or the white money operations occur concluded that the amount of revenue lost each year was 80 to 100 in the background of a black money dominated system. The crore takas. In the absence of specific measure for estimating black magnitude of the black sector has grown to such an extent that it has money, we can only state the monetary value of black money become a powerful force to change the policies of a government. To transactions which are expressed as a percentage of GDP. With a huge have an idea about the effects and impacts of underground economy population of



“ SINCE THE BLACK MONEY HOLDERS BELIEVE THAT THE SCOPE TO LEGALISE MONEY WILL BE AVAILABLE EVERY YEAR IN ONE FORM OR THE OTHER AND THERE IS LITTLE RISK OF BEING CAUGHT, THEY PERSIST WITH THEIR ILLICIT FINANCIAL TRANSACTIONS. ”

about 130 million people hardly 1.3 million pay income tax. It is essential to have an estimate of black money in Bangladesh. Although income tax collection increases more or less at the rate of 10-20% each year the tax-GDP ratio at around 10% remains one of the lowest among the developing countries as against 40% or more case with the extent of black economies.

The scope for whitening black money is morally unacceptable & economic benefits remain questionable. The opportunity benefits only some particular sector(s). Only Tk. 38 crores was received as Tax against the total whitened amount of Tk. 1,305 crores during 2009 – 2013. Amnesty for black money last fiscal year failed to translate into a substantial increase

in revenues for the tax authority, thanks to money laundering opportunities and absence of any stringent punishment mechanism.

In fiscal 2012-13, some 344 people chose to whiten Tk 293 crore, which brought in a mere Tk 49.36 crore in taxes for the National Board of Revenue (NBR).

The government for the first time last year provided the opportunity to gain amnesty for undisclosed wealth by paying a 10 percent fine in addition to normal tax.

Only 273 individuals used the privilege: they legalised Tk 133 crore by paying taxes and fines amounting to Tk 33.36 crore.

Another scope to whiten undisclosed wealth came by way of investing in the stockmarket and paying a 10 percent tax on the amount.



Some 71 individuals took the opportunity, legalising around Tk 160 crore, which is way below the Tk 382 crore whitened in fiscal 2011-12.

“The black money holders tend to siphon off money abroad more than taking the government’s route,” Zahid Hussain, senior economist of World Bank.

He went on to cite the huge difference between the official exchange rate and the kerb market rate in recent times as sufficient proof of money laundering. The official rate of the taka against the dollar is Tk 77, but its rate in the kerb market is Tk 82-84.

“Huge amounts are being laundered abroad and hence the differing rates. There is anecdotal evidence that the money is being used to acquire properties in Canada, Thailand, Malaysia and Singapore.”

Lending weight to Hussain’s suggestion is the recent advertisement by a Dubai-based real estate company in local newspapers, which prompted the central bank to fire a round of

warning against property purchases abroad by circumventing foreign currency restrictions.

Furthermore, a number of international studies have identified that illicit outflow of significant sums occur every year from Bangladesh. On average, \$3.1 billion is siphoned out of Bangladesh, the highest among the least-developed countries, according to UNDP.

“Since the black money holders believe that the scope to legalise money will be available every year in one form or the other and there is little risk of being caught, they persist with their illicit financial transactions,” Hussain said. In fact, the scope to legalise undisclosed wealth has been provided every year since independence except during the immediate past caretaker government’s tenure.

Between fiscal 1971-72 and fiscal 12-13, some Tk 13,808 crore was whitened, with the NBR receiving taxes of Tk 1,456 crore. Fiscal 2007-08 saw the highest amount being legalised: Tk 9,683 crore.

Black money arises out of

transactions that are either expressly illegal, or legal but not reported in order to evade taxes. Since incomes on which due taxes have not been paid is illegal post fact, all black money is illegal according to the tax laws of the land. Such money must not be confused with the unreported incomes of the less fortunate section of the population who are exempted from reporting because their incomes fall below the subsistence threshold level as determined by the government.

Unreported incomes do not necessarily imply unrecorded incomes in the national accounts of Bangladesh. The Bangladesh Bureau of Statistics (BBS) imputes values to unreported economic activities to arrive at an estimate of the total unreported income. Virtually all incomes in the agricultural and the informal sector are unreported incomes, and are estimated by the Bureau of Statistics through appropriate methods of imputation. Thus much of the unreported incomes are actually recorded and hence the black economy, defined as above, does not measure the extent to which the GDP is underestimated. Indeed, whether legally exempted unreported income should be included in black economy is a moot point.

It is also not the case that black money is not recorded. Most of the black money is spent on legal transactions; it is invested in different assets such as real estate or spent in conspicuous consumption. Much of it should be picked up in the GDP estimated by 'the expenditure approach' i.e. adding up all final expenditures made in the economy.

Since a very large part of the income earned by the population is not reported, and income



reporting of the rest is admittedly of a poor quality, the BBS does not even attempt to measure the GDP of the nation by the income approach. Its estimates are based on the expenditure approach and the value addition approach. These methods should capture most of the final output produced in the economy. Hence, the extent of the black economy quoted by the Finance Minister would appear to be rather too large.

The opportunity given to the black money holders to legalize their black money through investment in the stock market is showing the expected result. The stock market general index has risen by more than 25 per cent in less than two months, and still rising. Another

bubble seems to be in the making. The Minister publicly complained of foul play, but his complaint lacked credibility.

A problem with highlighting of such an extravagant sway of the black economy from the highest level of the government is that it sends out wrong signals about the economy especially to foreign communities. If up to 82 per cent of the economy is black economy, then most of the monetary transactions in the economy could be construed as money laundering! Such a possibility could make foreign business enterprises unduly cautious when planning to invest in Bangladesh.

- The FY 2013-14 budget

Regimes	Total declared (Tk. In Crore)	Total Tax collected (Tk. In Crore)	Average Declared Amount (per year)
1975-1982	70	10	10
1982-1990	850	185	106.25
1991-1996	No Provision	No Provision	No Provision
1996-2001	1560	109	312
2001-2006	1000	100	200
2006-2008	9682	911	4841
2009-2013	1305	38	326.25
Total	14467	1353	438.39

Source: based on Media reporting

proposed extension of the scope for whitening undisclosed income for investment in the real-estate sector at a flat rate of 10%.

- Holders of undisclosed money could invest in this sector by paying Taxes between Tk. 750 to 5,000 & Tk. 1,000 to Tk. 7,000 depending on location & size.
- In case of plot/ land, buyers can purchase by paying 10% tax on total value. Tax will be 20% in case of more than one plot / land.

However, the provision on allowing undisclosed money in the Capital market has not been extended.

Our Finance Minister has admitted that the amount of 'black money' in the economy is rising, adding that a study will be done to assess its exact proportion. He said while talking to reporters after a pre-budget discussion with some of the country's top economists.

The minister said: "Black economy exists in the country and its size is growing. We'll launch a study on it in the second year of our government."

The results of the study might come in the third year of the government, he said.

In Bangladesh, 'black money' refers to funds generated by evading income and other taxes.

Referring to that study, he said 'black money' accounted for 40-80 percent of Bangladesh's economy.

The minister made this comment at a pre-budget consultation meeting organized by the National Board of Revenue and Federation of

Bangladesh Chambers of Commerce and Industries.

"The scope for whitening untaxed money will not remain in future. The scope will go for all," the minister said after the FBCCI president Kazi Akram Uddin Ahmad demanded for continuation of the legalizing the untaxed money in the 2014-15 budget.

The business leader proposed that the untaxed money could not be utilized in infrastructure development, expansion of vocational education, human resource development, agriculture and technology sector.

At a pre-budget meeting with the Economic Reporters Forum last week, Ghulam Hussain, chairman of the National Board of Revenue, spoke favorably of the provision to legalize undisclosed or black money, as it might arrest the rampant capital flight from the country to Malaysia, Dubai and Canada.

Between 2002 and 2011, \$16 billion of illicit capital left the country, according to a December 2013 study by Global Financial Integrity, a US-based non-profit organization focused on curtailing cross-border flow of illegal money.

"It appears that the amount of illicit financial outflow from Bangladesh is quite large, relative to the size of GDP," said Zahid Hussain, lead economist of World Bank's Dhaka office.

Barring a few exceptions, the

scope to legalize black money was present, in one form or the other, in every year's budget.

Between fiscal 1971-72 and fiscal 2012-13, some Tk 13,808 crore was whitened, with the NBR receiving taxes of Tk 1,455 crore during the period, which is just around 1 percent of this year's collection target.

In other words, the idea of extending amnesty to black money sounds promising in theory but underwhelms to no end in practice.

"I oppose it from all perspectives, in terms of social justice, economic justification and political culture," Debapriya Bhattacharya, distinguished fellow of the Centre for Policy Dialogue, said at a pre-budget meeting.

He said those who advocate for the provision to bring illegal wealth into the mainstream economy have no data to back them up.

"The reality is there is no evidence that big such liberal provisions brought big amount of investment."

Rather, it creates a culture of tax evasion, which, in turn, is an unjust punishment to honest tax payers, Bhattacharya added.

"Bangladesh's experience with black money whitening facility provides no confidence that it will help in stemming, let alone

alleviating, the illicit financial outflows," Hussain said.

He went on to cite the average amount of black money legalized and the illicit outflows in the last four years to further his point: on average, about \$70 million was whitened, whereas the illicit capital flight averaged about \$1.5 billion.

While a rather generous black money whitening facility was in place in 2010, the size of illicit financial outflows peaked at \$2.19 billion the same year, the WB economist said.

"This is not surprising since the facility has nearly become a permanent fixture of the fiscal incentive regime in Bangladesh."

The incentive to whiten black money is strongest when such opportunities are offered for a very limited period along with a credible threat of very large penalties if black money is detected after the facility expires, according to Hussain.

"Such has not been the case in Bangladesh."

The Author is an Associate member of ICAB & Consultant of a Multi-National Oil & Gas Company



Budget 2014-15 & Important Changes in Income Tax Law

Shah Md. Jubaer ACA



On 05 May 2014, finance minister Mr. AMA Muhit placed the national budget of Tk. 2.5 trillion for the fiscal year 2014-15 setting the country's economic growth target at 7.3 per cent for the year.

This article does not critically evaluate the budget, but tries to give an overview of

the budget 2014-15 as well as to represent the summary of (proposed) important changes made in rates and provisions of income tax law by Finance Act, 2014. For facilitating the easy understanding of the readers, the requirements of law of the prior period over the current changes have been presented.

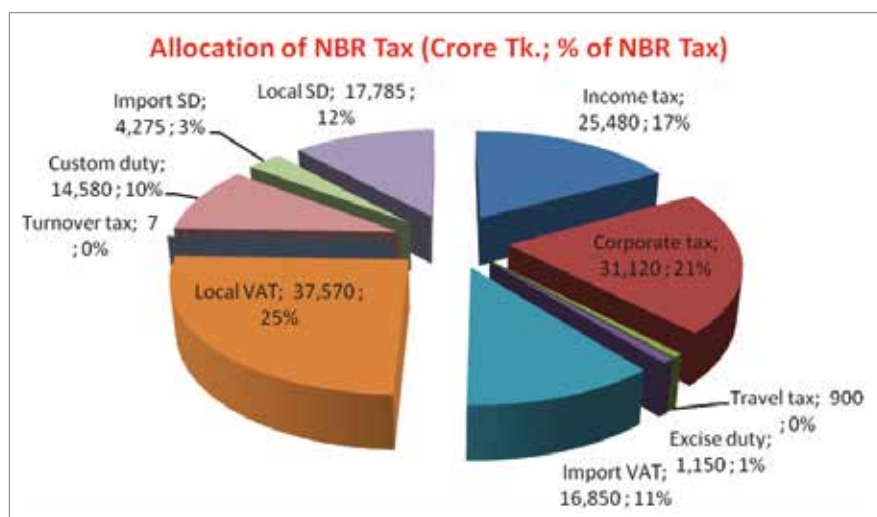
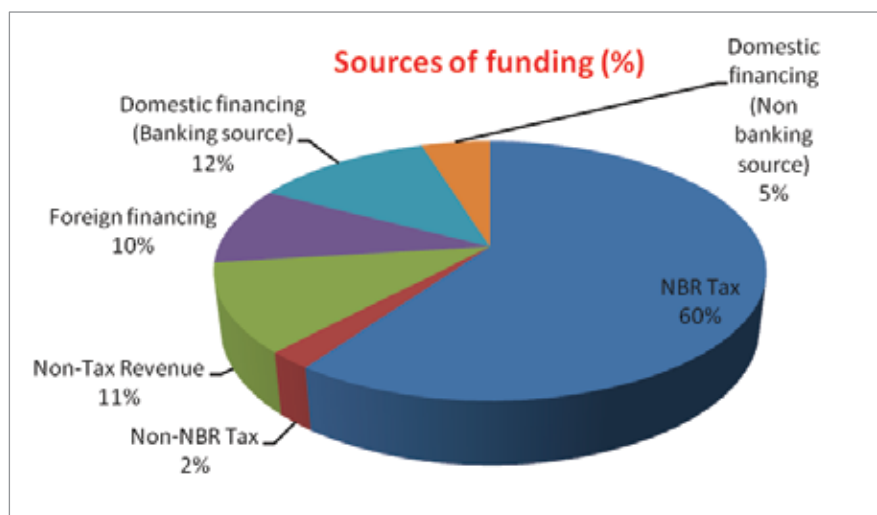
Overview of Budget 2014-15

