BUDGET HIGHLIGHTS
Blue - Green Budget
2018
B. R. De Silva & Co.
Chartered Accountants
(In Practice Since 1954)

We are a leading local firm in practice with global reach. Our philosophy is to provide our clients with a personally dedicated quality service. Our services include, Assurance, Tax & Business Advisory services and handling outsourced assignments.

International segment of the services are provided by member firms of Nexia International, a global network of independent accountancy and consultancy firms with over 500 offices in over 100 countries.

All firms in the network have shared values and are fully committed to provide a quality service to our clients. The head office of Nexia International is located in London, UK

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This publication brings to the attention of our clients, the highlights of the government policies, as stated in the Budget Speech presented in the Parliament on 09th November 2017.

The contents of this document focus and states only, what we believe our business clients would be mostly interested in.

We have included highlights of the main government policies with regard to Social Development and Economic objectives and how the government proposes to achieve the said objectives.

This synopsis has been prepared for general information purpose only and is not intended to be relied upon as accounting, tax or other professional advice. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in future. It also does not intend to address circumstances of any individual or entity. These proposals are yet to be enacted and therefore no course of action should be initiated based solely on the information contained in this booklet without obtaining appropriate professional advice from us.

If you need my clarification please contact us.

Thank You,

B.R. DE SILVA & CO.
Chartered Accountants
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1. **VALUE ADDED TAX (VAT)**

1.1. **Removal of Exemptions**

- Sale of condominium housing units
- Import or supply of imported goods set out below will be liable for VAT:

<table>
<thead>
<tr>
<th>Item Description</th>
<th>Exempted HS Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plants &amp; Flowers</td>
<td>06.01, 06.02.10, 06.02.20, 06.02.30, 06.02.40, 06.02.90.90</td>
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<tr>
<td>Plastic Beads</td>
<td>39.26.90.70</td>
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<td>50.01, 50.02, 50.03, 50.04, 50.05, 50.06, 50.07, 51.11, 51.12, 51.13, 52.01, 52.03, 52.05, 52.06, 52.08, 52.09, 52.10, 52.11, 52.12, 53.09, 53.10, 54.02, 54.03, 54.07, 54.08, 55.09, 55.10, 55.12, 55.13, 55.14, 55.15, 55.16, 58.01, 58.02, 58.04.21, 58.04.29, 58.04.30, 58.06, 58.09, 58.11, 60.01, 60.02, 60.03, 60.04, 60.05, 60.06, 62.15</td>
</tr>
<tr>
<td>Wood &amp; Articles</td>
<td>44.03, 44.07, 44.08, 44.09</td>
</tr>
<tr>
<td>Dyes</td>
<td>32.04.11, 32.04.12, 32.04.13, 32.04.14, 32.04.15, 32.04.16, 32.04.17</td>
</tr>
<tr>
<td>Glass Beads</td>
<td>70.18.10</td>
</tr>
<tr>
<td>Plant and Machinery/Industrial racks</td>
<td>84.07, 84.11.91, 84.13.40, 84.43.19.10, 84.43.32.30, 84.43.32.40, 84.43.39.20, 84.43.99.30, 84.44, 84.45, 84.46, 84.47, 84.48, 84.51.40.10, 84.51.50, 84.51.80.10, 84.51.90, 84.70.10, 84.79.89.10, 84.79.89.20, 84.79.89.30, 84.79.89.40</td>
</tr>
<tr>
<td>Electronic goods</td>
<td>85.16.40, 85.16.72, 85.27.21, 85.27.29, 85.27.91, 85.27.92, 85.39.31.20, 85.43.70.30, 85.43.70.90, 85.43.90</td>
</tr>
<tr>
<td>----------------------------------</td>
<td>--------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Aeroplanes &amp; Parts</td>
<td>88.02, 88.03.30, 88.05.21, 88.05.29</td>
</tr>
<tr>
<td>Spectacles</td>
<td>90.01, 90.02, 90.03, 90.04, 90.05</td>
</tr>
<tr>
<td>Cameras &amp; Projectors</td>
<td>90.06, 90.07, 90.08, 90.10</td>
</tr>
<tr>
<td>Watches</td>
<td>91.01, 91.02, 91.05</td>
</tr>
</tbody>
</table>

