MCCI's key proposals for Budget 2016

7 April 2016

Tax on gain on sale of listed shares

Currently institutional investors pay 10% capital gain tax on gain on sale of listed shares.

To encourage market stability and long term investment, many countries including few of our neighbouring ones tax this income on the basis of period of holding.

Accordingly MCCI proposes taxing this income as follows:

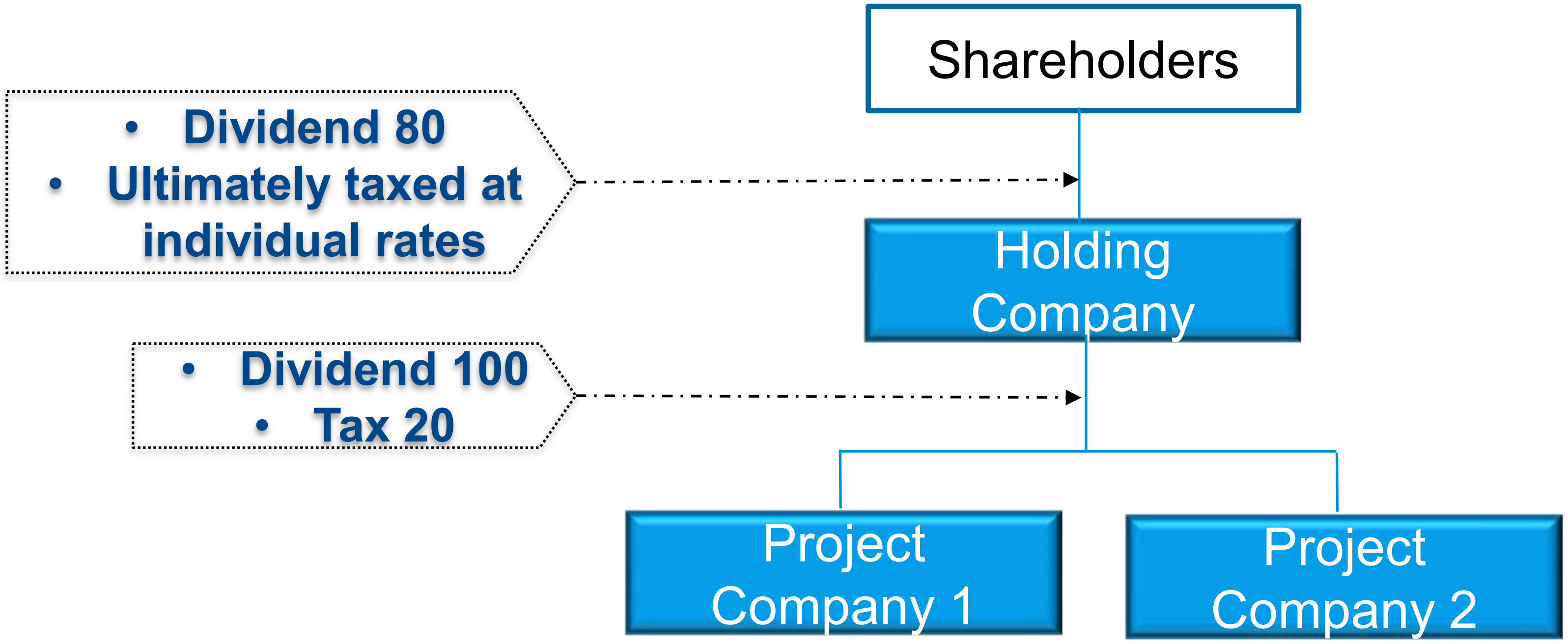
- ***If held for at least two years*** ***5%***
- ***If held for 1 – 2 years*** ***10%***
- ***If held for less than one year*** ***15%***