Budget Structure

Sector	Budget 2014-15		Revised 2013-14		Budget 2013-14	
	Amount	% to GDP	Amount	% to GDP	Amount	% to GDP
Total Revenue Income	182,954	13.7%	156,671	13.3%	167,459	14.1%
(a) NBR Tax	149,720	11.2%	125,000	10.6%	136,090	11.4%
(b) Non-NBR Tax	5,572	0.4%	5,178	0.4%	5,129	0.4%
(c) Non-Tax Revenue	27,662	2.1%	26,493	2.2%	26,240	2.2%
Total Expenditure	250,506	18.7%	216,222	18.3%	222,491	18.7%
(a) Non-development Expenditure	128,231	9.6%	115,998	9.8%	113,471	9.5%
(bi) Development Expenditure (ADP)	80,315	6.0%	60,000	5.1%	65,870	5.5%
(bii) Development Expenditure (Other than ADP)	6,030	0.5%	5,145	0.4%	6,405	0.5%
(c) Other Expenditure	35,930	2.7%	35,079	3.0%	36,745	3.1%
Budget Deficit	-67,552	-5.0%	-59,551	-5.0%	-55,032	-4.6%
Financing						
(a) Foreign	24,275	1.8%	18,569	1.6%	21,068	1.8%
(bi) Domestic (Banking source)	31,221	2.3%	29,982	2.5%	25,993	2.2%
(bii) Domestic (Non banking source)	12,056	0.9%	11,000	0.9%	7,971	0.7%
GDP	1,339,500	-	1,181,000	-	1,188,800	-

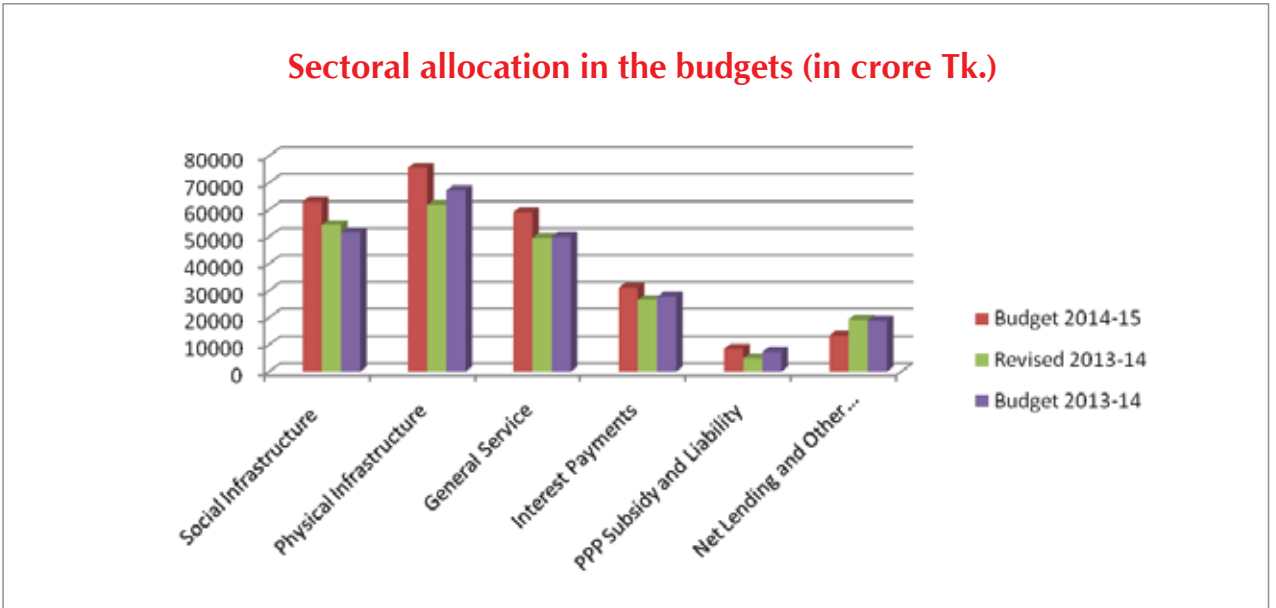
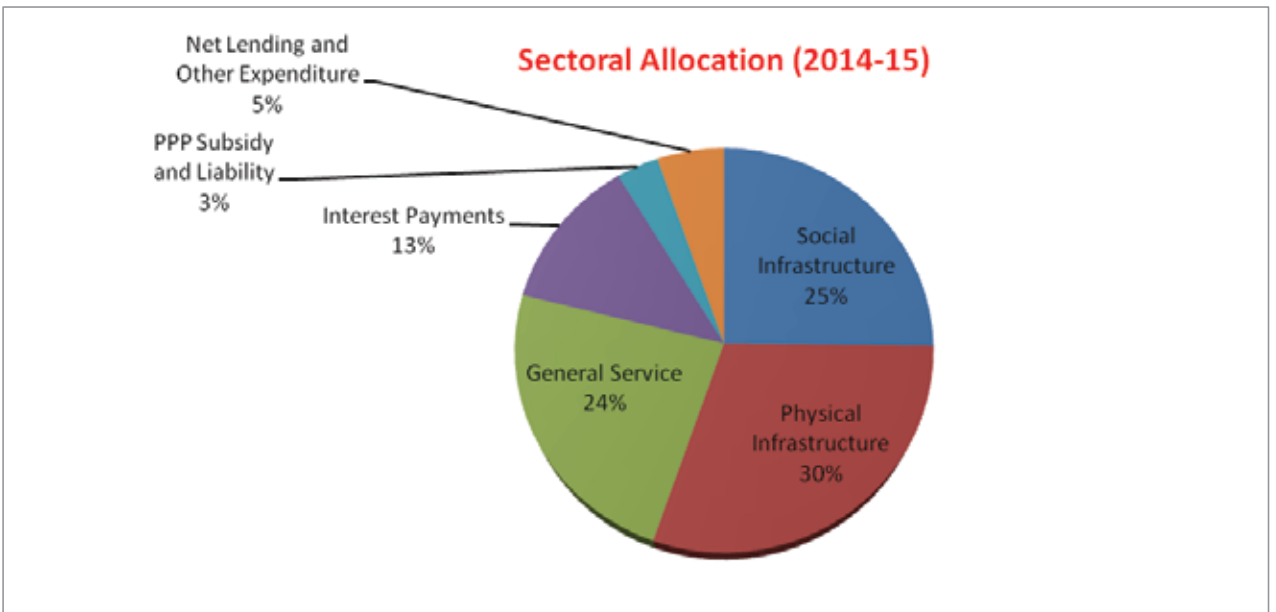
(Amount in Crore Tk.)

“ AFTER AMENDMENT OF SECTION 35(3), EVERY PUBLIC AND PRIVATE COMPANY SHALL HAVE TO FILE RETURN ALONG WITH ACCOUNTS COMPLIED WITH BANGLADESH FINANCIAL REPORTING STANDARDS (BFRS) CERTIFIED BY CHARTERED ACCOUNTANTS. PREVIOUSLY, REQUIREMENT WAS SUBMISSION OF AUDITED ACCOUNTS, BUT NO REQUIREMENT OF BFRS COMPLIED ACCOUNTS. ”



Sectoral allocation in the budget

Ministry/Division	(In Crore Tk.)		
	Budget 2014-15	Revised 2013-14	Budget 2013-14
Social Infrastructure (a)	63,036	54,329	51,555
Human Development	54,065	46,744	43,615
Food and Social Safety	8,971	7,585	7,940
Physical Infrastructure (b)	75,533	61,768	67,147
Agriculture and Rural Development	36,810	33,094	32,272
Power and Energy	11,540	9,902	11,351
Communication Infrastructure	23,136	14,226	19,260
Others Sector	4,047	4,546	4,264
General Service (c)	59,058	49,489	49,947
Public Order and Safety	12,557	12,027	10,537
Others	46,501	37,462	39,410
Interest Payments (d)	31,043	26,540	27,743
PPP Subsidy and Liability (e)	8,447	4,868	7,318
Net Lending and Other Exp. (f)	13,389	19,228	18,781
Total Budget (a + b + c + d + e + f)	250,506	216,222	222,491



(Proposed) important Changes Introduced in Income Tax Law By The Finance Act,2014

[The budget has not have finalized yet. It is as sumed that all proposed amendments will come to effect.]

Tax rates of individual assesses

Tax exempted income, income tax slabs and tax rates for are stated below:

Types of Tax payer	Threshold of Taxable Income	
	Assessment year 2014-15	Assessment year 2013-14
General Tax Payer	Tk. 2,20,000	Tk. 2,20,000
Women tax payer and tax payers of 65 years of age and above	Tk. 2,75,000	Tk. 2,50,000
Physically handicapped	Tk. 3,50,000	Tk. 3,00,000
War-wounded gazetted freedom fighters	Tk. 4,00,000	Tk. 2,20,000

Assessment year 2014-15			Assessment year 2013-14		
Total Income	Taka	Tax rate	Total Income	Taka	Tax rate
On first	2,20,000	Nil	On first	2,20,000	Nil
On next	3,00,000	10%	On next	3,00,000	10%
On next	4,00,000	15%	On next	4,00,000	15%
On next	5,00,000	20%	On next	3,00,000	20%
On next	30,00,000	25%	On the balance		25%
On the balance		30%			

Minimum tax liability for the individual assessee has been shown in the table below:

Assessee residing in	Assessment year 2014-15	Assessment year 2013-14
City corporation	Tk.3,000	Tk.3,000
Paurashabha at district town	Tk.2,000	Tk.2,000
Areas other than the mentioned above	Tk.1,000	Tk.1,000

Provided that if an assessee is an owner of a small & cottage industry in less or least developed area, engaged in production and earned income from that industry, then he/she will get rebate on the income from that industry in the following rates:

Particulars	Rate of rebate
If production of the year is more than 15% to 25% compared to last year	5% on the income tax of that income
If production of the year is more than 25% compared to last year	10% on the income tax of that income

Tax rate for non-resident individual (except Bangladeshi non-resident)

	Assessment year 2014-15	Assessment year 2013-14
Tax rate	30%	25%

Surcharge on net asset of an individual assessee

Assessment year 2014-15		Assessment year 2013-14	
Net Assets	Surcharge Rate	Net Assets	Surcharge Rate
Upto Tk. 2 crore	Nil	Upto Tk. 2 crore	Nil
More than Tk. 2 crore but not more than Tk. 10 crore	10%	More than Tk. 2 crore but not more than Tk. 10 crore	10%
More than Tk. 10 crore but not more than Tk. 20 crore	15%	More than Tk. 10 crore	15%
More than Tk. 20 crore but not more than Tk. 30 crore	20%		
More than Tk. 30 crore	25%		

Corporate tax rates

Tax rates of companies in some cases have been changed (proposed). A brief picture is given below:

Corporate category	Tax rate	
	New	Previous
Publicly traded companies (except banks, insurance, financial institutions and mobile companies)	27.5%	27.5%
Non publicly traded companies (except banks, insurance, financial institutions and mobile companies)	35.0%	37.5%
Banks, insurance, financial institutions (except merchant banks)	42.5%	42.5%
Merchant banks	37.5%	37.5%
Cigarette manufacturing companies (not publically traded)	45.0%	45.0%
Cigarette manufacturing companies (publically traded)	40.0%	40.0%
Mobile companies (not publically traded)	45.0%	45.0%
Mobile companies (publically traded)	40.0%	40.0%



Like the previous year, if publically traded company declares dividend of less than 10% or it does not pay dividend within the time specified by SEC, it would have to pay tax at a rate applicable for non-publically traded company.

On the other hand, if non-publically traded companies distribute 20% of its share through IPO, it shall get rebate @10% on applicable tax rate.

Introduction of tax on profit/gain from transfer of rural agricultural land (Section 2(15))

After exclusion of section 2(15)(c), rural agricultural land will be treated as capital asset. As a result, assessee will have to pay tax on profit/gain from transfer of rural agricultural land.



Changes of minimum tax rate from 0.50% to 0.30% on gross receipts (Section 16CCC)

Minimum tax rate has been reduced from 0.50% to 0.30%. As a result, every firm having gross receipts of more than Tk. 50 lac or every company shall, irrespective of its profits or loss in an assessment year for any reason whatsoever, including the sustaining of a loss, the setting off of a loss of earlier year or years or the claiming of allowances or deductions (including depreciation) will be liable to pay minimum tax of 0.30% instead of 0.50% on the gross receipts from all sources of income for that year.

Deduction from total income of subsequent payment of loan

included as income in earlier year for non-payment (Section 19(26))

If any company receives any loan from any other person otherwise than by a cross cheque or by bank transfer, the amount so received shall be deemed to be the income of such assessee.

After inclusion of this new proviso, if the loan or part thereof is repaid in a subsequent income year, the amount so repaid shall be deducted in computing the income for that subsequent year.

Interest to be paid to bank or financial institution for getting allowable deduction from income from house property (Section 25(1)(g))

Previously nothing was mentioned

about the sources of loan for getting interest of borrowed fund as allowable deduction for acquisition, construction, repair, renewal or reconstruction of house property. After inclusion of words "from bank or financial institution", loan to be taken only from bank or financial institution for acquisition, construction, repair, renewal or reconstruction of house property for getting interest as allowable deduction from income from house property.

Increase of limit of perquisite from Tk. 2.5 lakh to Tk. 3.5 lakh (Section 30(e))

Previously, allowable deduction limit of perquisites for income from business or profession was Tk. 2.5 lakh. Now this limit has increased to Tk. 3.5 lakh.

Replacement of words in section 30

Clause	Clause related with	New word/ words	Old word/ words
Clause (g)	Allowable limit for Head office expense	10% of Net profit disclosed in the statement of accounts	10% of Profit
Clause (h)	Allowable limit for royalty, technical services fee, technical knowhow fee or technical assistance fee	8% of Net profit disclosed in the statement of accounts	8% of Profit
Clause (j)	Allowable limit for incentive bonus	10% of Net profit disclosed in the statement of accounts	10% of Disclosed net profit

Introduction of new clause for payment of rent by a crossed cheque or bank transfer (Section 30(n))

Clause (n) has been newly introduced in section 30. After introduction of this clause, assessee has to pay rent of any property, whether used for commercial or residential purposes, by crossed cheque or bank transfer for getting the rent as allowable deduction from income from business or profession.

Four types of deemed incomes included as income from other sources (Section 33(d))

After amendment of section 33 (d), deemed incomes of subsection 21B, 26, 27 & 28 of section 19, will be treated as income from other sources.