1.2. **New Exemption**

- Solar tracker classified under HS Code 84.79.89.50

1.3. A VAT refund scheme for foreign passport holders will be implemented at the Airports and Sea Ports with effect from 01\(^{st}\) May 2018.
2. NATION BUILDING TAX (NBT)

2.1. Exemptions

- Importation of non-motorized equipment and accessories for water sports such as Kayaks, Canoes, Kite Surfing, and diving
- Importation of non-powered equipment and accessories for aero sports such as Hang Gliding, Ballooning, dirigibles, Parachutes and Para-Gliders
- Importation of gem stones for cutting and re-export purposes
- Importation of equipment that enable advanced technology agriculture practices, including greenhouses, poly tunnels and materials for the construction of greenhouses, by any grower.
- NBT on domestic Coconut oil and kernal products will be removed for a period of 1 year.
- The upfront payment of NBT applicable on the sale of yachts built by BOI companies to the local BOI charter companies.
- The NBT will be exempted on machines and equipment including solar panels and, storage batteries which will be imported for the establishment of solar charging stations.

2.2. Exemption on liquor will be removed.

3. ECONOMIC SERVICE CHARGE (ESC)

3.1. ESC base for imported motor vehicles will be amended as follows;
Motor vehicles liable for Excise duty - Payable Excise Duty

Motor vehicles not liable for Excise – CIF value duty
4. TOURISM INDUSTRY

4.1. All tourist service providers with the Sri Lanka Tourism Development Agency (SLTDA) to bring the informal sector into the broader tax net.

4.2. The Online Travel Agents (OTAs) in the tourism industry (both resident and non-resident) which derive their commission from the businesses carried out in Sri Lanka, and in line with global best practices, we will impose a tax of 1% on the commission derived or accrued by OTAs from reservations in Sri Lanka.

4.3. Liquor Licenses
- Rate structure of Liquor license fee will be simplified w.e.f. 01/01/2018
- Issuance of new liquor license will be simplified to promote tourism.
- A tax file number will be one of the essential requirements when issuing these licenses.

4.4. A credit scheme will be introduced to support home owners registered with the SLTDA to upgrade their houses to meet the standards required to be in the Homestay programme.

The following terms and conditions will be applicable in this regard.

- Maximum loan size: Rs. 5 million
- Interest rate: 6% per annum
- Tenure: 10 years

4.5. The following proposed amendments to may also affect the tourism industry
Excise Duty under Excise Ordinance

4.5.1. Liquor

Alcohol volume based Excise Duty depending on the type of liquor will be introduced as follows:

i. Hard liquor - Rs. 3,300/- per litre of alcohol
ii. Beer - Rs. 2,400 per litre of alcohol
iii. Wine - Rs. 2,400 per litre of alcohol

4.5.2. Non-potable alcohol

Excise duty will be imposed on import of non-potable alcohol at Rs.15/- per Kg.

4.5.3. Excise Duty will be imposed on raw materials used for manufacturing of ethanol to be as follows:

<table>
<thead>
<tr>
<th>Type of raw material</th>
<th>Proposed Duty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Toddy</td>
<td>Rs.05/- per litre</td>
</tr>
<tr>
<td>Molasses/Maize/Rice/Fruits</td>
<td>Rs.10/- per Kg</td>
</tr>
</tbody>
</table>

4.5.4. Excise (Special Provisions) Duty applicable on canned beer will be removed.

4.6. Applicable duty will be revised for off-road electric sports vehicles classified under HS Code 8703.10.11, 8703.10.19, 8703.10.21, 8703.10.29 to facilitate promotion of sports tourism.
5. AUTOMOBILE INDUSTRY

Motor vehicles

5.1. Ad-valorem rate of excise duty on motor vehicles will be removed.

5.2. Excise duty will be applied based only on the Engine Capacity (cubic centimeter (cm³)) for petrol and diesel motor vehicles.

