

# A balanced budget through tax hikes

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Governments in modern day economies engage in numerous social welfare and national development activities, which they finance through their income.

The governments may have many sources of income, but taxation is the vital one. Social welfare and national development activities in the developed world are undertaken principally based on collected taxes.

However, in the developing world, a large part of social welfare and the national development budget is provided by donor agencies, creditors, or developed countries in the form of different types of aid, like grants, loans, tied aid and bilateral and multilateral aid. Conducting social welfare and national development activities through foreign aid makes the recipient countries dependent on the aid providers.

In the longer run, this dependency impedes national development as those aid providers influence national policies, priorities and development strategies of the recipient countries, to accomplish their own interest.

Consequently, governments in the developing world and especially in Bangladesh should prioritise to carry out social welfare and national development activities by increasingly utilising its own resources collected through taxation – income tax, capital gain tax, inheritance tax and expenditure tax.

As a logical step in the proposed national budget of 2010-11, Bangladesh has proposed for the first time a 10 percent tax on institutions that profit from the trade of shares and a 5 percent tax on the income made by sponsor shareholders or directors of listed companies.

In addition, the government proposed tax at source on commissions received by the members of the stock exchanges.

Furthermore, the government could have imposed taxes on profits made by individuals as well. Investment in the financial market has two sides -- gain and loss. Consequently, in order to encourage investors, the tax rate imposed upon investment gains should be a flat rate, which means the tax rate will not change with a change in the amount gained.

The above discussion mainly focused on taxation in the capital market, but what about taxation on the income of individuals and inheritances. Like previous governments, our current government is also reluctant about imposing these two types of taxes. The NBR from time to time takes initiatives to expand the tax net by bringing business people under the tax net, but why not individuals.

The government should impose income taxes based on the progressive principal, which means that the higher the level of taxpayers' earnings, the greater the proportion of income paid in that tax. The money collected through progressive income taxes could be used for national economic development as well as to conduct social welfare activities. In addition, the government could introduce inheritance taxes, so that whenever wealth or property is transferred to heirs, that wealth or property must be subject to an inheritance tax at a progressive rate.

It was earlier very common for governments to make balanced budgets, but nowadays it is more popular to make deficit budgets. However, for a healthy economy, the deficit should not exceed more than 1-3 percent of GDP and more importantly, the government must consider how the deficit will be financed. The proposed national budget of Bangladesh 2010-11 has a 5 percent deficit, which the government is planning to finance through internal and external sources.

In Bangladesh, internal sources usually mean borrowing from banks and external sources mean different types of aids. Borrowing from the bank for financing a budget deficit creates a huge demand for money, which leads the interest rate to rise. The higher interest rate affects the national investment prospect negatively.

On the other hand, borrowing from outside sources in the form of different types of aid creates dependency on the aid providers. Consequently, the deficit should be kept as lower as possible – not more than 1-3 percent.

There is no better alternative to financing the national budget but from the government's own income, where a major part comes from taxation. Keeping this in mind, the government of Bangladesh should expand its tax net in the future and consider

keeping its budget deficit in between 1 and 3 percent of GDP.

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