Full replacement of subsection 2 of 'Method of accounting' (Section 35(2))

Full subsection 2 has been replaced by "Notwithstanding anything contained in sub-section (1), the Board may, in case of any business or profession, or class of business or profession, or any other source of income, or any class of persons or class of income, by a general or special order, direct that the accounts and other

documents shall be maintained in such manner and form, and the mode of payments of commercial transactions recorded in such manner and form, as may be prescribed or as may be specified in such direction; and thereupon the income of the assessee shall be computed on the basis of the accounts maintained, payments made and transactions recorded accordingly."

Company shall have to file return along with BFRS complied audited accounts (Section 35(3))

After amendment of Section 35(3), every public and private company shall have to file return along with accounts complied with Bangladesh Financial Reporting Standards (BFRS) certified by chartered accountants. Previously, requirement was submission of audited accounts, but no requirement of BFRS complied accounts. Actually, listed companies are preparing BFRS complied accounts to comply the Bangladesh Security Exchanges (BSEC) law. As a result, listed companies are submitting BFRS complied accounts. But, there was no provision of any law in Bangladesh for non-listed companies for the preparation of BFRS compliance audited accounts.

Extension of tax exemption period for newly established undertakings (Section 46B)

The period of exemption for newly established undertakings has been extended from June 2015 to June 2019.

The exemption period for newly established undertakings in Rajshahi, Khulna, Sylhet, Rangpur excluding City Corporation area and Rangamati, Bandarban and Khagrachari districts, for a period of 10 years instead of 7 years beginning with the month of commencement of commercial production of the said undertaking:

Provided that any industry engaged in the production of item as referred to in clause (e) or clause (l) of sub section (2) shall be entitled to exemption from tax under the provision of this section even if it is set up in the districts of Dhaka, Gazipur, Narayanganj or Chittagong.

Automatic Hybrid Hoffmann Kiln technology brick included in exemption of tax (Section 46B (2) (gg))

Brick made of automatic Hybrid Hoffmann Kiln technology has been included in exemption of tax for a period 5 to 10 years based on the location of the brick field.

New exemption		Previous exemption	
Period of Exemption	Exemption % of income	Period of Exemption	Exemption % of income
1 st & 2 nd year	100%	1 st & 2 nd year	100%
3 rd year	70%	3 rd year	70%
4 th year	55%	4 th year	55%
5 th year	40%	5 th year	40%
6 th year	25%	6 th year	25%
7 th to 10 th year	20%	7 th year	10%

Increase of tax exemption period for newly established physical infrastructure facility (Section 46C)

The period of exemption for newly established physical infrastructure facility has been extended from June 2015 to June 2019.

Six new clauses added in 'Income subject to deduction at source' (Section 49)

Following 6 new clauses have been added for deduction at source:

(zza) income derived from insurance policy;

(zzb) deduction of tax from local letter of credit (L/C);

(zzc) income derived from any fees, revenue sharing, etc. from cellular mobile phone operator;

(zzd) income from transfer of share of any stock exchange;

(zze) income from transfer of share of company listed in any stock exchange;

(zzf) income derived from lease of property.

Changes of tax rate of collection or deduction at source

Section	Title	New rate		Old rate	
U/S 51	Interest on securities	5%		10%	
U/S 52N	Collection of tax on account of rental power	6%		4%	
U/S 52F	collection of tax from brick manufacturer	Brick field	Rate (Tk.)	Brick field	Rate (Tk.)
		1.0 section	45,000	1.0 section	30,000
		1.5 section	70,000	2.0 section	45,000
		2.0 section	90,000	3.0 section	60,000
		Automatic machine	150,000		
U/S 53DDD	Deduction of tax at source from export cash subsidy	3%		5%	
U/S 53E (2)	Collection of tax from distributor	3%		5%	
U/S 54	Deduction of tax from dividends	10% where the person receiving such dividend furnishes his twelve-digit Taxpayer's Identification Number (TIN) to the payer or		10%	
		15% where the person receiving such dividend fails to furnish his twelve-digit Taxpayer's Identification Number (TIN) to the payer			

TIN has been replaced with twelve-digit TIN

The words 'Taxpayer's Identification Number (TIN)' have been replaced with 'Twelve-digit Taxpayer's Identification Number (TIN)' in the following sections:

Section Number	Section Title
U/S 52A	Deduction at source from fees for professional or technical services
U/S 53F	Deduction at source from interest on saving deposits and fixed deposits, etc.
U/S 184 AA	Twelve-digit tax-payer's identification number (TIN) in certain documents, etc.
U/S 184B	Tax-payer's identification number
U/s 184C	Displaying twelve-digit taxpayer's identification number

Inclusion of actuarial service as professional service (Section 52A)

Actuarial service has been included in explanation of professional service. So, tax to be deducted from the actuarial service bill @10% for having twelve-digit TIN, otherwise @15%.

Introduction of new proviso of TDS from interest on saving certificate (Section 52D)

No tax shall be deducted from interest on saving certificate where the cumulative investment at the end of the income year in the pensioners' savings certificate or wage earners development bond does not exceed 05 lakh taka.

Newly introduced section for 'Collection of tax from travel agent' @ 3% (Section 52JJ)

Any person responsible for paying to a resident, any sum by way of commission or discount or incentive bonus or any other benefits convertible into money, called by whatever name, for selling tickets of an airline, or for carrying cargo by air, shall deduct or collect advance tax at the rate of 3% at the time of paying such commission or incentive bonus or any other benefits or allowing discount.

Introduction of collection of tax from manufacturer of mineral or

bottled water @3% (Section 52S)

In last year, collection of tax @3% from manufacturer of soft drinks was introduced. In this year, manufacturer of mineral water or bottled water has also been added with soft drink manufacturer for collection of tax @3%.

Introduction for new section for 'Deduction of tax from any payment in excess of premium paid on life insurance policy' @ 5% (Section 52T)

Any person responsible for paying to a resident, any sum in excess of premium paid for any life insurance policy maintained with any life insurance company, shall deduct, at the time of payment of such excess amount to the policy holder, income tax at the rate of 5% on such sum:

Provided that no deduction of tax shall be made in case of death of such policy holder.

Deletion of deduction for L/C from Section 52 & introduction of new section for 'Deduction from payment on account of local letter of credit' @ 3% (Section 52U)

The bank or financial institution, through which any local letter of credit or any financing agreement, called by whatever name, is made between two or more persons within the country for purchasing

or procuring of any goods and proceeds of such goods are paid, shall deduct tax at the rate of 3%, on the total proceeds exceeding 05 lakh taka, at the time of paying or crediting such proceeds to the account of the person or persons providing such goods:

Provided that no tax shall be deducted under this section from the payment related to local letter of credit (L/C) and any other financing agreement in respect of purchase or procurement of rice, wheat, potato, onion, garlic, peas, chickpeas, lentils, ginger, turmeric, dried chillis, pulses, maize, coarse flour, flour, salt, edible oil, sugar, black pepper, cinnamon, cardamom, clove, date, cassia leaf and all kinds of fruits.

Introduction for new section for 'Deduction from payment by cellular mobile phone Operator' @ 10% (Section 52V)

The Principal Officer of a cellular mobile phone operator company responsible for making any payment, on account of any revenue sharing or any license fees or any other fees or charges, called by whatever name, to the regulatory authority, shall deduct tax at the rate of 10% of such payment at the time of credit to the payee or at the time of payment thereof, whichever is earlier.

Hospital, clinic and diagnosis center has been treated as tax deductible authority for deduction of tax from house rent (Section 53A)

Previously, Government or any authority, corporation or body, company, banking company, co-operative bank, non-Governmental organisation run or supported by any foreign donation or assistance, university, medical college, dental college or engineering college, college and school were treated as tax deductible authority for house rent. Now hospital, clinic and diagnosis center are also tax deductible authority for house rent & they shall also deduct tax @ 5% at the time of payment of house rent.

The section of 'Collection of tax on transfer, etc. of property' is fully replaced (Section 53H)

The section has been fully replaced by "(1) Any registering officer responsible for registering any document of a person under the provisions of clause (b), (c) or (e) of sub-section (1) of section 17 of the Registration Act, 1908 (XVI of 1908) shall not register any document unless tax is paid at such rate as may be prescribed in relation to the property to which the document relates and on which stamp-duty is chargeable under Stamp Act, 1899 (II of 1899) by the person whose right, title or interest is sought to be transferred,

assigned, limited or extinguished thereby, at the time of registration of such document:

Provided that the rate of tax shall not exceed taka ten lakh and eighty thousand per katha (1.65 decimal) for land, taka ninety per square feet for any structure, building, flat, apartment or floor space on the land, if any, or four per cent of the deed value, whichever is higher.

(2) Nothing in this section shall apply to a document relating to:



- (a) sale by a bank or any financial institution as a mortgagee empowered to sell;
- (b) mortgage of any property to any bank or any financial institution of any property against any loan;
- (c) mortgage of any property to any bank or any financial institution.

Explanation: For the purpose of this sub-section, "financial institution" shall mean the Bangladesh House Building Finance Corporation or the Bangladesh Development Bank Ltd."

Introduction of new section for 'Collection of tax from lease of property' @ 4% (Section 53HH)

Any registering officer responsible for registering under the Registration Act, 1908 (XVI of 1908) any document in relation to any lease of immovable property for not less than ten years from any authority formed or established under any law shall not register such document unless tax is paid at a rate of 4% by the lessor on the lease amount of such property.

Explanation: For the purpose of this section, "any authority" shall mean Rajdhani Unnayan Kartripakkha (RAJUK), Chittagong Development Authority (CDA), Rajshahi Development Authority (RDA), Khulna Development Authority (KDA) or National Housing Authority.

Introduction of TDS from advertising bill of web sites @ 3% (Section 53K)

Advertising in web sites has been included in section 53K. As a result, government or any authority, corporation or body, or any company or any banking company or any insurance company or any co-operative bank or any NGO registered with NGO Affairs Bureau or any university or medical college or dental college or engineering college responsible for making any payment to websites on account of advertisement shall deduct tax @

3% of such payment like TDS from advertisement bill of newspaper or magazine or private television channel.

Introduction of new section for ‘Collection of tax from transfer of share of shareholder of Stock Exchanges’ @ 15% (Section 53N)

The Principal Officer of a stock exchange shall deduct tax at the rate of 15% on any profits and gains arising from the transfer of share of a shareholder of stock exchange established under “এক্সচেঞ্জস ডিমিউচুয়ালাইজেশন আইন, ২০১৩, (২০১৩ সনের ১৫ নং আইন)” [Exchanges Demutualisation Act, 2013 (Act No. 15 of 2013)] at the time of transfer or declaration of transfer or according consent to transfer of such share, whichever is earlier.

For the purpose of the computation of profits and gains of share, the cost of acquisition of such share shall be the cost of acquisition incurred before “এক্সচেঞ্জস ডিমিউচুয়ালাইজেশন আইন, ২০১৩, (২০১৩ সনের ১৫ নং আইন)” [Exchanges Demutualisation Act, 2013 (Act No. 15 of 2013)] came into force.

Introduction of new section for ‘Deduction of tax from gains of securities traded in the Stock Exchanges’ (Section 53O)

(i) The Principal Officer of a company holding Trading Right Entitlement Certificate (TREC) under “এক্সচেঞ্জস ডিমিউচুয়ালাইজেশন আইন, ২০১৩, (২০১৩ সনের ১৫ নং আইন)” of any stock exchange dealing in shares or securities listed with such stock exchange or a bank or merchant bank or financial institution maintaining account of any investor of Shares or



securities shall deduct tax at the rate of ten percent of the realized gains derived by any company as defined in clause (20) of section 2 of this ordinaries or firm before closing of a financial year.

(ii) For the purpose of calculation of the realised gain of a share or security, proportionate average cost of such share or security including all commissions, fees or interest of any loan or advance paid or charged in relation to the transfer of share or security shall be deducted from the sale value of such shares or securities.

Amendment of ‘payment of tax on the basis of return’ (Section 74)

Amendment has been made in section 74(1) to clarify the amount of payment at the time of filing

return. Assessee shall pay on the basis of return or minimum tax, whichever is higher, on or before the date on which he files the return.

Amendment in the section of ‘Return of income’ (Section 75)

Amendment has been made in the section where it mentioned who has to submit return. After this amendment, following:

Persons who are no more required to submit return.

(i) resides within the limits of a city corporation or a paurashava or a divisional headquarters or district headquarters and who at any time during the relevant income year owns a building which consists of more than one storey and the plinth area of which exceeds one

thousand six hundred square feet;

- (ii) resides within the limits of a city corporation or a paurashava or a divisional headquarters or district headquarters and who at any time during the relevant income year and subscribes a telephone and
- (iii) has a tax payer's identification number in accordance with the provision of section 184A.

New proviso for the requirement of twelve-digit TIN added in the section of 'Assessment on correct return' (Section 82)

Proviso (d) has been included in section 82. Due to inclusion of this new proviso, twelve-digit TIN need to be mentioned in the return to be treated as correct & complete.

Amendment in the section of 'Universal self assessment' (Section 82BB)

Amendment has been made in subsection 2 of 82BB; requirement of twelve-digit TIN has been added for being a return to be complete.

A proviso has also been added for specifying the conditions for non-selection in audit.

A return of income shall not be selected for audit where such return shows at least 20% higher income than the income assessed or shown in the return of the immediate preceding assessment year and such return:

- (a) is accompanied by corroborative evidences in support of income exempted from tax;
- (b) is accompanied by a copy of bank statement or account

statement, as the case may be, in support of any sum or aggregate of sums of loan exceeding taka five lakh taken from any person during the income year;

- (c) does not show receipt of gift during the year;
- (d) does not show any income chargeable to tax at rate reduced under section 44; or
- (e) does not show or result any refund.

Amendment in final discharge in tax liability (Section 82C)

Letter of credit (L/C) has been deleted from clause (a) of subsection 2.