5.3. Excise duty base for electric vehicles will be the motor power of the engine (kilowatt (Kw)).

5.4. The rate for Engine capacity based excise duty on petrol fuel & petrol hybrid motor cars are as follows.

<table>
<thead>
<tr>
<th>Engine capacity (cm³)</th>
<th>Petrol fuel (Rs. Per cm³)</th>
<th>Petrol hybrid (Rs. Per cm³)</th>
</tr>
</thead>
<tbody>
<tr>
<td>≤ 1000cm³</td>
<td>1,750</td>
<td>1,250</td>
</tr>
<tr>
<td>1000cm³ &lt; x ≤ 1300cm³</td>
<td>2,750</td>
<td>2,000</td>
</tr>
<tr>
<td>1300cm³ &lt; x ≤ 1500cm³</td>
<td>3,250</td>
<td>2,500</td>
</tr>
<tr>
<td>1500cm³ &lt; x ≤ 1600cm³</td>
<td>4,000</td>
<td>3,000</td>
</tr>
<tr>
<td>1600cm³ &lt; x ≤ 1800cm³</td>
<td>5,000</td>
<td>4,500</td>
</tr>
<tr>
<td>1800cm³ &lt; x ≤ 2000cm³</td>
<td>6,000</td>
<td>5,000</td>
</tr>
<tr>
<td>2000cm³ &lt; x ≤ 2500cm³</td>
<td>7,000</td>
<td>6,000</td>
</tr>
<tr>
<td>2500cm³ &lt; x ≤ 2750cm³</td>
<td>8,000</td>
<td>7,000</td>
</tr>
<tr>
<td>2750cm³ &lt; x ≤ 3000cm³</td>
<td>9,000</td>
<td>8,000</td>
</tr>
<tr>
<td>3000cm³ &lt; x ≤ 4000cm³</td>
<td>10,000</td>
<td>9,000</td>
</tr>
<tr>
<td>4000 cm³ &lt;</td>
<td>11,000</td>
<td>10,00</td>
</tr>
</tbody>
</table>
5.5. The rate for Engine capacity based excise duty on **diesel fuel** & **diesel hybrid** motor cars are as follows:

<table>
<thead>
<tr>
<th>Engine capacity</th>
<th>Diesel fuel (Rs. Per cm$^3$)</th>
<th>Diesel hybrid (Rs. Per cm$^3$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$\leq 1500 cm^3$</td>
<td>4,000</td>
<td>3,000</td>
</tr>
<tr>
<td>$1500 cm^3 &lt; x \leq 1600 cm^3$</td>
<td>5,000</td>
<td>4,000</td>
</tr>
<tr>
<td>$1600 cm^3 &lt; x \leq 1800 cm^3$</td>
<td>6,000</td>
<td>5,000</td>
</tr>
<tr>
<td>$1800 cm^3 &lt; x \leq 2000 cm^3$</td>
<td>7,000</td>
<td>6,000</td>
</tr>
<tr>
<td>$2000 cm^3 &lt; x \leq 2500 cm^3$</td>
<td>8,000</td>
<td>7,000</td>
</tr>
<tr>
<td>$2500 cm^3 &lt; x \leq 2750 cm^3$</td>
<td>9,000</td>
<td>8,000</td>
</tr>
<tr>
<td>$2750 cm^3 &lt; x \leq 3000 cm^3$</td>
<td>10,000</td>
<td>9,000</td>
</tr>
<tr>
<td>$3000 cm^3 &lt; x \leq 4000 cm^3$</td>
<td>11,000</td>
<td>10,000</td>
</tr>
<tr>
<td>$4000 cm^3 &lt;$</td>
<td>12,000</td>
<td>11,000</td>
</tr>
</tbody>
</table>

5.6. Duty rates for Electric vehicles are as follows:

<table>
<thead>
<tr>
<th>Motor power</th>
<th>Unregistered (brand new) vehicle (Rs. Per kw)</th>
<th>Used vehicle (Rs. Per kw)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$\leq 50$ Kw</td>
<td>7,500</td>
<td>15,000</td>
</tr>
<tr>
<td>$50$Kw $&lt; x \leq 100$ Kw</td>
<td>12,500</td>
<td>25,000</td>
</tr>
<tr>
<td>$100$ Kw $&lt; x \leq 200$ Kw</td>
<td>25,000</td>
<td>40,000</td>
</tr>
<tr>
<td>$200$ Kw</td>
<td>40,000</td>
<td>55,000</td>
</tr>
</tbody>
</table>

