

BASIS RESPONSE ON PROPOSED BUDGET FOR 2005-2006

BASIS (Bangladesh Association of Software & Information Services), the national association for Software & IT Enabled Services companies of Bangladesh, has been working continuously to develop the Software and IT Enabled Service (ITES) industry of Bangladesh. As a part of its supportive role for the growth of the industry, the association, whenever required, raises the issues and concerns of the industry members in different public forums.

BASIS has organized this “**Press Conference**” because it feels that the proposed national budget for 2005-2006 presented by Mr. Saifur Rahman, Honorable Minister, Ministry of Finance & Planning, on June 9, 2005 at National Parliament, has several budgetary proposals that are going to affect adversely the growth prospect of the software industry in Bangladesh.

In the budget proposal, 10% corporate income tax has been proposed for income from software business (from FY 2006 to FY 2008). It may be mentioned in this regard that till June 30, 2005 income from software business was exempted from corporate income tax (the current tax exemption was allowed by the current government through SRO No. 172. Income Tax/2002 of 03 July 2002).

BASIS feels that for the following reasons the proposed introduction of 10% income tax is going to hamper the growth of the industry and at the same time will be damaging for the national interest.

- **Software industry in Bangladesh is still in an ‘infant/early stage’.** As experienced by other countries, the industry needs some time and big amount of Investment for reaching a mature stage. Since the rate of return from the investment in the sector is long-term (the typical pay back period from investment in any software project is more than five years), different countries provide special tax incentive to attract investors for investing in this sector (all the countries, including India, Malaysia, China, Vietnam, Sri Lanka, Pakistan, that have high growth of software industry still provide full tax exemption facility to the software sector). The current tax exemption has certainly played an important role in bringing new investment in the sector in last few years. Recently this incentive has been able to attract some Direct Foreign Investment and some joint venture projects are in the process. The sudden imposition of 10% income tax is certainly going to directly discourage investors in this sector.
- Currently there is virtually no funding opportunity from traditional financial institutions in the country for Software Companies. **Whatever growth in Local market or Export earning is completely by Private investor from their own fund and reinvestment made from the revenue/profit.** Imposing tax on this sector will have serious negative growth impact in ICT sector, declared as a ‘thrust sector’ by GOB.
- From the recent trends it is very evident that the demand for automation and computerization in different public and private sector enterprises are growing at a very good pace (currently there is more than Tk 250 crore yearly market of software, the yearly growth rate for next few years will be more than 100% per

year). The local software companies have been building their capacity through investment and reinvestment for meeting the demand. At the same time, some companies in the neighboring countries are also trying to get a significant share of the growing software market in the country. With the growth of market, the local software industry has also reached a 'take-off' stage and it has created opportunity for employment of significant number of unemployed educated youth in the sector. **Blocking this growth by the budget proposal of tax imposition will allow domination of foreign companies in the local market, which will be devastating** as it will not only drain foreign exchange (cost of foreign software are much higher than local software also), but the local clients would significantly also suffer from lack of available services for successful implementation (as experienced in some recent big projects).

Any disincentive at this critical growth stage for local software companies in their capacity building can result in handing over the Bangladesh software market to foreign software firms. Therefore, BASIS strongly feels that the imposition of corporate tax will only serve the purpose of software companies from neighboring countries.

- In a television interview right after the budget proposal at national Parliament, Honorable Finance Minister Mr. Saifur Rahman justified the decision to introduce 10% corporate income tax by mentioning the underperformance of the software industry to earn significant level of foreign currency through exports.

In this regard, BASIS strongly feels that it is very unfortunate that the importance of the software industry is measured by the amount of export earning. Software and other IT sectors should be considered by any country to be one of the strategically important sectors of the economy. The existence of a strong and vibrant Software & ITES Industry is necessary for attaining growth and sustaining it, as this is the one very important force which can drive all other sectors in achieving their objectives through speed, accountability and transparency. In addition to generating significant number of employment of educated youths, this Sector can play a vital role in providing important value to the country by making other sectors viable, productive and efficient. **Without a strong domestic software industry, no country in today's global economic perspective can be competitive.**

Apart from the high importance of software industry as a tool for the overall national development, the employment generating role of the sector should be given due consideration. As the Industry is based on Intellect, employment is given to only those who have undertaken at least a 4-year Degree program after Higher Secondary School. **Very few other industries in the country can absorb such highly educated work force in any significant number.** Currently, more than 350 registered software companies in the country are employing more than 6,000 high skilled professionals (all minimum graduate level).

Though software export in recent years shows very high growth (122% in first six months of current fiscal year; more than 70% growth last year), It should be noted that the 'local value

addition’ for software export earning is 100% where as other big export have only 10% to 15% value addition. BASIS strongly feels that it is fundamentally wrong to judge the performance of software industry by the amount of foreign exchange earned by the sector. In this respect, Government should consider the value the local software companies have created and delivered in recent years by significant amount of **‘import substitution’** (if local companies could not deliver the required software it would have to be purchased from foreign companies with higher price and at foreign exchange). More over most of the large exporters, particularly in RMG, Knitwear, Pharmaceuticals and leather sectors are using local software making the software a significant contributory factor for national export earning. Software companies’ service as **“Deemed Export”** has been completely ignored in the proposed budget for 2005-2006.

Conclusion

BASIS Strongly feels that the proposed imposition of income tax @10% on the software business is very much against the spirit of Government policy of using ICT as a tool for national development and poverty alleviation (the role of ICT has also been acknowledged in the PRSP document of the Government). It is very unfortunate and undesirable that while the proposed budget has allowed different other prospective national industries (including all other ‘thrust sectors’ declared by the government) to enjoy different budgetary supports (continuation of tax holiday/exemption, cash subsidy etc.), it is only the Software Industry that have been deprived of any support from the government in the budget proposal.

BASIS requests the Honorable Finance Minister to reconsider the proposal of introduction of 10% income tax on software business and to declare the sector ‘tax exempted’ till FY 2010. Along with this proposal, BASIS also proposes some other budgetary policy decisions for the development of the Software and IT enabled service industry that have been attached with this document.