Three new sub-sections have been added in subsection 2:

(eee) the amount received as interest from pensioners' savings certificate or wage earners development bond for which tax has been deducted under section 52D;

(ss) income derived from transfer of share of Stock Exchange on which tax is deducted under section 53N and

(sss) income derived from transfer of share or securities traded in the stock exchange for which tax is deducted under section 53O.

Old proviso has been fully replaced with "Provided that provisions of sub-section (1) shall not be applicable in the case of clause (a) of this sub-section with respect to:

- (a) a contractor of an oil company or a sub-contractor to the contractor of an oil company as may be prescribed;

- (b) oil marketing companies and its dealer or agent excluding petrol pump station;
- (c) any company engaged in oil refinery;
- (d) any company engaged in gas transmission."

Introduction of new section for 'Statement of international transactions to be submitted' (Section 107EE)

Every person who has entered into an international transaction shall furnish, along with the return of income, a statement of international transactions in the form and manner as may be prescribed.

Full replacement of section for 'Penalty for not maintaining accounts in the prescribed manner' (Section 123)

Old section is replaced by "where any person, not having income from house property, has, without reasonable cause, failed to comply with the provisions of any order or rule made in pursuance of, or for the purposes of section 35(2), the Deputy Commissioner of Taxes, may impose upon him a penalty at the rate of a sum not exceeding:

- (a) one and a half times the amount of tax payable by him;
- (b) one hundred Taka where the total income of such person does not exceed the maximum amount on which tax is not chargeable.

Where any person, having income from house property, has, without reasonable cause, failed to comply with the provisions of any order or rule made in pursuance of, or for the purposes of section 35(2), the Deputy Commissioner of Taxes, shall impose upon him a penalty of



fifty percent of taxes payable on house property income or five thousand taka, whichever is higher.”

Increase of ‘Penalty for concealment of income’ from 10% to 15% (Section 128)

Penalty for concealed income and undervaluation of immovable property has been increased from 10% to 15% on avoided tax.

Additional penalty for later detection for each year has also been increased from 10% to 15%.

Introduction of new section of ‘Penalty for incorrect or false audit report by chartered accountant 50 thousand to 02 lakh (Section 129A)

Where, in the course of any proceeding under Income Tax Ordinance, 1984, the Deputy Commissioner of Taxes, the Appellate Joint Commissioner, the Commissioner of Taxes (Appeals) or the Appellate Tribunal is satisfied beyond reasonable doubt that the audit report:

- (a) is not certified by a chartered accountant to the effect that the accounts are maintained according to the Bangladesh Accounting Standard (BAS) and reported in accordance with the Bangladesh Financial Reporting Standard (BFRS), or
- (b) is false or incorrect, he shall impose upon such chartered accountant as the case may be, a penalty of a sum not less than 50 thousand taka but not more than 02 lakh taka.

Inclusion of new clause 3(s) in the section of Statements, Returns etc to be confidential (Section 163)

The particulars of any assessee mentioned in the certificate issued under section 184B to any person or authority mentioned in sub-section (1) of section 184A for the purpose of verifying the authenticity of the twelve-digit Taxpayer’s Identification Number (TIN).

Full replacement of ‘Requirement of certificate or acknowledgment receipt containing twelve-digit Taxpayer’s Identification Number

of return of income in certain cases’ (Section 184A)

- (i) Notwithstanding anything contained in Income tax Ordinance, 1984, a person shall be required to submit an acknowledgement receipt containing twelve-digit Taxpayer’s Identification Number of the return of income filed for the immediate preceding assessment year or a certificate from the concerned Deputy Commissioner of Taxes or a computer generated certificate communicated by a computer system as may be authorised by the Board in this behalf or, in case of an old assessee, a certificate by the Deputy Commissioner of Taxes containing twelve-digit Taxpayer’s Identification Number and assessment completion information the concerned authority, by any person at the time of:
 - (a) opening a letter of credit for the purpose of import;
 - (aa) submitting an application for the purpose of obtaining an

- import registration certificate;
- (b) renewal of trade licence in the area of a city corporation or of a Paurashava ;
- (c) submitting tender documents for the purpose of supply of goods, execution of a contract or for rendering services;
- (d) submitting an application for membership of a club registered under ঠKvঔvbх AvBb, 1994 (1994 mঠbi 18 bs AvBb);
- (e) issuance or renewal of license or enlistment of a surveyor of general insurance;
- (f) registration for purchase of land, building or an apartment situated within any city corporation or any paurasabha of a district headquarter, deed value of which exceeds one lakh taka;
- (ff) provisions of clause (f) shall not apply in case of registration for purchase of land, building or an apartment situated within any city corporation, by a non resident Bangladeshi;
- (g) registration, change of ownership or renewal of fitness of a car, jeep or a microbus;
- (h) sanction of loan exceeding five lakh taka to a person by a commercial bank or a leasing company;
- (i) issue of credit card;
- (j) issue of practicing license to a doctor, a chartered accountant, a cost and management accountant, a lawyer or an income tax practitioner;
- (k) giving ISD connection to any kind of telephone;
- (l) being director of a company or sponsor shareholder of a company;
- (m) submission of application for a license as a Nikah Registrar under the Muslim Marriages and Divorces (Registration) Act. 1974 (LII of 1974):
Provided that a person who has already obtained the license of a Nikah Registrar shall be required to obtain such certificate within three months from the date of commencement of this provision;
- (n) applying for or renewal of membership of any trade body;
- (o) submitting a plan for construction of building for the purpose of obtaining approval from Rajdhani Unnyan Kartipakkha (Rajuk), Chittagong Development Authority (CDA), Khulna Development Authority (KDA) and Rajshahi Development Authority (RDA);
- (p) issuance of drug license ;
- (q) applying for connection of gas for commercial purpose in a city corporation, paurashava or cantonment board;
- (r) applying for connection of electricity for commercial purpose in a city corporation, paurashava or cantonment board;
- (s) registration, change of ownership or renewal of fitness of a bus, truck, prime mover, lorry etc., plying for hire ;
- (t) issuance or renewal of survey certificate of a water vessel including launch, steamer, fishing trawler, cargo, coaster and dump-burge etc., plying for hire;
- (u) registration or renewal of certificate as agent of an insurance company;
- (v) permission or renewal of permission for the manufacture of bricks by Deputy Commissioner's office in a district or Directorate of Environment, as the case may be;
- (w) submitting nomination form for any election in upazilla, paurasabha, city corporation or Jatiya Sangsad.
- (ii) Having received the certificate or acknowledgement receipt of return of income as mentioned above, the concerned authority shall verify the authenticity of the twelve-digit Taxpayer's Identification Number (TIN) as may be prescribed by the Board.

Amendment in the section of 'Tax-payer's Identification Number' (Section 184B)

After amendment of this section, every existing assessee having ten-digit Tax-payer's Identification Number or a Temporary Registration Number (TRN) shall have to obtain twelve-digit Tax-payer's Identification Number (TIN) before the last date of submission of return of income as required under section 75.

Following Amendments Have Been Made in 3rd Schedule (Computation Of Depreciation Allowance And Amortization)

I. Inclusion of new class of assets in normal depreciation allowance (Paragraph 3)

Serial No.	Class of assets	Depreciation Rate
2A	Office equipment	10.0%
2 (e) (iv)	Pavement runway, taxiway	2.5%
2 (e) (v)	Apron, tarmac	2.5%
2 (e) (vi)	Boarding bridge	10.0%
2 (e) (vii)	Communication, Navigation aid and other equipments	5.0%

II. Introduction of new paragraph of accelerated depreciation allowance on machinery and Plant (Paragraph 7B)

- (1) In the case of any machinery or plant (other than office appliances and road transport vehicles) which, not having

been previously used in Bangladesh, has been or is used in an industrial undertaking as referred to in section 46B of the Ordinance and set up in Bangladesh between the first day of July, 2014 and the thirtieth day of June, 2019 (both days

inclusive), an amount by way of accelerated depreciation allowance shall, subject to the conditions set out in subparagraph (2), be allowed and computed as follows, namely :-

Year of commercial production	Depreciation rate
1 st year	50% of actual cost of plant and machinery
2 nd year	30% of actual cost of plant and machinery
3 rd year	20% of actual cost of plant and machinery

- (2) The industrial undertaking referred to in sub-paragraph (1) shall fulfill the following conditions, namely:-

- (a) that the industrial undertaking is owned and managed by a Bangladeshi company, or a body corporate formed in pursuance of an Act of Parliament, having its registered office in Bangladesh;

- (b) that it belongs to the industrial undertaking as specified in subsection (2) of section 46B;

- (c) that the particulars required for the purpose of entitlement to, or claiming accelerated depreciation allowance under this paragraph have been furnished; and

- (d) that the application in the prescribed form for accelerated depreciation allowance under this paragraph, as verified in

the prescribed manner, is made to the Board within six months from the end of the month of commencement of commercial production; and the application is accompanied by a declaration in writing that the undertaking has not been approved for, and that no application in respect of the undertaking has been made or shall be made to the Board for approval of, exemption from payment of tax under section 46B or 46C of this Ordinance for any period.

- (3) The machinery or plant on which accelerated depreciation has been allowed under this paragraph shall not be entitled to any other depreciation allowance under Income tax Ordinance, 1984.

III. Amendment made in amortization of license fees (Paragraph 7B)

GSM license fees, license acquisition fees or license renewal fees have also been included with spectrum assignment fees. As a result, if any mobile phone operator paid any spectrum assignment fees, GSM license fees, license acquisition fees or license renewal fees to any government authority for the purpose of obtaining a permission for two or more years to run a business the assessee shall be allowed a deduction of an amount proportionate to such years and such deduction shall continue till the last year of the period for which the license was granted if the fees paid before or after (instead of on or after) 01 July 2012.

Provided that the amortization fees shall be allowed from assessment year 2013-2014.

Amendments In 6th schedule Part A(Exclusion From Total Income)

I. Following amendments have been made

Para #	Income related with	New exemption	Old exemption
1A	Income of NGO	Any service charge	Any income
2	Income of religious or charitable institution	Any voluntary contributions received by a religious or charitable institution	Any income of a religious or charitable institution derived from voluntary contributions
11A	Dividend income	Tk. 20 thousand	Tk. 10 thousand
29	Agricultural income for individual	Tk. 2 lakh	Tk. 50 thousand
33	Income from the business of software development or Nationwide Telecommunication Transmission Network (NTTN) and Information Technology Enabled Services (IELTS)	Exemption period upto 30 June 2019	Exemption period upto 30 June 2015
32A	Interest from pensioners' saving certificate or wage earners bond	Tk. 05 lakh	Nil
48	income earned in abroad by individual Bangladeshi	Any income earned in abroad and brought into Bangladesh as per existing laws applicable in respect of foreign remittance	Nil
49	Donation to any girls' school or girls' college approved by the Ministry of Education	Amount donated by cross cheque	Nil
50	Donation to any Technical and Vocational Training Institute approved by the Ministry of Education	Amount donated by cross cheque	Nil
51	Donation to any national level institution engaged in the Research & Development (R&D) of agriculture, science, technology and industrial development	Amount donated by cross cheque	Nil

The Author is an Associate Member of ICAB and Deputy Director (Accounts), ASA International, N. V.

Implementation; Still by Concern for 2014-15 Budget

Raihan M Chowdhury



Most of the chambers and trade bodies including the Metropolitan Chamber of Commerce and Industry, Dhaka (MCCI) feel that the proposed budget worth Tk 2,50,506 crore for 2014-2015 has correctly identified the challenges facing the country's economy.

"This budget, framed in the backdrop of recovering the global economic recession, reducing of tax incidence of non-listed companies and delivery of wide range of social safety measures aims at improving the economic condition of teeming millions," according to the MCCI.

The significant allocation made for Padma Bridge, Metro Rail, i.e., transport, human resources development including education, rural economy, healthcare, local government, women employment, social safety net, power & energy, are commendable.

The chambers/trade bodies strongly feel that the increased investment in physical and social infrastructures will help improve the quality of investment climate, people's lives, develop human resources and create better employment opportunities.

The widening and deepening of social safety net programmes are fully justified.

The Finance Minister has given more attention to special economic zone, education and energy & power, transport and vocational education.

The business leaders were happy to note that communication and transport sector has been given the largest share in the budget, i.e., an allocation of Tk. 244.64 billion out of total outlay. An amount of Tk.81 billion has been earmarked for the Padma Bridge projects.

Allocation has been made to the education, i.e. Tk. 327.80 billion. Most of the leading chambers in the pre-budget proposals strongly recommended that in utilizing the allocation higher priority should be given to primary and secondary education and skills development.

Power and energy sector has been given allocation of Tk. 115.40 billion and the infrastructure planning, water supply and housing has been given allocation of Tk. 177.19 billion, and the agriculture has been given the allocation of Tk. 191 billion.

"GDP growth target has been raised to 7.3 per cent. We strongly feel that as the time progresses, this should be raised to 8 per cent as the economy has started showing encouraging signs," according to another



“ THIS BUDGET, FRAMED IN THE BACKDROP OF RECOVERING THE GLOBAL ECONOMIC RECESSION, REDUCING OF TAX INCIDENCE OF NON-LISTED COMPANIES AND DELIVERY OF WIDE RANGE OF SOCIAL SAFETY MEASURES AIMS AT IMPROVING THE ECONOMIC CONDITION OF TEEMING MILLIONS,” ACCORDING TO THE MCCI. ”

leading chamber of the country. Financing and implementing of the coming year's budget will be the two major challenges as we have seen that the Government did not achieve targeted revenue set for the current fiscal year.

The budget's net outlay is Tk. 2505.06 billion, which is due to be financed 59.8% from tax revenue, 11.05% from non-tax revenue and 9.7% from foreign loans and grants, leaving the gap of 19% to be made from domestic sources, of which, borrowing from banking system will be the main component. This projected borrowing will be significantly higher compared to the last year's budget. Economists and think-tanks strongly feel that there must be a cap on the Government's borrowing from the banking sector. They said that the concept of PPP (public private partnership) remains under-utilized and through its proper implementation, private sector investment can be mobilised.