5.7. Duty rates for three wheelers are as follows:

- **Petrol** - Rs.2,100 per cm$^3$
- **Diesel** - Rs.1,250 per cm$^3$
- **Electric**
  - Unregistered (brand new) - Rs.7,500 per Kw
  - Registered (used) - Rs.10,000 per Kw
5.8. **Vehicle permits for public sector employees**

- Upper ceiling of excise duty concession of vehicle permits for public sector employees will be defined in rupee value without changing the existing concession rate.
- Upper ceiling of CIF value of imported vehicles will be removed
- Restriction on transferability will be removed

5.9. **Luxury Tax on Motor Vehicles**

- One-time payment luxury tax will be introduced in lieu of the present system of payment over 7 years
- The present system will be continued for the vehicles already registered
- Tax depends on the band of engine capacity or motor power of the vehicle as follows:

<table>
<thead>
<tr>
<th>Motor Car</th>
<th>Super Luxury (Rs.)</th>
<th>Luxury (Rs.)</th>
<th>Semi-Luxury (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petrol</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1800cm³ &lt; x ≤ 2500 cm³</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diesel</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2200cm³ &lt; x</td>
<td></td>
<td></td>
<td>250,000/-</td>
</tr>
<tr>
<td>Petrol</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2500cm³ &lt; x ≤ 3200 cm³</td>
<td></td>
<td></td>
<td>500,000/-</td>
</tr>
<tr>
<td>Diesel</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3000cm³ &lt; x</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Petrol</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1000cm³ &lt; x ≤ 3500 cm³</td>
<td></td>
<td></td>
<td>1,000,000/-</td>
</tr>
<tr>
<td>Diesel</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4000cm³ &lt; x</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Petrol</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3000kw &lt; x ≤ 5000 kw</td>
<td></td>
<td></td>
<td>2,000,000/-</td>
</tr>
<tr>
<td>Electric</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
5.10. **Carbon Tax**

- Carbon tax will be imposed on motor vehicles based on the engine capacity.
- Rate will depend on age and fuel type of vehicle as follows:

<table>
<thead>
<tr>
<th>Type of vehicle</th>
<th>Less than 05 years</th>
<th>05 to 10 years</th>
<th>Over 10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hybrid (Petrol/Diesel)</td>
<td>25 Cts per cm$^3$</td>
<td>50 Cts per cm$^3$</td>
<td>Rs.1.00 per cm$^3$</td>
</tr>
<tr>
<td>Fuel (Petrol/Diesel)</td>
<td>50 Cts per cm$^3$</td>
<td>Rs.1.00 per cm$^3$</td>
<td>Rs.1.50 per cm$^3$</td>
</tr>
<tr>
<td>Passenger bus</td>
<td>Rs.1,000/-</td>
<td>Rs.2,000/-</td>
<td>Rs.3,000/-</td>
</tr>
</tbody>
</table>

- Electric vehicles are exempted from the levy

5.11. Issuance of Usance Letter of Credit Facility for importation of motor vehicles will be canceled with effect from January 01, 2018

5.12. The loan to value ratio for the electric busses and three wheelers will be revised to 90/10. This will be extended for domestically assembled electric three wheelers, cars and buses, as well.

5.13. Importation of Motor Vehicles below the Emission Standard of the EURO 4 or its equivalent will be prohibited with effect from January 01, 2018 in line with the health and environmental safeguard measures.

5.14. Importation of Motor Vehicles, which are not complied with the safety measures namely (a) Air Bags for driver and the front passenger, (b) Anti-Locking Breaking System (ABS) and (c) Three Point Seat Belts for driver and the passengers travelling in the front and rear seats, will be prohibited with effect from January 01, 2018 in line with the safety of passengers / travelers.
6. **IT INDUSTRY**

6.1. The Government will finance the “IT Initiative” by providing Rs. 3 billion over a period of 3 years. This initiative will provide both financial and non-financial support by way of grants, equity investments, credit facilities, mentoring, technical support etc. to:

- local startups
- Attract foreign startups
- Small and medium IT companies with a turnover around USD 2-3 million per annum to at least double their revenue in 3 years.
- Create the enabling environment by supporting establishment of Incubators, the acquisition and augmentation of skills and know-how in collaboration with the local universities etc.

