

A Set of Proposals for the National Budget FY2008-09

Prepared by the Centre for Policy Dialogue (CPD)

Submitted to
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B A N G L A D E S H

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1. INTRODUCTION

This document contains a set of proposals prepared by the *Centre for Policy Dialogue* (CPD) for submission to the *Ministry of Finance, Government of Bangladesh* (GoB). These proposals were prepared in the context of the upcoming national budget FY2008-09 by keeping in view the need for enhanced production and economic growth, reduced inequality and interests of producers' and consumers'. Accordingly, the proposed measures take into cognizance the challenges of revenue generation, investment promotion, export expansion, domestic industrialisation, balanced regional development, equity and needs of the marginalised and reforms of tax administration.

2. GENERAL FISCAL MEASURES

2.1 *Income Tax*

- Tax exemption limit may be revised upward to Tk 200,000 from the existing Tk 150,000 considering the current inflationary pressure in the economy. The minimum threshold could be kept at Tk 2,000.
- In view of the recent price hike of essentials and the consequent fall in real income, particularly of fixed income groups, government may consider introducing a 30 per cent dearness allowance on basic salary of all government employees.
- In view of the rise in house-rent, the ceiling of tax-free house rent allowance may be refixed at 60 per cent (currently 50 per cent or Tk 15,000, whichever is lower) of the basic salary. However the maximum limit may remain at Tk 15,000. Accordingly, the relevant service rules provision should be amended.
- An employer has to submit information regarding payment of salary and tax deduction at source as per section 108 of ITO 1984 to the concerned DCT office. Emphasis should be given to strict implementation of the provision. In this regard DCT office could prepare/update a list of organizations at the beginning of each financial year and serve notice for non-submission of return at the end of submission time.
- Its need to be stipulated that certification of tax assessment is submitted at the time of trade (or any other) license renewal.
- Current campaign needs to be continued to identify potential tax assesses and broadening tax net.
- The ambit of the large taxpayer units (LTU) needs to be expanded to enhance opportunities for tax mobilisation.
- For dividend income when reinvested, tax may be waived (currently taxed at 10 per cent at source). It may be noted that, non-resident foreign investors in EPZ are already enjoying tax free reinvestment of dividend income.
- Given the current depressed investment situation, NBR may like to consider for an extension of tax holiday facilities for industries by another five years. The existing tax

holiday scheme is set to expire in June 2008. After five years the decision may be revisited on the basis of a comprehensive assessment on the impact of the scheme.

- Limit of investment allowance may be enhanced to 25 per cent from the existing 20 per cent (in this case existing limit of Tk 250,000 could be enhanced to Tk 300,000 to encourage investment).
- Tax on not-for-profit research institutions should be waived since such taxes amounts to tax on knowledge.
- 4.5 per cent VAT on coaching centers, English-medium schools, private medical and engineering colleges and private universities may be withdrawn. A device needs to be designed so that entrepreneurs of such services have to pay the tax, but are not able to pass the burden on to their clientele.
- Taking cognizance of the need to further curtail the population growth rate, government may device an incentive package for all government employees who have only one child. This could be considered an added advantage in case of promotion and placement.

2.2 Corporate Income Tax

- Corporate credit cards may be introduced in order to distinguish between personal and corporate expenditures. To reduce the possibility of misuse of these cards, use of the Corporate Credit card may be allowed only against adequate supporting documents/evidence.
- Turnover tax limit for SMEs may be revised from annual turnover of Tk 20 lakh to Tk 30 lakh.
- Implement a time-bound plan to ensure that all units of the corporate sector implement harmonized and international accounting standards as adopted by the Institute of Chartered Accountants of Bangladesh (ICAB) to ensure proper tapping of the corporate profit tax.

2.3 Value Added Tax (VAT)

- Dedicated funds should be allocated to ensure proper implementation of earlier decision on VAT inclusive Maximum Retail Price (MRP).
- VAT related appeals should be settled within six months instead of current limit of one year.

2.4 Customs Duty

- Customs duty on capital machinery and intermediate goods should be reduced considering the recent declining import trends of such items. These rates were increased to 10 per cent and 15 per cent respectively in the budget for FY2007-08.