Human resources development being a pre-requisite for the country's progress, should be a top priority, specially, vocational, technical and skills development, for efficiently using our workforce in trade and industry and export of manpower.

The proposed imposition of surcharge of 1% on industrial unit which will fail to set up effluent treatment plant is a good step. It will encourage establishment of green industries in our country.

The budget focuses on high growth rate in GDP, export, import, remittance and investment. However, special attention needs to be given in specific measures to contain inflation.

Increase of national savings is a pre-requisite for investment and development of trade and industry. The budget documents lack adequate measures for encouraging savings.

The budget proposal to reduce the corporate tax rate of non public traded company was another welcome step being a long-standing demand of the trade bodies. However, withdrawal of tax rebate of 10% for listed companies which declare more than 20% dividend is disappointing and experts strongly urge for its restoration. Reduction of tax rate from 0.5% to 0.3% of turn-over was also hailed.

The budget proposal to enact the new VAT Act and Supplementary Duty Act from July, 2015 was another welcome step.

The extension of tax holiday up to 30th June 2019 was another commendable step.

Tax exemption facility for 5 years in graduated rate for de-mutualised stock exchange with a view to maintaining stability in capital market is a good step and enhancement of tax exemption limit on dividend income from Tk.10,000/- to Tk.15,000/- is appreciated.

“We feel that in life insurance, the deduction of income tax of 5% on the total sum payable to the insured in excess of premium paid is unreasonable and should be withdrawn,” the MCCI demanded.

Raising of tax exemption limit of agriculture income from Tk.50,000/- to Tk.2,00,000/- is a good step while reduced rate of deduction of tax at source on cash incentive from 5% to 3% and tax deduction rate at source on garments export from 0.80% to 0.30% is very encouraging and the deduction rate on all other exports from 0.80% to 0.60% are bold steps.

Tax exemption on interest income from investment in pensioner savings certificate and wage earner’s bond up to Tk.5,00,000/- is a good step.

Raising the expenditure limit of tax exemption from Tk.8 crore to Tk.12 crore for activities under CSR is also a good step. However, the eligibility should be well-defined.

Some of the think-tanks and trade bodies were disappointed that the allocation for agriculture is only Tk.191.00 billion which is only 7.6% of total budget. They said it may hinder the production of agriculture. Any significant growth of economy is inconceivable



without high and sustainable growth of the agriculture sector and hence, it deserves high priority in budget allocations.

The proposed step for automation of Government administration, thereby improving efficiency, transparency and service delivery and introduction of on-line income tax return submission system from January 2015 is highly commendable.

On-line income tax return submission system will help the tax-payers to pay tax without hassle. In this system, the tax-payers will be able to pay tax on-line without visiting tax office.

Creation of fund of Tk.50 crore for skill development and Tk.50 crore for development of haor areas, Tk.50 crore for development of char areas and tax holiday facility on pollution-free Hybrid Hoffman Kiln (HHK) brick fields are also commendable steps.

Meanwhile, the stock market investors remained critical with the latest budgetary proposal to

impose 3 percent tax on capital gains from share sales in fiscal 2014-15.

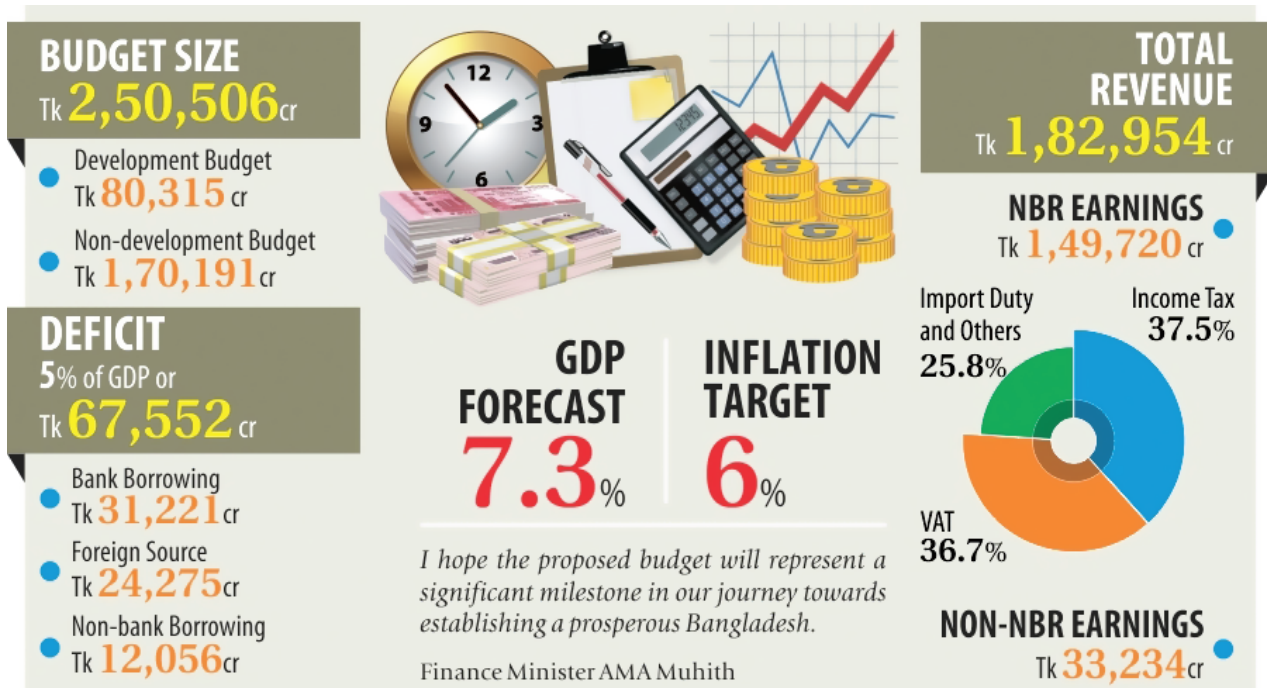
Both Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE) termed it an ‘unfeasible plan’ due to the lack of necessary infrastructure.

The tax, which comes as part of the government's efforts to meet its ambitious revenue target, will be applicable to any investor whose capital gains exceed Tk 10 lakh and will be deducted at source.

The market, after the first week in the post-budget sessions ended flat amid high volatility as higher capital gain tax imposition in the proposed budget disappointed the investors.

The premier bourse said many individual investors have multiple beneficiary owner accounts with a number of brokerage houses, so it would be tricky to calculate the net capital gains or loss.

“But the most complex part will be in case of linked BO accounts,” Mr Swapan Kumar Bala, managing



director of DSE, said while addressing a post-budget press conference at the bourse premises on June 7 last.

If an investor sells shares through a linked BO account, the selling brokerage house cannot calculate the profit or loss as it will not have the information on the buying cost of the shares, he said.

Besides, the existing trading system does not allow the calculation on adjustment between capital gains or losses, necessary as per income tax rules, according to Mr Bala.

“In case of multiple BO accounts, I wonder how the calculation will be done and who will do this. Given all these perspectives, we think the tax provision cannot be implemented right now.”

The DSE, however, lauded the government for exempting the

bourses from paying taxes for the next five years and raising the tax-free dividend income ceiling from Tk 10,000 to Tk 15,000.

Meanwhile, chairman of Bangladesh Securities and Exchange Commission (BSEC) Dr Khairul Hossain, chairman of DSE Justice Siddiquir Rahman Miah, chairman of CSE Dr Muhammad Abdul Mazid, and directors and high officials of two stock exchanges met Finance Minister AMA Muhith on June 12 last

In the meeting, the board members of two stock exchanges placed a set of recommendations to include in the proposed budget. The recommendations made by the boards of the two stock exchanges include: tax holiday facility for next five years, withdrawal of proposed gain tax on individuals earnings, cancellation of new rules on realisation of source tax on trade

by shareholders of stock exchanges, and fixing ceiling of tax free income of investors from Tk 15,000 to Tk 50,000.

At the concluding part, I would say that all the progressive proposals placed in the budget should be appreciated but the core business will be proper implementation of these proposals. The monitoring and implementation mechanism need to be strengthened and enhanced significantly in order to achieve the desired growth in the economy.

**The Author is Business Editor,
The Financial Express**



Worker's (Beneficiaries) Participation in Company's Profit: From the viewpoint of Amendments made in the Bangladesh Labour (Amendments) Act 2013

¹Ms. Salina Khatun | ²Abdullah-Al-Mamun ACA



Abstract

The objective of this article is to highlight the amendments made in Chapter XV (Worker's Participation in Company's Profit) of Bangladesh Labour Act 2006 in 2013 and analyze the implication of those changes between the business houses and their employees. The Writer has also explained to whom (business houses) worker's participation in company's profit is applicable, who are the beneficiaries of the funds, the ratio for allocating net profit before tax among the respective funds, the eligibility of benefit by the beneficiaries from the fund, investment of Participation Fund and Welfare Fund etc. which have been changed significantly from the earlier provisions of Labour Law.

Introduction

The comprehensive version of Labour Act has been made enforceable in Bangladesh in 2006 as "The Bangladesh Labour Act 2006" after making consolidation of major employment of labour and industrial related laws of Bangladesh. It has replaced various laws related to this field which were scattered in one hand and outdated on the other. After codification in 2006, some amendments were made with a view to addressing the changing situations.

The amendment of Labour Act was made on 30 June 2010 which was very minor in nature. The remarkable change made through this amendment was the retirement age of a worker. Earlier the retirement age was 57 years but in 2010 it has been changed to 60 years.

The major amendments of this Act were made on 22 July 2013. Through these amendments most of the areas of this Act faced significant changes. One of the remarkable areas was Chapter XV regarding Worker's Participation in Company's Profit. The amendments of Chapter XV (Worker's Participation in Company's Profit) of Bangladesh Labour Act 2006 made in 2013 broaden the scope and applicability of the said law on the companies operating in Bangladesh. The spirit of the law is to ensure the facilities and benefits of all employees (mentioned 'beneficiary' in the law) who are working for their business organizations. As we understand, the spirit of the law is to ensure equitable facilities and benefits for the employees ('beneficiary' not just 'workers' as per the law) through sharing certain percentage (5% as required by the law) of profits made by the organizations across industries; manufacturing or service.



“ THE PROVISION OF MAKING EQUAL PAYMENT OF BENEFITS TO ALL BENEFICIARIES MAY REDUCE THE INCOME INEQUALITY OF THE PEOPLE TO SOME EXTENT. MOREOVER, THE PAYMENTS THEY WILL RECEIVE FROM PARTICIPATION FUND AND THE WELFARE FUND IS EXEMPTED FROM INCOME TAX WHICH WILL INCREASE THEIR DISPOSABLE INCOME. ON THE OTHER HAND, THE AMENDMENTS MADE IN THE SAID LAW WILL CREATE BINDINGS TO ALL SORTS OF BUSINESS HOUSES TO PROVIDE REASONABLE FACILITIES AND BENEFITS TO THEIR EMPLOYEES BY INCLUDING THEM IN THE PARTICIPATION OF COMPANY'S PROFIT. ”

Key changes made in chapter XV regarding Worker's Participation in Company's Profit

The following changes were taken place in the captioned subject through amendments made in Labour Law in 2013:

Application of the Worker's Participation in Company's Profit U/S 232

Section 232 related to identification of companies or establishments with some specific conditions upon which workers' participation in company's profit is applicable. Section 232 of Bangladesh Labour Act 2006 has been totally replaced in 2013. The condition regarding number of employees mentioned in the Bangladesh Labour Act 2006 has been dropped in 2013. Now this chapter (Chapter XV: Worker's Participation in Company's Profit) shall apply to all companies or organizations which satisfy any one of the following conditions namely:

a) At the closing day of its accounting year the paid up capital of the company is not less than taka one crore.

b) At the closing day of the accounting year the value of the fixed assets of the company is not less than taka 2 crore.

The Government may, by notification in the official Gazette apply this chapter to such other companies as it may specify therein.

In case of 100% export oriented or 100% foreign investment industrial sector, Government may issue rules for creating sector wise one central Fund for the Worker's employed in those sectors. And also Government can fix up the amount of contribution to the fund and give directives to form a Management Committee to manage such fund comprising the representatives from the owners and the beneficiaries of such industries.

Special Definitions U/S 233

Under this section, the definition of "Industrial undertaking" and "Worker" (Beneficiary in new law) has been totally replaced and two new definitions i.e. "Owner" and "Industrial Establishment" have been newly inserted.

Definition of Owner

Owner means the owner or



managing authority of a company or establishment, or Chief Executive, or any person in place of them.

From this definition it has been cleared that Chief Executive or Managing Director of an organization shall not fall under the beneficiary of getting entitlement of Worker's (Beneficiaries) Participation in Company's Profit.

Definition of Industrial Undertaking

Industrial Undertaking means any such undertaking or organization which works for profits, or undertaking of a business organization, industry, establishment, bank, financial institutions or insurance company. Establishment which is engaged in any one or more of the following operations, namely:

- i. the subjection of goods or materials to any manufacturing, assembly, finishing or other natural or artificial process, which changes their original condition or adds to their value;
- ii. ship-building or ship recycling;

iii. the transformation, generation, conversion, transmission, or distribution of electrical energy including hydraulic power;

iv. the working of a mine, oil well or any other source of mineral deposit, including blending, refining and purification of oils and gases;

v. the marketing and distribution of gas or oil;

vi. the carriage of men or goods by sea or air;

vii. service oriented organizations such as mobile operator company, construction organization; and

viii. any other operations which the Government may by notification in the official Gazette declare to be an industrial undertaking for the purpose of this chapter.

From this comprehensive definition it has been cleared that all kinds of business houses which are operating under profit motive shall fall under the scope of providing Worker's (Beneficiaries) Participation in Company's Profit.

Definition of Industrial Establishment

Industrial establishment means those industrial establishments mentioned in Section 2(61) of the Act which are operating for profit motives.

Definition of Beneficiary

Beneficiary of a Company means an apprentice or any person irrespective of his designation other than the owner, partner or member of the Board of Directors of the Company and his length of service is not less than nine months in the Company.