6.2. The Government will facilitate effective collaboration between the Universities and the Industry and the IT industry to be able to acquire and augment the skills set in line with the demand in collaboration with the University of Colombo (UoC) and Moratuwa (UoM) and, the SLIIT.

6.3. The “I2I” aims to connect university graduates and NVQ 4 certified graduates for a registered patent or a viable business idea with the industry. (Industry will adopt the Innovator).

The Government will bear:

- The monthly salary, i.e., 50% up to a maximum of Rs. 50,000 per month for a period of 24 months, and
- The cost of patenting in Sri Lanka and counsel on patenting

6.4. The “Smart Class Room” concept will be strengthened as part of our digitalization drive, together with the development of e-text books.

6.5. Universities of Colombo and Moratuwa to conduct training courses on robotics and artificial intelligence to encourage the IT initiative
7. **EXPORT INDUSTRY**

7.1. **Export Access Programme**

“Export Market Access Support Programme” will introduce targeting the extension of support to:

- Local companies that already have exports of less than USD 10 million per annum.
- Potential new entrants to the export market to better access the global value chains.

This programme will facilitate

- Meeting of the cost of compliance which includes the cost of provision of free samples, intellectual property registration, insurance and promotional costs undertaken overseas.
- Meeting of the full or partial cost of rent of retail shop space or shelf space occupied by domestic brands that reach overseas markets for a maximum period of 36 months.

7.2. Product development assistance to exporters to develop new products or improve existing products to meet the export market standards and financial support will be provided through the “Enterprise Sri Lanka” Credit schemes. This programme will be implemented through the EDB.

7.3. Value Limit of Export Trade Sample (Selected Goods only) will be revised to US $ 400 or its equivalent per shipment, effective from January 01, 2018.

7.4. The proposed SME Guarantee Fund will enable SME Exporters who are in the CRIB but have the potential to export, yet has no access to finance its operations, to access financing from Banks utilizing the SME guarantees.

7.5. The EDB, supported by institutions such as Sri Lanka Customs, Department of Commerce etc., will establish a trade portal (E trade Information Platform) that will allow the exporters to access reliable trade information in time and trade promotional tools including trade statistics, regulatory requirements, export/import procedures etc.
8. IMPORT INDUSTRY

8.1. CESS Duty

- Cess will be removed on 253 items facilitating the emerging sectors namely, tourism, value adding industries and other industries.

- Cess will be revised on 22 items classified under the following HS Codes, facilitating the availability of goods for value addition and consumption purposes.

<table>
<thead>
<tr>
<th>HS Code 1</th>
<th>HS Code 2</th>
<th>HS Code 3</th>
<th>HS Code 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>0406.10.00</td>
<td>0406.40.00</td>
<td>0709.99.12</td>
<td>0709.99.20</td>
</tr>
<tr>
<td>0712.20.00</td>
<td>2922.42.10</td>
<td>4805.24.00</td>
<td>4805.25.00</td>
</tr>
<tr>
<td>4810.29.00</td>
<td>5208.11.20</td>
<td>5208.21.10</td>
<td>5208.21.90</td>
</tr>
<tr>
<td>6402.19.90</td>
<td>6403.19.90</td>
<td>6506.10.20</td>
<td>8509.40.00</td>
</tr>
<tr>
<td>8708.91.10</td>
<td>8708.91.20</td>
<td>4013.90.10</td>
<td>4013.90.90</td>
</tr>
<tr>
<td>9105.21.00</td>
<td>9105.29.00</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