- Withdrawal of zero duty on textile machinery, computer and computer accessories in the budget FY2007-08 may be reconsidered as this raises the import cost of these items and may not prove to be favourable to the IT industry.
- Dispersions of duty rates needs to be reduced within 4-digit tariff heads.

2.5 Supplementary Duty

- Supplementary duty may be enhanced on high-value vehicles and other items generally used by the richer segments of the society.
- Abolishing the supplementary duty (SD) on raw materials and components is necessary to ensure interests of the local industries.

2.6 Land Price and Registration Charge

- Government should decrease high transfer registration cost to reduce propensity to evade tax and to protect the current revenue intake under this head.
- Large agricultural landowners must be brought under the tax net.
- Simplify land registration procedure.
- Rationalize the minimum value of flats and buildings for tax purposes reflecting current market prices and locational variations.

3. EXPORT PROMOTION AND IMPORT SUBSTITUTION

3.1 Export Promotion

- All dyes, chemicals and other raw materials used in textile sector for the purpose of export may not have more than 5 per cent import duty.
- For providing incentives to the backward linkage domestic textile sector and to enhance competitiveness of the apparels sector in the international market, the existing 5 percent cash incentive may continue.
- Government should allocate fund for establishment of an Integrated Textile Park (ITP). The main purpose of introducing the ITP is to provide the entrepreneurs with world-class infrastructure facilities for setting up their textile units.
- Plastic industry is emerging as a major contributing sector in our foreign earnings. The government should consider providing 10 per cent cash incentives to this industry. Similarly, in recent years export of jute goods has grown significantly and it is currently enjoying 7 per cent cash incentives. It is proposed that the 7 per cent be increased to 15 per cent.
- In order to enhance ship building sector in the country government should provide bonded warehouse, tax exemption on raw materials and cash incentive facility to this

sector. Government should also declare this sector as a thrust sector when announcing its export policy.

- To develop and strengthen backward linkage textile industry and the country's traditional jute industry, a *Technology Upgradation Fund* may be established (perhaps with an allocation of Tk100 crore). Credit provided under this scheme on concessional rates of interest will assist the industries to undertake technological restructuring initiatives, modernize their plants through installation of new machines and state of-the-art technologies.
- The coverage of the *Equity Entrepreneurship Fund* (EEF) may be expanded beyond agro, agro-processing and IT-related projects. It may cover other potential areas, such as light engineering, plastic, melamine, and electronics. The allocation of the EEF may be increased from the existing level.
- In view of increasing demand for maintaining better quality and standard of Bangladeshi products, government should allocate more funds for modernization and upgradation of the facilities of BSTI.

3.2 Domestic Protection and Import Substitution

- Rationalisation of tariff rates needs to continue so that raw materials are not taxed at a higher rate compared to finished goods.
- Concessional custom duty may be extended to import substituting industries (e.g., electronic industries manufactured locally) for import of parts and components.
- Import of maintenance-free lead acid batteries used for assembling of import substituting rechargeable lamps and UPSs may be exempted from the VAT net.
- Duty on imported stainless steel (S.S) used as raw materials in making hospital beds, medical surgical or veterinary furniture, should be reduced from existing the 15 per cent.
- In order to safeguard domestic industries manufacturing voltage stabilizers, government may impose duty over voltage stabilizers imported in finished form.
- It is proposed that the current import duty on clinker which is Tk 350 per ton should be reduced to Tk 200 per ton in order to generate competitiveness in the domestic cement industry.

4. SOCIAL SECTOR AND SOCIAL PROTECTION SCHEMES

4.1 Women Development

- Government has been allocating fund for the welfare of RMG women workers which have remained unused. Contributory Provident Fund (CPF) for garment workers may be made with an equal amount of contribution from government and the company. The amount paid by the company as CPF is to be declared tax free.
- Amount of money provided for destitute and widow women which is now Tk 220/person per month is too low for the survival of a person especially in the prevailing inflationary

period. Allowance for the destitute and widow women may be raised from the current level of Tk 220/person per month to Tk 300/person and coverage should be increased up to 10 lakh from the current 7.5 lakh.

- For the pilot programme titled “Maternity Allowance for the Poor Lactating Mothers” allowance of the expected poor mother can be increased from Tk 300 to Tk 350/person per month this year.