From this definition it has been cleared that all employees of an organization other than Chief Executive shall fall under the beneficiary of getting entitlement of Worker's (Beneficiaries) Participation in Company's Profit.

Establishment of Participation Fund and Welfare Fund U/S 234

Sub-section 1(a) remained unchanged in 2013 i.e. every Company to which the scheme (Chapter XV) applies shall establish

a Worker's Participation Fund and a Worker's Welfare fund in accordance with the provisions of the scheme within one month of the date on which the scheme becomes applicable to it.

Sub-section 1(b) of Bangladesh Labour Act 2006 has been totally replaced in 2013 which are as follows:

Owner of the Company, shall pay every year to the Participation Fund, Welfare Fund and Worker's Welfare Foundation Fund (established under Section 14 of the Bangladesh Worker's Welfare Foundation Act 2006), not later than nine months from the close of that year, 5% of the net profit during such year; the proportion of the payment to the Participation Fund, Welfare Fund and Worker's Welfare Foundation Fund being 80:10:10.

Provided that immediately before promulgation of this Rule, if any owner deposited 1% of the net profit of the Company to the Welfare Fund then the Trustee Board shall be bound to deposit 50% of such money to the Worker's Welfare Foundation Fund.

Earlier i.e. in the Bangladesh Labour Act 2006, the said participation was between Participation Fund and Welfare Fund and the proportion of the payment was 80:20.

Management of the Funds U/S 235

The provisions of this Section have remained unchanged in 2013 and only sub-section 8 has been newly inserted at the end of this section.

In accordance with this section, as

soon as may be, after the establishment of the Participation Fund, Welfare Fund and the Worker's Welfare Foundation Fund, there shall be constituted a Board of Trustees consisting of the following namely:

- a) Two persons nominated by CBA (Collective Bargaining Agent) and if there is no CBA in the company, two persons elected by Worker's of the company amongst themselves; and
- b) Two persons nominated by the Management of the company of whom at least one person shall be from Accounts Department of the company.

The persons holding offices as Trustees shall elect for one year a person to be the Chairman of the Board alternatively from amongst the Trustees. The first Chairman of





the Board of Trustee shall be selected from the persons nominated by the Management of the company.

The Government, if it is of opinion that the Board or a member of the Board has been persistently failing in the performance of his or its functions or has generally been acting in a manner inconsistent with the objects and interests of the Funds may after giving such member or, as the case may be, the Board an opportunity of showing cause against it, by order-

- a) Remove such member from his office or direct that the Board shall stand superseded for such period as may be specified in the order, and
- b) Direct that, pending the election or nomination of a person in place of the members removed from office or, as the case may be the reconstitution of the Board, shall be exercised and performed by a person specified in the order.

Sub-section-8: If the Trustee Board is dissolved or the Chairman of the Trust or any member of the trustees is removed from the Trust by the Government in that case the concerned members of the Trust or the Chairman cannot be nominated or re-elected further in the Trustee Board.

Penalty and Recovery of Money thereof U/S 236

Section 236 of Bangladesh Labour Act 2006 has been totally replaced in 2013 which are as follows:

- 1) If any company or Trustee Board fails to comply with the provisions of Section 234 (i.e. fails to establish a Participation fund and Welfare Fund under section 234), the Government may order it to comply with those provisions within such time as may be specified in the order.
- 2) In case the company or Trustee Board fails to comply with the order of the Government,

Government may impose fine not more than Taka One Lac to each Director, Manager or other Officers engaged in the management affairs or in appropriate case, Chairman, Member of the Trust or its Officers engaged in the management affairs. In case of continuing failure, from the date of such failure a further sum of Taka Five Thousand may be imposed for each day and may instruct to pay the amount of fines within next 30 days.

Provided that if any person further violates or fails to comply with the aforesaid provisions, double fine shall be imposed on that person.

- 3) Any fine imposed by an order under sub-section (2) of this section or any amount payable under section 234, if remains unpaid, such fine or unpaid money shall be considered as public demands and shall be recoverable under the provisions of Public Demands Recovery Act, 1913.

- 4) Any person aggrieved by an order made under sub-section (1) and (2), within a period of 30 days from the date of the order, may apply to Government for review the case and the Government upon receiving such application review the same and pass such order as it may think fit within 45 days and such matter shall be communicated to concerned person, company or Trustee Board.
- 5) Any order made under sub-section (4) by the Government shall be final.

Investment of Participation Fund U/S 240

The provisions of this Section remain unchanged in 2013 except sub-section 11. The said sub-section of Bangladesh Labour Act 2006 has been totally replaced by new provision in 2013.

The existing provisions which remain unchanged regarding investment of Participation Fund are as follows:

- 1) The amount collected or accruing to the Participation Fund shall be available to the company for its business operation.
- 2) The company may however request the Board to utilize the amount in the Participation Fund for investment under sub-section (11) and the Board may decide to invest the amount.
- 3) The company shall pay to the Participation Fund in respect of the amount in the Participation Fund available to it for its business operations interest at the rate of 2.5% above the bank rate or 75% of the rate at which

dividend is declared on its ordinary shares, whichever is higher.

- 4) In case there is more than one class of ordinary shares on which different rates of dividend have been declared, then the weighted average of the different rates of dividend shall be taken for the purpose of determining the rate of interest payable under sub-section (3).
- 5) The interest to the Participation Fund shall accrue on and from the first day of the year next succeeding the year in which the fund becomes applicable to the company.
- 6) When the company does not wish to utilize the amount available to it under sub-section (1), interest of the rate aforesaid shall be payable by the company for the period between the date of allocation of any amount to the Participation Fund and the date of its investment under sub-section (11).
- 7) If at any time after the establishment of the Participation Fund the company raises any additional capital otherwise than through the issue of bonus or bonus shares, the Participation Fund shall have the first option to convert any amount available to the company under sub-section (1) or any assets of the Participation Fund into ordinary equity capital up to a ceiling of 25% of the paid up capital of the company prior to such conversion or 50% of the additional capital, whichever is less.
- 8) For the exercise of the right of conversion under sub-section (7), the Board shall be given

sufficient time to sell assets of the Participation Fund to realize the amount needed for subscription to the additional issue of capital by the company.

- 9) The shares acquired in the manner set out in sub-section (7) shall participate in future bonus and right issues in the same manner as other shares.
- 10) The shares acquired in the manner set out in sub-section (7) shall carry voting rights in the same manner as other shares and such voting rights shall be exercised by the Board on behalf of the Participation Fund.
- 11) Earlier under this sub-section specific savings certificates name (e.g. I.C.B Mutual Fund Certificates; Defense and postal saving Certificate) was mentioned under which investment was to be made. This sub-section had been replaced totally by the following provision:

The money of the Participation Fund may be invested in any Government-owned investable sectors.

Eligibility to benefit of the Fund U/S 241

Under this section, in all cases the word Worker's has been replaced by beneficiaries. The most remarkable change made under this section in 2013 was that all beneficiaries shall be eligible to the funds in equal ratio. So the two clauses under this section regarding eligibility and distribution of funds are as follows:

- All beneficiaries shall be eligible to get the benefits of the fund in the equal proportion

and to participate in the Participation Fund and the Welfare Fund.

- But the Beneficiary not completing six months of employment with the company during a year of account shall not participate in the Participation Fund and the Welfare Fund in respect of that year.

Utilization of Participation Fund U/S 242

All clauses under this section remain unchanged in 2013 but the word Worker's have been replaced by beneficiaries in all cases. The major provisions of this section are as follows:

- Of the total amount deposited in the Participation Fund every year, two-thirds shall be distributed in equal proportion to all Beneficiaries in cash and one-third shall be invested in accordance with the provisions of section 240(11) of the Act, the profits of which shall also be distributed in equal proportion to all beneficiaries.
- If a Beneficiary voluntarily leaves the employment of the company, he shall receive benefits of the Participation Fund and the Welfare Fund as admissible to him under the fund.
- A beneficiary whose services are terminated otherwise than by way of dismissal shall be at par with a beneficiary who retires from the service of the company. But a beneficiary who is dismissed from service shall forfeit his share in the Participation Fund and Welfare Fund.

- In the event of transfer of a beneficiary from one office or unit of a company to another office or unit of that company, the benefits accrued to the beneficiary shall be transferred to the Participation Fund and the Welfare Fund of the office or unit to which he is transferred.
- A beneficiary, in the event of his retirement or, his nominated beneficiary, in the event of the beneficiary's death while in the employment of the company, shall receive full benefit of the fund.

Utilization of Welfare Fund U/S 243

Section 243 of Bangladesh Labour Act 2006 has been totally replaced in 2013 which is as follows:

The deposited money of the Welfare Fund shall be used in the way and for that purpose which the Trustee Board decides and the Government shall be informed of it.

Fiscal concession to the companies U/S 244

The provision of this section remain unchanged in 2013 i.e. all companies to whom beneficiaries participation to company's profit applies shall be allowed the allocation made to the funds as a deduction to arrive at the taxable income.

Tax treatment of income of the funds U/S 245

The provision of this section remains unchanged in 2013 i.e. the income of the Participation Fund and the Welfare Fund

including capital gains shall be exempted from income tax.

Tax treatment of income to the Worker's U/S 246

The provision of this section remains unchanged in 2013 i.e. all sums paid out of the Participation Fund and the Welfare Fund shall be exempted from income tax in the hands of the workers.

Working and location of Board of Trustees U/S 247

All clauses under this section remain unchanged in 2013 which are as follows:

- The office of the Board of Trustees shall be located at the factory premises, or if there is more than one factory run by the company at the registered head-office of the company.
- All expenses of the Board, including the cost of maintaining accounts, shall be borne by the company.

Audit of accounts of the fund U/S 248

All clauses under this section remain unchanged in 2013 which are as follows:

- The funds (the Participation Fund and the Welfare Fund) shall be audited annually at the company's expense in the same manner the accounts of the company are audited.
- Provided that the Government may, at its own cost, appoint independent auditors for a special audit of the accounts of the funds.

Major Changes at a Glance (Chapter XV of the Bangladesh Labour (Amendments) Act 2013)

SL No.	Title	Explanation
1.	Definition of Beneficiary	The word worker has been replaced by beneficiary means an apprentice or any person irrespective of his designation other than the owner, partner or member of the Board of Directors of the Company and his length of service is not less than nine months in the Company.
2.	Definition of Owner	This new definition has been inserted under Section 233 means the owner or managing authority of a company or establishment, or Chief Executive, or any person in place of them.
3.	Definition of Industrial Establishment	This new definition has been inserted under Section 233 means those industrial establishments mentioned in Section 2(61) of the Act which are operating for profit motives.
4.	Definition of Industrial Undertaking	The definition of Industrial Undertaking mentioned in Section 233 of Bangladesh Labour Act 2006 has been changed radically in 2013 and included all sorts of business houses operating under profit motive.
5.	Companies, organizations and establishments for which Workers Participation in Company's Profit is applicable	All companies, organizations and establishments operating under profit motive fall under the definition of "Industrial Undertaking" mentioned in Section 233 and having paid up capital of not less than taka one crore or having fixed assets of not less than taka 2 crore at the closing day of the accounting year as per Section 232.
6.	Eligibility to benefit of the Fund	All employees (beneficiaries as per the law) other than the Chief Executive completing six months of employment with the company shall be eligible to get the benefits of the fund in the equal proportion and to participate in the Participation Fund and the Welfare Fund.
7.	The proportion of payment to the Funds	The proportion of the payment to the Participation Fund, Welfare Fund and Worker's Welfare Foundation Fund shall be 80:10:10. Earlier i.e. in the Bangladesh Labour Act 2006, the said participation was between Participation Fund and Welfare Fund and the proportion of the payment was 80:20.
8.	Imposition of Penalty	If any company or Trustee Board fails to comply with the order of the Government regarding establishment of a Participation fund and Welfare Fund as per section 234, Government may impose fine not more than Taka One Lac. In case of continuing failure, from the date of such failure a further sum of Taka Five Thousand may be imposed for each day and may instruct to pay the amount of fines within next 30 days. Provided that if any person further violates or fails to comply with the aforesaid provisions, double fine shall be imposed on that person.

Implication of the Change made in the Bangladesh Labour (Amendments) Act 2013

Impact on Employees' facilities and benefits

In most of the industries employees are not getting reasonable facilities and benefits from their employers. The amendments of the said law create opportunities for the

performance bonuses and other benefits to the employees may discontinue paying the same) may reduce as well. The provision of making equal payment of benefits to all beneficiaries may also reduce the benefits of executive and senior level employees. It is mentionable here that the contributions of all level of employees in a business house for making profit are not same. However, this provision may reduce the income inequality of the people to some extent.

comply with the provisions of Chapter XV of the Bangladesh Labour (Amendments) Act 2013. For example, bank companies are currently providing various facilities and benefits to their employees such as Performance Bonus, Provident Fund, Gratuity & Superannuation Benefits, Subsidized Staff House Building Loan, Subsidized Car Loan, Hospitalization benefits, Maternity benefits and others. So, they may curtail some of their benefits to



employees of all sorts of business houses operating under profit motives to participate in the company's profit. Moreover, any kind payments which will be received from Participation Fund and the Welfare Fund shall be exempted from income tax in the hands of the Worker's i.e. beneficiaries.

On the other hand, the facilities and benefits of the employees in some industries (which are currently providing incentive or

Impact on Expenditure of Business Houses

The expenditure of business houses will increase to some extent, although it may be compensated by the higher productivity of the employees after getting strong motivation for participating in the company's profit. But the business houses which are currently providing various benefits to their employees will face greater challenge to

comply with the said provisions of the Bangladesh Labour (Amendments) Act 2013. However, the business houses shall be allowed the allocation made to the funds as a deduction to arrive at the taxable income.