Excess perquisites

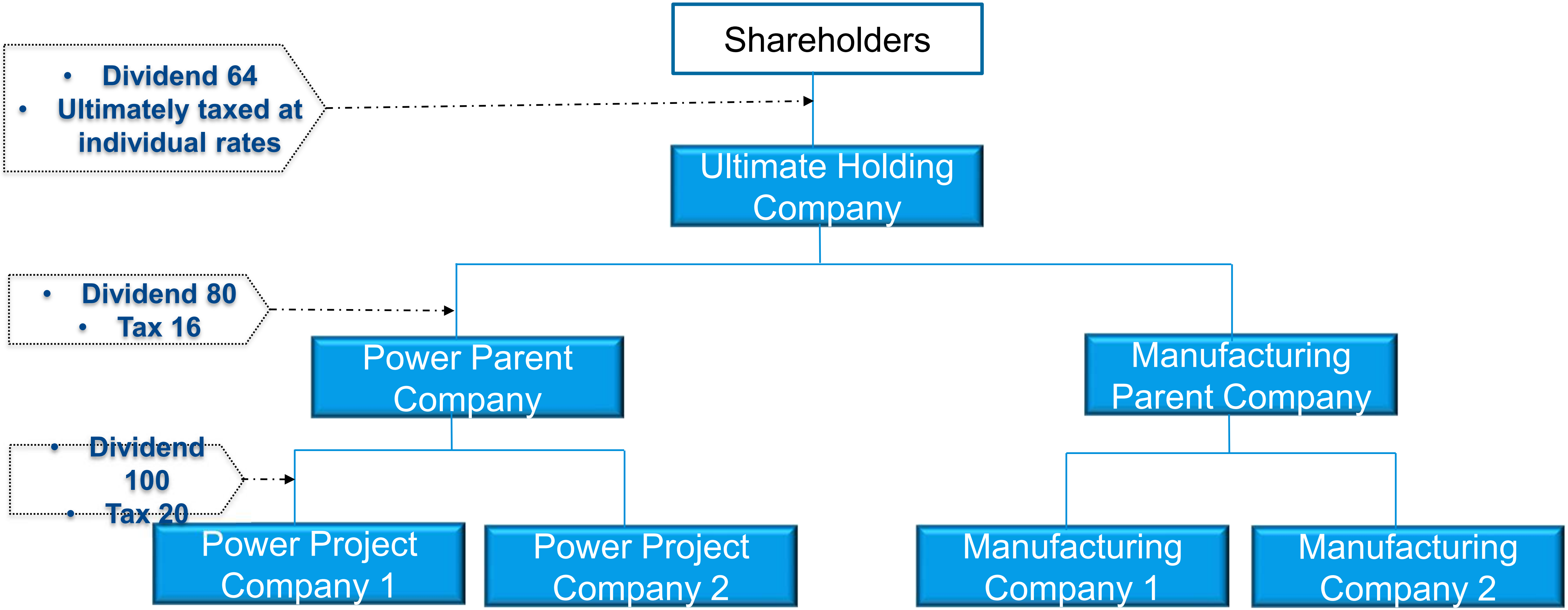
- **Currently most cash and non-cash benefits given to employees exceeding Tk 450,000 per annum is not a deductible expense for the employer.**
- **Employees are also taxed on these (beyond modest exemption allowances).**
- **Hence, both employees and employers can end up being taxed on perquisites.**
- **Not only can this be unfair, but it significantly increases payroll costs thus discouraging employment.**

MCCI proposes total deletion of this provision of non-deductibility of excess perquisites.

Dividend taxation in group arrangements



Dividend taxation in group arrangements (contd)



Dividend taxation in group arrangements (contd)

- **As a result such group arrangements, common in most economies, cannot be used here.**
- **Financiers prefer to invest debt as opposed to equity in Bangladesh, which can be adverse for our country.**

MCCI proposes introduction of provisions to recognise selected intragroup transactions e.g. dividends. We understand there are examples in this region.

Tax deducted at source – Import stage

- **Before 2010, the rate was 3%**
- **2010 onwards the rate is 5%**
- **As it is on gross import value, it is excessive. Has the potential to create a repayment for importer.**
- **To deny repayment of tax, assessing officers arbitrarily increase sales and/or disallow expenses to adjust all TDS.**

MCCI proposes the rate to be taken back to 3%.

Withholding tax on importation of services

- If we want to modernise and diversify our economy, in many cases we need to bring technical know-how, technical assistance, etc. from abroad.
- Until 2015, the WHT on such services was 10%.
- Finance Act 2015 raised most of these to 20% – 30%.
- This is of course in addition to VAT at 15%.
- This is making importation of key expertise prohibitively expensive.

MCCI proposes that these rates be taken back to pre 2015 levels.

Provision for final discharge (section 82C)

- **Until 2011, this was truly final discharge, i.e. in specified areas, tax deducted at source was final discharge.**
- **Finance Act 2011 made several changes including introduction of sub-section (6). Under this, there is final discharge unless Accounts show it is possible to realise more taxes.**
- **This has made this provision not just confusing, but open to misuse.**

MCCI proposes deletion of sub-section (6).

Investment of provident fund contributions

As per rule 49 of ITO 1984, the investment options of provident fund contribution are as follows:

- **Post Office savings bank account.**
- **Investment in securities or invested in promissory notes, debentures stock or other securities of the Government.**
- **Investment on a first mortgage of immovable property, etc.**

- **Such limited investment options do not facilitate resource mobilisation.**

MCCI proposes inclusion "fixed deposit with commercial banks" as an investment option.

Deductibility of foreign travel expense

- **Currently, expenses in connection with overseas business travel, are deductible only up to 1% of turnover. This is a relatively recent introduction.**
- **With our strong need to not just increase exports, but to diversify the export basket, business executives and entrepreneurs need to travel, some very extensively.**
- **Restricted deductibility of such an expense goes against the need of our economy.**

MCCI proposes deletion of this restriction. Failing that, the cap should be raised to 2%.

Life insurance policies – receipts in excess of premiums paid

- **Since 2014, there is withholding tax at 5% on any amount received by a policyholder on maturity which is in excess of premiums paid over period of policy.**
- **As it happens, already over the life of the policy this policyholders' surplus is taxed, albeit at a lower effective rate (25% of the surplus taxed at 42.5%). Hence, the same surplus is taxed twice.**
- **Life insurance penetration ratio is currently 0.6% of GDP in Bangladesh. In India, it is 3.1%. This sector needs to grow. This view is reflected in Govt's recent policy initiatives and in awarding of new licences. MCCI believes this WHT runs contrary to this initiative.**

MCCI proposes deletion of this withholding tax (under section 52T of Income Tax Ordinance 1984).

Personal tax rate

- **Highest personal tax rate has recently been increased to 30% from 25%.**
- **MCCI believes a rate as high as 30% will demotivate honest tax payers and may increase tax evasion.**

MCCI proposes the highest personal tax rate be reduced to a level not above 25%.

Thank you

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