4.2 Employment Generation

- The government may consider introducing a Rural Employment Guarantee Scheme for the unemployed. For a beginning, in view of regional disparity, this scheme may be introduced in three Divisions—Rajshahi, Khulna and Barisal. This scheme may seek to provide guaranteed employment to one member of every household below a threshold income level (hard core poor) for at least 100 days a year, especially in the lean (Monga) season. The minimum wage could be Tk 150 per day.
- In the last Budget 550 crore taka were allocated for employment generation in rural areas outside the ministry-based employment generation programmes, a portion of which was implemented by Palli Karma Shahayak Foundation (PKSF) through their associate NGOs. This year this amount should be increased for the disaster affected people in the southern Bangladesh.
- Government could consider creating a development fund under Ministry of Overseas Employment and Expatriate Welfare for development of skill, language course and other training facilities for workers going abroad, and also for providing loans.

4.3 Rehabilitation of the Disaster Affected People

- Special fund should be allocated for the rehabilitation and employment generation of the Sidr affected people in the southern districts of Bangladesh
- For the coastal areas of Bangladesh government should allocate funds for the construction of more cyclone shelters for both human and livestock, especially in the char areas.
- In the upcoming budget needs of the urban poor, char landers, disaster prone or monga prone people and low income groups should receive proper budgetary allocation.

4.4 Rehabilitation for Senior Citizens and Uprooted People

- Considering the prevailing inflationary situation in the country, allowance for senior citizens may be increased to Tk 300/person per month from the current Tk 220/person per month. The coverage under the programme should be increased up to 25 lakh from current 17 lakh.
- For the rehabilitation of the slum dwellers, initiatives may be taken to lease out government khas lands to slum dwellers in various locations in the Dhaka city. Fund should be allocated to improve the physical environment of slums to provide adequate service facilities e.g. electricity, gas, drainage, water etc.

4.5 Education

- Scaling up of scholarships and incentives for disadvantaged girls and boys from very poor families would be a good initiative.
- Government may consider tax waiver on educational expenses up to Tk 10,000 per annum.

4.6 Access for Persons with Disabilities

- An income tax exemption of Tk 10,000 per child per family with physically or mentally challenged children may be introduced for the purpose of supporting education and training of children with disabilities.
- Tax exemption for equipments for disabled people (e.g. wheel chair) is still limited. The government may reduce the duty on import of these items.
- VAT on physiotherapy services for disabled people may be exempted to reduce cost of medical support for this particular group of people.
- Tax on raw materials used for locally made educational and mobility equipments for the disabled may be reduced.
- Government has allocated Tk 10 crore *Fund for Rehabilitation of the Acid Burnt Women and the Physically Handicapped* in the budget for FY08. Government may consider increasing the fund under this social safety net programme.
- Government may allocate fund for setting up separate ward for acid burnt women in all public hospitals.
- Allocation may be made for helping poor women who face domestic violence to seek medical and legal support.
- Allowance for the disabled is proposed to be increased from current Tk 220/person per month to Tk 300/person per month and the expansion of beneficiary coverage up to 2.5 lakh from the current 2 lakh.

5. PRICE STABILISATION/SUPPORT

- Continue with zero-tariff on import of edible oils (crude and refined), lentils and essential food commodities including rice (proper monitoring to discourage over invoicing needed).
- Adequate allocations will need to be made to cover the difference between procurement price and OMS price.
- Higher allocation is needed for greater coverage and higher entitlement under various safety net programmes.