Concluding Remarks

In most of the industries in Bangladesh, employees are not getting reasonable facilities and benefits from their employers which create inequalities



(regarding facilities and benefits) with the employees of organized industries having structured facilities and benefits. The amendments made in the Labour Law in 2013 will help the employees of all sorts of business houses to establish their rights on company's profits. The provision of making equal payment of benefits to all beneficiaries may reduce the income inequality of the people to some extent. More so, the payments they will receive from Participation Fund and the Welfare Fund is exempted from income tax which will increase their disposable income.

In addition, the amendments made in the said law will create bindings to all sorts of business houses to provide reasonable facilities and benefits to their employees by including them in the participation

of company's profit. But the business houses which are currently providing various facilities and benefits to their employees will face huge challenges to comply with the said law although they can take the profit allocated to employees as allowable deduction to compute the taxable income.

Finally, it can be said that making law is not enough to ensure and establish the rights of employees. So far the Writer has observed most of the industries which have newly been included under the scope of the provisions of Chapter XV of the Bangladesh Labour (Amendments) Act 2013, have not yet made reasonable positive movements to establish the said Funds in their business houses for their employees. The concerned regulatory authorities should take

necessary initiatives to implement the provisions of Worker's participation in company's profit in all business houses which fall under the scope of the said law for the betterment of employees.

References

- *The Bangladesh Labour (Amendments) Act 2013.*
- *The Bangladesh Labour (Amendments) Act 2010.*
- *The Bangladesh Labour Act 2006.*
- *The Bangladesh Worker's Welfare Foundation Act 2006.*

The Author are:

- ¹ **Lecturer, City University, Dhaka**
² **Associate Member of ICAB and Senior Manager, Finance Division, Eastern Bank Limited**



Accounting for Investment Property and Bangladesh Perspective

Snehasish Barua FCA



An entity may own land or a building as an investment rather than for use in the business. The land or building may therefore generate cash flows from rental income, capital appreciation or both which are largely independent of those generated by other assets which the entity holds

Investment property is property (land or a building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both.

IAS 40 Investment Property prescribes the accounting treatment and related disclosure requirements in this situation. IAS 40 lists the following as examples of investment property:

- Land held for long-term capital appreciation rather than short-term sale
- Land held for a currently undetermined future use
- A building owned by the entity (or held under a finance lease) and leased to a third party under an operating lease
- A building which is vacant but is held to be leased out under an operating lease
- Property being constructed or developed for future use as an investment property.

It also provides examples of items that are not investment property and are therefore outside the scope of IAS 40. These include the following:

Property type	IAS Reference
Property intended for sale in the ordinary course of business	IAS 2 <i>Inventories</i>
Property being constructed or developed on behalf of third parties	IAS 11 <i>Construction Contracts</i>
Property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes	IAS 16 <i>Property, Plant and Equipment</i>
Property leased to another entity under a finance lease	IAS 17 <i>Leases</i>



“ IN
 BANGLADESH A
 GROWING NUMBER OF
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 MALLS, SHOPPING
 CENTRE AND SERVICE
 APARTMENTS. ”

Recognition and Initial Measurement

Investment property should be recognised as an asset when the following two conditions are met:

- it is probable that future economic benefits will flow to the entity
- Its cost can be measured reliably

An investment property should be initially measured at cost which includes:

- Purchase price
- Transaction costs such as; professional fees and stamp duty

Subsequent Measurement

An entity has a choice of subsequent measurement, but once chosen must apply the policy consistently to all investment properties.

The subsequent measurement is either:

- The Cost Model – apply IAS 16 and recognise at:
 - Cost less depreciation less impairment losses but

- The fair value still needs to be disclosed
- or
- The Fair Value Model
 - Measure at fair value at the reporting date
 - Do not recognise any depreciation
 - Gains or losses during the period are recognised in the Profit and Loss in Statement of Comprehensive Income

Derecognition

When an investment property is derecognised, gains or losses go to the Profit and Loss in Statement of Comprehensive Income.

Change in use

A change in use may mean a property ceases to be classified as an investment property, examples of such changes include:

- Commencement of owner occupation
- Commencement of development with a view to resale
- Development with a view to continue letting



Deferred tax impact on Investment property

IASB made amendment to IAS 12 in 2010 which is made applicable from 1 January 2012. The 2010 amendment withdraws SIC 21 by integrating the requirements of SIC-21 Income Taxes—Recovery of Revalued Non-Depreciable Assets into IAS 12 Income Taxes.

The 2010 amendment introduces a rebuttable presumption that in these specified circumstances, deferred tax is calculated assuming that the manner of recovery of the carrying amount of the investment property is entirely through sale. Management's intention is not relevant. However, the presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset.

A key point to note is that the presumption is rebutted only in respect of depreciable investment property. Therefore, the presumption of recovery through

sale is not rebutted in respect of the land component of investment property, even if the entity's business model is based on holding the asset. This is because land is a non-depreciable asset.

Example

ABC limited has a portfolio of investment properties which it currently earns rental income. The

properties consist of land and buildings and are measured at fair value in accordance with IAS 40. The tax rate applicable to the sale of investment property is 15 percent, while the tax rate applicable business income is 40 percent. The fair values (i.e. carrying amounts), tax bases and resulting temporary differences of the land and building components are as follows:

	Fair value (carrying amount)	Tax base	Temporary difference
Land	500.00	200.00	300.00
Buildings	300.00	150.00	150.00
Total	800.00	350.00	450.00

Under the 2010 amendment, the measurement of deferred tax depends on ABC's business model, which is illustrated using the following scenarios:

Scenario A: ABC's business model is to sell properties in the future in order to participate in the increase in real estate prices (i.e. it consumes substantially all of the investment properties' economic benefits through rental income and sales).

Scenario B: ABC's business model is to hold properties for strategic purposes (i.e. it consumes substantially all of the investment properties' economic benefits through rental income). ABC rebuts the presumption.

The deferred tax liability under each scenario is calculated as follows:

	Temporary difference	Applicable tax rate	Deferred tax liability
Scenario A:			
Investment property	450	15%	67.5
Deferred tax liability			
Scenario B:			
Land	300	15%	45
Buildings	150	40%	60
Deferred tax liability			105

Income tax on sale of property

As per section 53FF of ITO 1984, the seller of the property will be liable to pay tax at the time of registration of transfer. The tax paid under 53FF will be treated as final discharge of tax liability according to section 82C of ITO 1984 and income from this source will be calculated on the basis of the tax deducted or collected at source and the rates of tax applicable for the assessment year.

Should Income tax on non-depreciable property be recognized @ Capital gains tax rate?

There is no clear guideline for this type of Property Company as to whether the income from sale of such property will be taxed at the rate of capital gains tax or company tax rate. In practice they tend to apply company tax rate. Hence application of capital gains tax rate for non-depreciable asset at lower rate might generate higher tax liability than the recognized amount.

***The Author is Partner,
Snehasish Mahmud & Co.
Chartered Accountants and
Fellow Member of ICAB***

Bangladesh Perspective

In Bangladesh a growing number of real estate companies are now holding the commercial property and earning rental income. These are common for the malls, shopping Centre and service apartments. Analysis has been shown with respect to Bangladesh tax provision on rental income and property income in the following paragraph.

Income from House property

Tax shall be payable by an assessee under the head "Income from house property" in respect of the annual value of any property, whether used for commercial or residential purposes, consisting of any building, furniture, fixture, fittings etc. and lands appurtenant thereto of which he is the owner, other than such portions of the property as he may occupy for the purposes of any business or profession carried on by him, the income from which is assessable to tax under this Ordinance. Here definition of assessee includes a company.

Allowable Deductions

How much expenditure will be allowable depends on whether it is used for business or commercial purpose. As per Income Tax Ordinance, 1984 the allowable deductions are (a) Land development tax, (b) Insurance premium, (c) Interest payable on mortgage or charge, (d) Annual charge, (f) Ground rent, (g) Interest payable on borrowed capital for acquisition, construction, repair, renewal or reconstruction of house property, (h) Repair and maintenance – residential- 25% of annual value and (i) Repair and maintenance – commercial- 30% of annual value

As such a company which earns rental income will be allowed the above specified expenses only although the company whose income from rental can be regarded as income from property business and expenditures incurred for the purpose of business or profession are admissible under section 29 of ITO 1984.



Decluttering The Financial Statements – Less is More

Abu HM Kibria



The disclosure problem!

Is there a disclosure problem? – this was a question asked in a ‘Survey’ conducted by the International Accounting Standards Board (the IASB) in December 2012. An overwhelming majority of respondents (80%) said ‘yes’ – in their view there’s a disclosure problem.

Those preparers who responded to the survey viewed the disclosure problem as primarily one of disclosure overload. More than 80% of the respondents said there was “too much irrelevant information”.

Such responses epitomise the big challenges we are now facing around disclosures in financial statements and annual reports. Financial statements together with annual reports are getting bigger, thicker and bulkier every year. One of the primary reasons is the disclosure clutter¹. We tend to think the more disclosure we add to the financials the more useful they become to users. It may not necessarily resonate with users.

In this article we shall look at what the disclosure problem is and why it is becoming pervasive, what stakeholders are thinking and doing about it especially highlighting IASB’s new Exposure Draft, and some practical examples of how some organisations are trying to overcome it.

IASB’s Disclosure Initiative

In the recent past there have been increasing calls for the IASB to review the disclosure requirements in IFRS. In response the IASB has taken different initiatives to address users’ concerns. The IASB initiatives include:

- a) Agenda Consultation 2011
- b) Survey on disclosure initiative 2012
- c) Discussion Forum on disclosure initiative 2013
- d) Inclusion of Disclosure in the Revised Conceptual Framework 2013
- e) Exposure Draft on Disclosure Initiative published in March 2014 which marks the culmination of the initiatives undertaken so far.

¹ UK FRC Cutting Clutter Discussion Paper defines clutter as:
• Immaterial disclosures that inhibit the ability to identify and understand relevant information; and
• Explanatory information that remains unchanged from year to year.



Financial statements – communication tool or compliance document?

It is generally considered that financial statements' one of the primary purposes is to provide stakeholders with information that is useful for making their **economic decisions**, e.g. resource allocation decisions, and assessing management's stewardship. This is the **communicative value** of the financial statements.

However, providing piles of immaterial information can obscure useful information in financial statements diluting the communicative value. Such disclosure overload or **clutter makes it difficult for users to filter the information** that is relevant to them. This view has been echoed by various stakeholders including the UK Financial Reporting Council (FRC), the participants of the Survey and Discussion Forum.

Many preparers and auditors claim that they '**err on the side of caution**' because many regulators enforce 'comply or explain approach' asking why a particular disclosure is not considered material. In their view it leads to 'better safe than sorry' attitude.

Such caution by preparers or enforcement by regulators for immaterial disclosures together with lack of clarity by accounting standards on material disclosures render the financial statements to be a compliance document rather than a communication tool, which become, at times, full of unnecessary and **excessive boilerplate disclosures**.

Stakeholders' response to breaking the boilerplate

Many stakeholders and the IASB have realised this cannot continue and it was time to break the boilerplate. Various preparers, regulators, auditors, accounting bodies have undertaken initiatives in the recent past to understand and address the disclosure problem. Such organisations, in addition to the IASB, include:

- European Financial Reporting Advisory Group (EFRAG)
- European Securities & Markets Authority (ESMA)
- Financial Reporting Council (FRC), UK
- US Financial Accounting Standards Board (FASB)
- International Auditing and Assurance Standards Board (IAASB)

“ IN SUMMARY, THE EXCITING LOOK AND FEEL, THE SLEEK GROUPING OF NOTES, BETTER PLACEMENT OF POLICIES WITH RELEVANT NOTES, IDENTIFICATION OF KEY ACCOUNTING REQUIREMENTS (I.E. RECOGNITION AND MEASUREMENT) WITH ENTITY SPECIFIC EVENTS, AND USE OF PLAIN ENGLISH DEFINITELY HELP USERS TO CONNECT THE DOTS BETTER TO UNDERSTAND THE BUSINESS. ”

The table below summarises the findings/suggestions emanating from work undertaken by above organisations:

Organisation	Key findings/suggestions
EFRAG	<ul style="list-style-type: none"> • Strengthening the application of materiality and developing principles to identify what information to include in the notes • Consideration of a 'tiered' approach to disclosure (a core set plus an expanded set that is to be assessed by each entity) • Encouraging behavioural change to switch from compliance to communication mode
ESMA	<ul style="list-style-type: none"> • Additional guidance re the application of the materiality concept to disclosure requirements
FRC	<ul style="list-style-type: none"> • There is lack of clarity around materiality re disclosures • Clutter undermines the usefulness of accounts by obscuring important messages • Behavioural barriers need to be overcome
FASB	<ul style="list-style-type: none"> • Clearer communication on important disclosures
IAASB	<ul style="list-style-type: none"> • Application of the concept of materiality to disclosures • Sufficiency and appropriateness of audit evidence for disclosures

The theme of the above projects can be summarised in the following top two concerns/suggestions:

- need for **clarity on materiality** in disclosure;
- need for action and **behavioural change**.

The IASB's response

To address the most pressing issue – clarity on materiality in disclosure, the IASB has released the Exposure Draft (ED) we are focusing here (this ED is part of IASB's short-term projects in addressing disclosure problem. In the long-term IASB intends to replace IAS 1, IAS 7 and IAS 8, and revise disclosure requirements in individual Standards). At a high-level, the ED proposes:

- clarity on materiality
- flexibility in organisation of note structures
- removing perceived rigidity in the presentation of accounting policies

Materiality

The prime objective of the proposed narrow-focus changes is to allow users to be able to apply their judgement in terms of presentation and disclosure requirements. For example, a particular standard being relevant and material to the financial statements does not automatically mean every disclosure requirement in that standard will provide material information. Instead, **each disclosure should be judged and assessed individually** from a materiality standpoint.

On materiality, the ED proposes the following:

- entities shall not aggregate or disaggregate information in a manner that **obscures** useful information;
- the materiality requirements apply to the statement(s) of profit or loss and other comprehensive income, statement of financial position, statement of cash flows and statements of changes in equity and to the **notes**; and

- when a Standard requires a specific disclosure, the resulting information shall be assessed to determine **whether it is material** and consequently whether presentation or disclosure of that information is warranted

The central issue IASB is trying to address here is that information should not be added to the financial statements thoughtlessly that **obscures** useful information and makes it difficult for users to filter them.