8.2. Ports and Airports Development Levy (PAL)

- PAL on the items classified under following HS Codes will be reduced

<table>
<thead>
<tr>
<th>HS Code 1</th>
<th>HS Code 2</th>
<th>HS Code 3</th>
<th>HS Code 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>8415.90.90</td>
<td>8450.90.00</td>
<td>7212.40.00</td>
<td>8501.20.00</td>
</tr>
<tr>
<td>8418.91.10</td>
<td>8401.40.00</td>
<td>3920.30.10</td>
<td>8471.41.90</td>
</tr>
<tr>
<td>8418.91.20</td>
<td>7411.10.00</td>
<td>9032.10.00</td>
<td>8471.49.90</td>
</tr>
<tr>
<td>8418.99.00</td>
<td>8501.10.90</td>
<td>7210.30.00</td>
<td>8471.50.90</td>
</tr>
<tr>
<td>8414.30.00</td>
<td>8414.90.10</td>
<td>8483.50.00</td>
<td>8473.30.90</td>
</tr>
</tbody>
</table>

- PAL on the 253 items classified including importation of non-powered equipment and accessories for aero sports such as Hang Gliding, Ballooning, dirigibles, Parachutes and Paragliders will be removed.

- PAL will be revised on the importation of non-motorized equipment and accessories for water sports such as Kayaks, Canoes, Kite Surfing, and diving.
Para-Tariffs applicable on importation of sports shoes (for the use of football and rugby players) will be removed / exempted with a view to facilitate development of such sports activities among the rural youths.

Tax concessions will be granted on imported capital goods through bonding facilities during the construction period for large scale pharmaceutical investments, dairy industry and solid waste management ventures.

8.3. Customs Import Duty

Exemption of Custom Import Duty

- Importation of Crust (semi processed) leather for further processing (Tanning Industry) and supply of raw materials for leather products industry.

- Importation of machinery, equipment, accessories and raw materials or intermediate materials, to be used only for manufacturing of biodegradable packaging products and materials.

- Customs Import Duty will be updated on importation of goods in line with the HS 2017 version and also be revised on importation of selected goods.
9. AGRICULTURE INDUSTRY

- The Government will bear, 50% of the cost of introducing technology such as refrigerated storage to mitigate post-harvest losses in multi-day boats,

- The Government will bear, 50% of the cost of multi-day boats of more than 55 feet long so as to encourage deep sea fishing.

10. SMALL AND MEDIUM ENTERPRISES (SME)

- Rs. 10Mn to establish a development bank with an EXIM window for long term loans for SME’s.

- 10% interest subsidy given to encourage women entrepreneurs.

- Formation of SME companies is encouraged with at least 10 equity shareholders with an investment of Rs. 10,000 each. These companies can engage in any business. Government support will be given on provision of equipment, extension of leasing facilities and letter of undertaking including assistance of maintenance of bank.

11. TELECOMMUNICATION INDUSTRY

- For cellular towers a levy of Rs.200,000/- per month per tower and will be paid monthly by the mobile tower operator

- For bulk SMS advertisements a levy of 25 cts per SMS will be imposed and will be paid by the advertiser
12. OTHER INDUSTRIES

12.1. Sugar tax on sweetened beverages

- Excise duty based on the quantum of sugar contained will be introduced for the beverages with added sugar.
- This duty applicable for beverages classified under HS Code 22.02
- The rate will be 50 cts per gram of sugar.

12.2. Plastic resin

- Excise duty on plastic resin will be introduced at Rs.10 per Kg.
- This duty will be applicable for items classified under the HS Codes 3901.10, 3901.20, 3902.10, 3903.11 and 3904.10

12.3. Other Fees and Charges

The rates of fees and charges of government agencies which have not been revised in last 03 years will be increased by 15%.

12.4. Debt Repayment Levy

- Debt Repayment Levy (DRL) will be introduced on cash transactions by financial institutions.
- Rate is Rs. 2/- per Rs. 10,000/- cash transactions (i.e. 0.02%)
- Levy will be charged on total cash transactions and should be paid by the financial institutions.
13. CHANGES TO LAWS AND REGULATIONS

- Several key statutes will be enacted, some statutes will be repealed. Others will be amended.

- The Shop and Office Act will be amended to introduce the concept of flexi work hours.