6. SECTORAL MEASURES AND REGIONAL DEVELOPMENT

6.1 Agriculture

Crop Sector

- Special support may be given for production of Breeder's seed of recently released varieties of rice, jute and other crops. This support may be provided as an additional allocation to the agricultural research institutes to be used for production of Breeders' seed which will be distributed at a nominal price to the Bangladesh Agricultural Development Corporation (BADC) and private seed companies and NGOs for subsequent production of truthful level (TFL) seed to be used for cultivation by the farmers.
- Allocation should be made for procurement of quality seeds, particularly those of recently released varieties such as BR47 suitable for cultivation in salinity prone areas during Boro season. This will increase the ability of the public sector to supply quality seed for rapid expansion of modern varieties.
- Putting in place cash incentive for insurance companies which would undertake crop insurance programme may be considered.
- Allocations will need to be made for distribution of seed for chickpea, lentil, onion, and true potato seed at a subsidized rate in higher potential areas would be helpful for increase in the production of these crops.
- To promote hybrid rice seed production in the country, government needs to encourage public sector agencies such as BADC, BRRI, BINA and agricultural universities as well as private seed companies and NGOs involved in seed production and marketing.
- Continue zero tariff/low tariff for import of different kinds of seeds, breeding animals, broodstock (mother fish)
- Annual demand for fertiliser for Urea, TSP and MoP in FY2008-09 need to be determined as per the production target. This would require an upward revision of the current fertiliser supply. Amount for fertiliser subsidy should be estimated accordingly and allocated.
- To encourage balanced use of fertilizers, government may consider redistribution of subsidy among the various types of fertilizers e.g., Urea, TSP and MP.
- Duty-free import of fertilisers should continue.
- Fertiliser prices are increasing world wide and therefore, budgetary provisions are required for increased domestic production of fertilisers which may include renovation of existing fertiliser factories and establishment of new fertiliser factories.
- Continue 20 per cent subsidy on electricity bills of *Palli Bidut Samities (PBSs)* for electricity and waiver of minimum charge for all electricity connections throughout the country for irrigation which has been effective from 1 July 2005.
- Extend coverage of rural electrification and ensure regular supply of electricity to reduce cost of irrigation and sustain economic activities in rural areas.

- Amount, mode and time of payment for diesel subsidy need to be revisited. The budget for FY2007-08 proposed Tk 750 crore as subsidy on diesel used in irrigation which was reduced to Tk 250 crore at a later stage.
- In the Budget of FY2007-08, 10 per cent duty on import of power pumps was introduced. This may be withdrawn.
- Government needs to undertake a special programme for establishing different types of Krishi Bazars for farmers, particularly in the higher production areas of Bangladesh.
- The government will need to make adequate allocation for procurement of Boro and Aman.

Livestock and Poultry

- Zero tariff on import of inputs and machineries required to fight *Bird Flu* by the poultry farmers needs to be ensured.
- Existing tax holiday for poultry farms should be extended to June 2013.
- Government needs to undertake special programmes for vaccination of poultry birds to reduce the possibility of epidemics. Actions for cure and prevention of bird flu may be enhanced and strengthened further. Allocations may be enhanced further for this purpose.
- Continue the existing policy of exemption from all duties and taxes on raw materials for dairy and poultry feed, medicine, other medical inputs and capital machineries required by the livestock sector.
- Continue existing customs duty (25 percent) on poultry products (meat, eggs).

Fisheries

- Allocations for special projects for development and management of broodstock of fishes may be made for such types of fish as Rohu, Catla, Tilapia for facilitating quality supply of fingerlings. The current focus is rather limited in this regard.
- Appoint more fisheries officers and veterinarians in intensive fish cultivation and poultry production zones such as Gazipur, Narsingdi, Bhaluka, Savar and Daudkandi.

Others

- A fund of Tk 100 crore has been allocated in FY2007-08 for small farmers affected by natural disasters. This should be further enhanced in view of the severe disasters of FY2007-08 and their implication on the affected farmers.
- Strengthening extension and marketing services for horticultural products is necessary through more allocation in these areas for such activities.

- Extend income tax exemption period on income from fish farming, poultry and diary farms and poultry feed production up to 30 June 2013 (instead of 30 June 2008)
- The government has to ensure supply of good quality seeds, fertilizer and irrigation. A mechanism for regular market monitoring has to be put in place towards this. In this context, public and private enterprises and interested NGOs need to be provided with appropriate incentives through fiscal measures, and related supports (provision of Breeders' Seed at a subsidized rate).

6.2 Agro-based Industries

- For maintaining quality of products of agro-processing industries, import of vitamin and micro- nutrients may be exempted from any duty.
- Benefit of tax exemption and rebate for jute industries was allowed up-to 30th June, 2008. This benefit should be extended to June 2013.
- Allocations for SPS-TBT compliance related capacity building needs to be strengthened.