Revision to paragraph 31 seems to hand back a lot of decision making ability around disclosures to the preparers. The revised paragraph reads:

"... An entity **need not provide a specific disclosure** required by an IFRS in the financial statements, including in the notes, if the information resulting from that disclosure is not material. This is the case **even if the IFRS contains a list of specific requirements** or describes them as minimum requirements..."

Note structure

Some preparers have told IASB that some of the existing requirements in IAS 1 make it difficult for preparers to exercise their judgement in presenting their financial statements. For example, paragraph 114 of IAS 1 suggests a 'normal' order of presentation. Many preparers view that this makes it difficult for an entity to present the explanatory notes in order of importance or to present related information together in a cohesive manner, which may render the financials disjointed for users at times. Some also viewed not using 'normal' order may make the financials 'abnormal' as they consider paragraph 114 to be prescriptive.

To address such concerns, the ED proposes that:

- i. the understandability and comparability of financial

statements should be considered by an entity when deciding the systematic order for the notes; and

- ii. entities have flexibility as to the systematic order for the notes, which does not need to be in the order listed in paragraph 114 of IAS 1.

A new paragraph (113A) is being proposed to allow preparers the flexibility to give prominence to the notes they consider more important than others and also to group them in a more meaningful manner. The proposed para 113A reads:

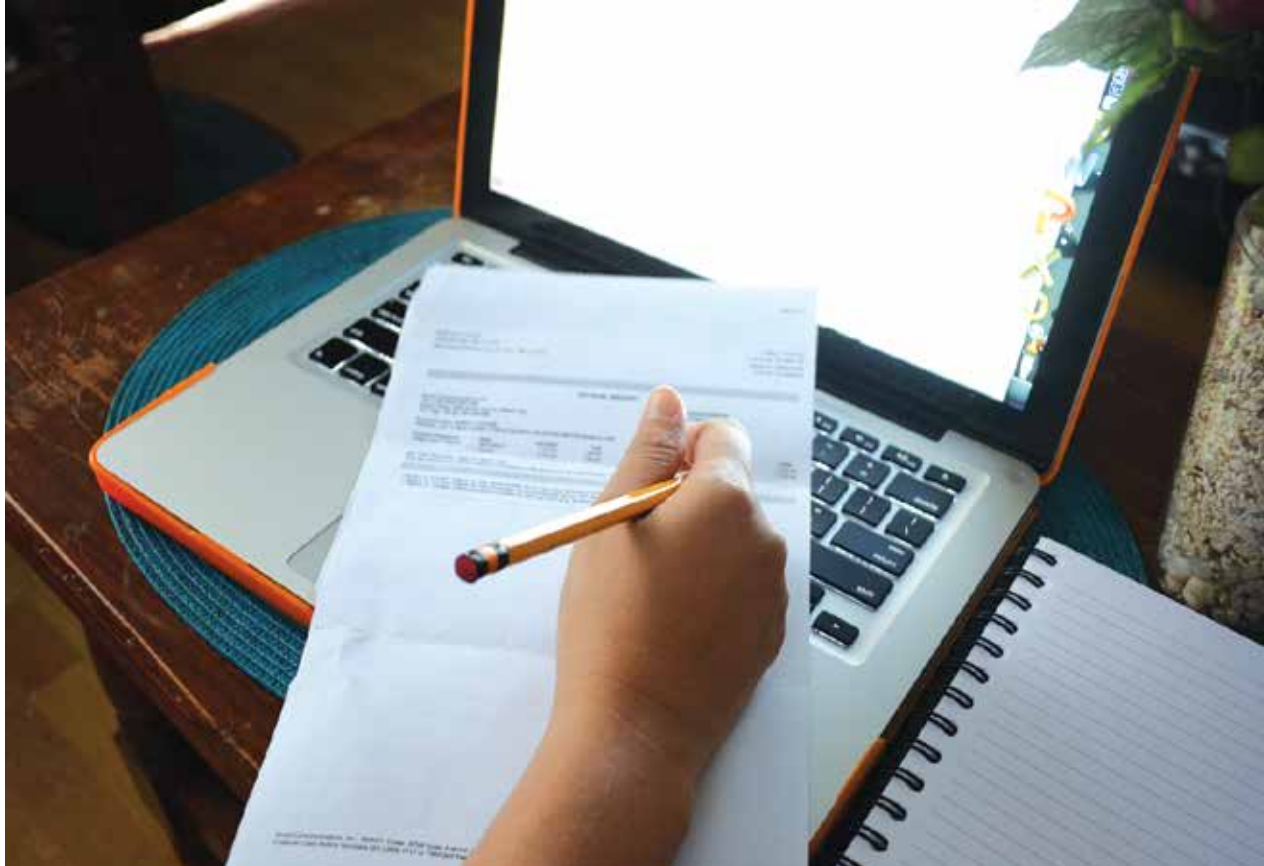
"When determining a systematic order for the notes, an entity may order notes in a way that gives **prominence** to disclosures that it views as more relevant to an understanding of its financial position or financial performance or makes the relationship between some disclosures more understandable..."

While there is no specific prohibition to order the notes in a way more understandable and meaningful to users in the current Standard, many preparers took the view that requirements of paragraph 114 were too rigid. New clarification should assist preparers to apply flexibility and present bigger picture of their business in a coherent manner.

Accounting policies

In many stakeholders' view the accounting policy section of financial statements is long, unhelpful, and does not distinguish between important policies and those that are just regurgitations of IFRS. UK FRC notes that a lot of information often remains unchanged from year to year with individual policies copied from boilerplate disclosures or IFRSs running to several pages adding clutter to the financial statements.





Some requirements in the current version of IAS 1 may be to blame for such clutter. For example, IAS 1 requires only significant accounting policies to be disclosed but paragraph 120 suggests if an entity is subject to income tax then it should include its accounting policy on income taxes. If we turn to IAS 12 Income Taxes, it does not provide any choice to entities which lead preparers to use either boilerplate policies or regurgitate from the Standard. Some preparers also interpret this as requiring an entity to disclose the accounting policy for **any activity** it undertakes.

Many preparers voiced that they would like to be able to either **delete** boilerplate accounting policy disclosures or **relegate** them to a **website** or **to the back** of the financial statements.

To strip back the apparently onerous and unnecessary disclosure requirement, the ED proposes:

- i. to remove the guidance in paragraph 120 of IAS 1 for identifying a significant accounting policy, including

removing potentially unhelpful examples.

Addressing the behavioural barrier

Behavioural barrier is as big an issue as that of lack of clarity in current standards when it comes to decluttering the financial statements. UK FRC finds it is everyone's behaviour that is leading to the clutter including preparers, auditors, regulators, standard setters.

The bold step by the IASB

As a standard setter, the IASB has taken a bold step to declutter its own financial statements.

Prior to publishing the ED, the IASB had tried for itself first-hand to reduce the clutter even within the current IFRS requirements. It'd been successful – the IASB claimed its 2012 Annual Report was **25% less in size** than that of 2011 yet increasing the amount of useful information. IASB also claimed to have made their Annual Report **easier to read** by reducing clutter.

ITV UK lead in cutting the clutter

On the preparers' side, ITV UK has taken the lead in not only cutting the clutter but also making the financials more meaningful for the users and better connected from a presentation view point.

Let's have a quick look at what ITV has done differently from others in its 2013 financial statements. The stand-out features include:

- a) Improvised look and feel
- b) Connected notes
- c) Location and presentation of accounting policies and use of plain English

a) Look and feel:

The 'look and feel' is different from stereotype financial statements. The financials start with a narrative instead of a number, and the narrative attempts to explain the numbers that follow.

The differential style of presentation aims to make the financials less complex and more relevant for users.

This is how the financials begin:



In this section...

The financial statements have been presented in a style which attempts to make them less complex and more relevant to shareholders. We have grouped the note disclosures into five sections: 'Basis of Preparation', 'Results for the Year', 'Operating Assets and Liabilities', 'Capital Structure and Financing Costs' and 'Other Notes'. Each section sets out the accounting policies applied in producing the relevant notes, along with details of any key judgments and estimates used. The purpose of this format is to provide readers with a clearer understanding of what drives financial performance of the Group. The aim of the text in boxes is to provide commentary on each section, or note, in plain English.



Keeping it simple...

Notes to the financial statements provide information required by statute, accounting standards or Listing Rules to explain a particular feature of the financial statements. The notes which follow will also provide explanations and additional disclosure to assist readers' understanding and interpretation of the annual report and the financial statements.

The introductory 'In this section' paragraph is included at the beginning of each section and briefly explains **what the section is about**. 'Keeping it simple' paragraph is included at the beginning of each policy and succinctly describes the **policy in plain English**, where feasible, and cues users in on how to read/interpret the numbers reported.

b) Note structure

The note disclosures are categorised in 5 sections which are organised in the same vein as management would assess the operation and related results. The purpose is to structure the presentation of items in the financials in the order of importance and relevance for the business. The more relevant the item is, the higher up it is in the order. From user perspective, this provides them with a more holistic picture of the business.

The notes are grouped in the following five categories in the order of their relevance to ITV's business:

- i. Basis of preparation – this describes the overall basis on which the financial statements is prepared. This sets the tone of the financial statements.
- ii. Results for the year – this is perhaps the most important section of the financials. This focuses on the results and performance (i.e. profit before tax) of the Group which users are likely to be most interested in. Accordingly this is given top priority in the order. "Keeping it simple" note explains what is Group's key performance/profit indicator (KPI) and ensuing analyses show the users how the Group has fared.
- iii. Operating assets and liabilities – as a logical sequence to the

'results' section, this section provides users with information on how the Group has utilised the assets to generate above results and in the process how it has managed its liabilities. Interestingly, this section starts with an analysis of 'working capital' explaining this key driver for the KPI – 'profit to cash' conversion as well as its importance to Group's business.

- iv. Capital structure and financing costs – once users are through the analyses of results and assets, they are likely to look for how the company is being financed. That is how this note has been ordered.
- v. Other notes – all other items which, in management's view, are relevant to the business but does not warrant the same prominence as items included above are included here.



c) Accounting policies

This is where the ITV has broken the boilerplate. Instead of traditional accounting policy note at the beginning of disclosures, they have located each accounting policy along with the relevant note (policies which are more general and applicable at financial statements as a whole are included in the basis of preparation section, e.g. going concern, consolidation etc).

For example, revenue recognition policy sits straight in the revenue note making it easy for users to see the policy side by side with the reported revenue amount and compare the policy with its application in the same page. In addition, the policy clearly states at which point revenue gets recognised for each class of revenue. As an example, advertising revenue is recognised on ‘transmission or display’ implying risks and rewards are considered to have transferred at that stage. Furthermore, this policy

also clarifies which class of revenue is reported under which segment for segment reporting purpose.

Another boilerplate breaker is the use of plain English. For example, trade receivables policy states ‘trade receivables are recognised initially at the value of the invoice sent to the customer and subsequently at the amounts considered recoverable’. This avoids using accounting jargons like ‘fair value’ and ‘amortised cost’ which may be difficult for general users to understand. Same goes with PPE note which explains in plain English the measurement of PPE and the concept of depreciation.

In summary, the exciting look and feel, the sleek grouping of notes, better placement of policies with relevant notes, identification of key accounting requirements (i.e. recognition and measurement) with entity specific events, and use of plain English definitely help users to connect the dots better to understand the business.

Are regulators on-board?

Naturally, we will have questions in our mind – are these non-standard financials and disclosures going to be accepted by regulators?

Yes, the ITV financials were well received by UK FRC, and other stakeholders including shareholders, financiers, analysts, advisers etc.

The UK regulator – FRC – is actively pursuing less clutter as part of its surveillance activity. The Australian regulator, ASIC (Australian Securities and Investments Commission), said, ‘ASIC does not pursue immaterial disclosures that may add unnecessary clutter to financial reports’. Regulators in other jurisdictions are also looking at it positively. By the time FASB and IASB finalise their disclosure projects, all regulators will get on-board.



Less is more!

All the talk around disclosure overload or disclosure problem is perhaps summarised in the following remark made by the IASB Chairman Hans Hoogervorst:

“... it can be better to exclude nonmaterial disclosures. Too much

detail can make the material information more difficult to understand— so companies should proactively reduce the clutter! In other words, less is often more”.

The ITV and IASB financials are important ground-breaking examples for preparers and others to follow in providing more

relevant information to users by saying less. Other preparers now have to play their part to make that wide-ranging.

Source and useful hyperlinks:

- *IASB Exposure Draft – Disclosure Initiative*
(<http://www.ifrs.org/Alerts/ProjectUpdate/Pages/IASB-publishes-proposals-as-part-of-Disclosure-Initiative-March-2014.aspx>)
- *IASB Discussion Paper - Review of the Conceptual Framework for Financial Reporting*
- *IAS 1 Presentation of Financial Statements*
- *Breaking the boilerplate speech by Hans Hoogervorst, June 2013*
- *UK Financial Reporting Council – Cutting Clutter Discussion Paper 2011*
(<https://www.frc.org.uk/ASB.aspx>)
- *ITV Annual Report 2013*
(<http://ar2013.itvplc.com/site-essentials/downloads/itv-plc-annual-report-and-accounts-2013>)

**The Author is Manager, KPMG
10 Shelly St, Sydney
NSW 2000 Australia**

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Squadron Leader (retd.)

Senior Deputy Secretary - ICAB

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Chartered Accountant Bhaban

100 Kazi Nazrul Islam Avenue

Kawran Bazar, Dhaka 1000

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Chartered Accountant Bhaban

100 Kazi Nazrul Islam Avenue

Kawran Bazar, Dhaka 1000

Tel: 9115340, 9117521, 9137847

Fax: 8119399

Email: sds@icab.org.bd