- Restrictions will be removed on the limit of land ownership rights of listed companies with foreign ownership together with the restrictions on foreigners’ ability to purchase condominiums below the 4th floor.

- Limited liability partnership structures will be introduced after reviewing existing statutes such as Partnership Ordinance No 21 of 1866, the prevention of frauds ordinance and Companies Act No. 07 of 2007.
## COUNTRY FACT SHEET

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (Mn)</td>
<td>21.2%</td>
</tr>
<tr>
<td>GDP (USD Mn)</td>
<td>81.09%</td>
</tr>
<tr>
<td>GDP per capita (USD)</td>
<td>38.35%</td>
</tr>
<tr>
<td>GDP growth (5 years Average)</td>
<td>4.5%</td>
</tr>
</tbody>
</table>

According to the World Bank Report, since the civil war ended in 2009, the Sri Lanka Economy, grew on average with a growth rate of 6.2 percent.

However compared with most middle income countries, Sri Lanka has entered into a modest growth phase with an increased debt burden and political transition.

Nevertheless both World Bank and IMF have reported that the country is positioned well to continue with repaid growth due to its strategic growth drivers.

## GDP COMPOSITION

Sri Lanka has a 21.2 million population a per capita GDP of USD 3840.

The economy is a service oriented economy with more than 50% of its gross domestic product from the service sector.

The Industry Sector contributed to 26% of GDP. In 2017 the boom in the Construction Industry resulted in increased in capita income.

Agriculture contributes to about 8% of the GDP through the sector employs 1/3 of the population. In 2016 Sri Lanka experienced the worst drought in four decades followed by floods in 2017. Resulting in a higher than average number of reported dengue cases in country resulting in a health crisis among the population.
The World Bank Report indicates that destructive weather has resulted in the reduction of GDP from the agriculture sector, as a result affecting overall growth in the economy as at 2017.

**WHAT DRIVES GDP GROWTH?**

Sri Lanka is a strategic destination in the Indian Ocean Catering to merchants and travelers from South – East Asia.

As the gateway to South Asia, the country has a good relationship with neighboring countries. Sri Lanka currently has trading agreements with India and Pakistan. Similar agreements are being negotiated with China and Singapore.

Tourism is expected to contribute more to GDP in future.

Since 2009, there have been significant constructions taking place, which will result in economic development.

It is expected the electricity demand will increase significantly as the country moves towards industrialization. Therefore to fuel economic growth the country’s energy security needs to be established through a robust long term energy generation plan.

Agriculture which is our traditional GDP growth driver would contribute more to the economy with more automation. Since 1950’s Sri Lanka’s tea, rubber and cinnamon have made a name as of the best quality in the world.

**MORE FAVOURABLE CIRCUMSTANCES THAN THE PAST**

Central Bank Governor, Dr. Indrajit Coomaraswamy has stated that he believes the current set of circumstances are the most favorable for the last 50 or 60 years.

The solutions he reasons lie in broad macro-economic adjustments and increased exports and foreign direct investment.

He argues that from the late 1950’s to early 1980’s the domestic economy was dependent on the export of tea, rubber and coconut which continued to decline on a continuous basis.
Further in 1960’s and 1970’s the country adopted inward looking economic policies with a growing population relying on domestic economy was unsustainable and the policy did not yield a positive outcome.

After the economy was liberalized between 1977–1978, Sri Lanka though being an early liberalizer could not take advantage of liberalization as the thirty year internal conflict broke out.

Today, the nation having regained peace and located in Asia, the most dynamic region is occupying a strategic location to take advantage of growing opportunities.

According to Dr. Coomaraswamy the private sector should now take the reins of the economy and must increase exports and foreign direct investment (FDI) to maintain a six percent growth rate per annum.

**MACRO-ECONOMIC ADJUSTMENTS**

For the private sector to fuel economic growth, the government should play a central role in creating an advantageous environment through making macro-economic adjustments.

**FISCAL POLICY**

The government has a medium term revenue enhancement based budgetary consolidation programme. To reduce budget deficit to a sustainable 3.5% of GDP by 2020.

The strategy is based on the premise of fiscal consolidation with the aim of increasing revenue, rationalizing expenditure and reducing government debt.