6.3 Apparels and Textiles Sector

- To promote and support the process of up gradation in apparels and to access high-end markets, a *Technology Development Fund* needs to be put in place. This can be managed in collaboration with private sector associations in the industry.
- A *Cluster Development Fund* may be set up for entrepreneurs to obtain financial support and develop specialized service facilities in various RMG-factory zones.
- The *Skill Development Fund* for RMG workers, for which funds worth Tk 20 crore were allocated in the Budget FY08, may be strengthened, with public-private sector partnership, to ensure higher labor productivity, particularly for female workers.
- A *Workers' Livelihood Improvement Fund* maybe set up to support NGOs for providing various kinds of health, nutrition, medical and child care support to garment workers.
- A *Fund for Relocation of Factories* may be created to provide concessional loans to RMG enterprises for encouraging them to relocate RMG plants from Dhaka and Chittagong zones and into designated garment villages.
- Government should ensure adequate credit for small, medium and large enterprises in order to enhance scaling up of these enterprises. Sufficient land should be provided outside city areas to relocate and upgrade RMG factories as well as to establish state of art factories. In this context, government should develop the proposed site for garment village in Munshigonj on an urgent basis.
- The policy of zero-tariff access for RMG machineries and spare parts may be continued to allow enterprises to acquire new technology and scale up their production levels.
- As in the national budget for FY 2007-08, the government may continue to provide concessional import duty on raw materials for the textile sector.

- Government should provide more support to vocational training institutes for extending activities related to fashion design and technology. Vocational training institutes should offer their programmes at an affordable expense for people of rural/peri-urban areas. A national comprehensive plan is required for effective utilization of various technical, vocational and diploma training institutes.
- Government should develop a '*Fund for R&D Development*' for textile and apparel sector under which subsidised credit could be disbursed for the establishment of R&D units in RMG enterprises.
- Import of yarn from India through Benapol Port should have to be hassle free. As in Chittagong port, it is important to relax the clearance procedure as well as submitting documents of bank guarantees to the port authority etc. Besides, the existing rule of using 'escort' to clear the imported yarn should be immediately withdrawn. However, necessary oversight mechanism will need to be put in place.

6.4 Jute Sector

- Adequate allocations need to be made for paying the arrears accruable to retrenched workers of all public sector jute mills including four jute mills which were closed in the recent past.
- In order to encourage export of jute goods, government should increase cash incentives from 7 per cent to 15 per cent.
- Government needs to continue the current practice of 15 per cent tax on income of manufacturers of jute goods for another five years, i.e. up to June, 2013.
- Import duty on stretch rapping film (HH Code No.3920-1010) which is used as raw materials for manufacturing yarn needs to be reduced from the existing 15 per cent to 5 per cent.
- NBR should provide necessary guidelines as regards income tax waiver on company's expenditure for 'workers participation fund' and 'workers welfare fund', for which provisions have been made under Labour Law 2006.

6.5 Information and Communication Technology (ICT)

- Tax holiday facility for the ICT sector will be expired in 30 June 2008. In view of the enhancing ICT sector, government should consider extension of tax holiday facility in software and IT enabled services for another 5 years.
- Import duty on computer accessories can be lowered from their existing levels. Advance income tax at import stage for computer and computer accessories can be removed.
- In order to increase use of internet for the purposes of business, education, and other activities, government should take necessary initiative for lowering of charge of internet use.
- In order to develop software to cater the demand of international market, allocations should be made for establishing an integrated Software Technology Park (STP) in the

country. This will promote software industry of the country. Allocation should be made in this regard.

- The current EEF in IT-related projects should include the *Call Centre* project. In order to facilitate the call centre business, access to credit facility needs to be ensured.

6.6 Small and Medium Enterprises (SMEs)

- To ensure SMEs' access to credit facilities and to provide encouragement to the banks and financial institutions, the *Refinancing Scheme* which was introduced in FY2007 should be continued.
- Corporate tax rate of banks and financial intuitions can be determined on the basis of their type of financing. In this context, a reduced corporate tax rate can be considered for the amount finance which targets the SME sector.
- In order to make SME products competitive, the difference of import duty between final products and raw materials need to be widened. In this context, import duty on raw materials used in SME enterprises can be fixed at a low level.

6.7 Real Estate

- For developing the secondary housing market, government may reduce the registration fee which is charged on transfer of second-hand homes (e.g. 50 per cent of the tax charged for registration of a new apartment).
- Government may consider raising the limit for house building loan at reduced rate by enhancing individual's monthly income limit from Tk 30,000 to Tk 50,000.

6.8 Power & Energy

- In view of energy security of the country on a sustained basis, government should make necessary allocations to set up atomic power plants by taking support from various development partners.
- To ensure generation of more electricity, adequate allocations should be made for developing more transmission lines in order to ensure sufficient gas supply for all gas-based power plants.

6.9 Tourism

- In view of prospect of development of five star hotels in Bangladesh and subsequently export opportunities with regard to hotel catering and other services, adequate allocation should be made to Bangladesh Parjatan Corporation (BPC).

6.10 Infrastructure

- In view of substantial damage of roads, bridges, culverts and embankments etc. during two consecutive floods and cyclone 'Sidr' in the last year, government should increase budgetary allocation for necessary repair and development of those infrastructures.
- Government should speed up the process of finalizing the formalities of initiating preliminary works for establishing 'Padma Bridge'. Necessary funds will need to be generated towards this end.
- Government should prepare a modernization, expansion and development plan for Mongla Sea Port. Government should place the plan for necessary funding under WTO's 'Aid for Trade' programme.
- Adequate funds need to be allocated for expansion of Chittagong port.

6.11 SoE

- Government has initiated offloading shares of state owned enterprises (SOEs) in the stock exchange such as Jamuna Oil Company Ltd. and Meghna Petroleum Ltd. Government should take necessary measures to speed up the process of off-loading of shares of other SOE enterprises which are currently under consideration (including Bangladesh Biman).

6.12 Environment

- Government has withdrawn import duty from the Effluent Treatment Plants (ETPs) in the National Budget 2007-08. Industries which have not taken advantage of this facility and is still contributing to pollution should be penalized.
- Different parts of effluent treatment plants (ETP) are treated as separate component and customs authorities charge duty for each item independently which increases the overall cost. It is necessary to consider all parts of ETP whether imported together or separately from different sources as an integral part of a whole machine and should get duty-free import facility.
- Carbon tax may be imposed on the old carbon emitting transports.
- *Polluters Pay Principle (PPP)* may be applied on polluting and non-compliant industries. A pollution tax or *Green Tax* of 5 per cent may be levied on all inorganic waste generated by different industries, particularly if ETPs are not installed within the stipulated period.
- Industries may be provided soft loans for investment in pollution prevention and pollution control equipments. This may be done through support from EEF.
- Government may allocate funds for SMEs to encourage and promote clean production technology for those units which lack adequate resources to do so.

6.13 Regional Development

- Recent evidence on poverty dynamics shows that Bangladesh notwithstanding being a relative small landmass is showing high degree of regional imbalances in development. Analysis reveals that Barisal, Rajshahi, and Khulna are the most poverty stricken and employment starved division. Moreover these regions are also affected by either flood or Sidr this year. Chittagong Hill tracts and other areas inhabited by indigenous communities are also pockets of underemployment. A preferential Tax Holiday Scheme has been inadequate to alleviate the situation. Accordingly, GoB has to devise a special and substantial public expenditure package targeted to these regions, particularly focusing on development of infrastructure (e.g. inter-connecting roads, electricity, and gas supply).
- *Backward Region Development Fund* should be initiated by the government for the development of the backward regions of the country. A recent study on analysis of poverty incidence, measured through Head Count Ratio, in different regions (old districts) revealed that poverty has increased in 11 regions (Bogra, Dhaka, Jamalpur, Jessore, Khulna, Noakhali, Pabna, Patuakhali, Rajshahi, Rangamati, Tangail) and decreased in nine regions (Barisal, Chittagong, Comilla, Dinajpur, Faridpur, Kushtia, Mymensingh, Rangpur, Sylhet) between 1995/96 to 2005/06. Districts with increased poverty may be targeted under the Backward Region Development Fund.

7. RESTRUCTURING THE TAX ADMINISTRATION

- **Maintaining a Database:** NBR may maintain a computerised database of the TIN of each assessee for verification of the amount of tax collected from the respective TIN holder on a random basis to check tax payments and detect tax evasion.
- **Reduction of Evasion of Customs Duty:** Data on revenue collection may be passed on to the NBR monitoring cell on a regular basis if online network is developed between the customs points and the NBR.
- **Justice for the Tax Payers:** For ensuring that proper tax payers receive justice at taxes appellate tribunal, the tribunal may be reconstituted in line with the past provisions of having a judicial member.