In the recently released country report of the IMF it was stated “Sri Lanka’s fiscal consolidation considered key to improving macro-economic fundamentals now hinges on the new Inland Revenue Act which is expected to make the tax system more effective and equitable and generate resources for social and economic programmes.”

It is expected the new income tax Act will be effective from 01st April, 2018.
Commitment to continuous fiscal consolidation is a key condition under the three years programme with the IMF and the government is expected to bring down its fiscal deficit to 4.7 percent this year, before gradually bringing the deficit below 3.5 percent of GDP by 2020.

**MONETARY POLICY**

The macro-economic policy is undertaken by the government to introduce a flexible target regime. Legal and accountability frameworks are being formulated to institutionalize the flexible inflation targeting regime.

**EXCHANGE RATE POLICY**

A framework is being adopted to have a competitive exchange rate. The best method being to increase foreign exchange earnings through exports.

**FUTURE DEVELOPMENT PROJECTS**

**Western Region Megapolis**

Covers three districts of the western province. It is a USD 40 Bn programme over 15 years. It envisages elevated highways, a light railway, residential and commercial real estate including affordable housing. As well as a tech city.

**Master Plan for Trincomalee Area**

The Singaporean consultancy which developed the western region Megapolis plan, is also doing a master plan for the Trincomalee area. Tourism, real estate and Industrial Zones will be the major features of this development.

**Port City Project**

269 hectares will be reclaimed and will have the Colombo International Finance Centre as its centerpiece. The intention is to develop a business area which has an investment climate which will rank in the top 10 in World Bank’s ease of doing business index.
Japan is developing a master plan for Kandy. It is expected to be of religious / cultural orientation.

Colombo / Kandy highway is being built, industrial Zones are planned in Kurunegala / Kuliapitiya areas of North – Western province.

An Industrial Zone is being established by a Thai Company in Kalutara. Tourism and other developments are planned in Southern Coast.

**Conclusion**

There are opportunities to take advantage of, if the development plans are executed well.

Assisting the nation to move towards a vibrant economy and prosperous country.
EFFECTIVE DATES OF PROPOSALS

Unless stated otherwise, the proposals in relation to:-

- Value Added Tax, Nation Building Tax, ESC and Amendments to Finance Act will be implemented with effect from April 1, 2018,

- Custom Duty, Excise (Special Provisions) Duty and Excise (Ordinance) Duty will take effect immediately.
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SALIENT FEATURES OF PROPOSED INLAND REVENUE ACT
The parliament introduced a new income tax bill on 07th September 2017. This bill is expected to be implemented on the 1st of April 2018.

The features of the new bill including its terminology are different to what taxpayers are conversant with.

In this booklet we attempt to bring to your attention important changes of the proposed Inland Revenue Act.
PART ONE: SOURCES OF INCOME ---------------------- 02- 10

a). Employment Income
b). Business Income
c). Investment Income

PART TWO: ADMINISTRATION PROCEDURES ------- 11 - 11
PART ONE

SOURCES OF INCOME

The Present 10 sources of income have been regrouped under 04 sources.

a). Employment Income
b). Business Income
c). Investment Income
d). Other Income

Employment Income

Key Changes to the Employment Income

- The Maximum rate increased from 16% to 24%.
- Income slabs modified.

<table>
<thead>
<tr>
<th>Current Provision</th>
<th>Rate</th>
<th>Proposed Provision</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment Income</td>
<td></td>
<td>Employment Income</td>
<td></td>
</tr>
<tr>
<td>First Rs. 750,000</td>
<td>Nil</td>
<td>First Rs.1,200,000</td>
<td>Nil</td>
</tr>
<tr>
<td>Next Rs. 500,000</td>
<td>4%</td>
<td>Next Rs. 600,000</td>
<td>4%</td>
</tr>
<tr>
<td>Next Rs. 500,000</td>
<td>8%</td>
<td>Next Rs. 600,000</td>
<td>8%</td>
</tr>
<tr>
<td>Next Rs. 500,000</td>
<td>12%</td>
<td>Next Rs. 600,000</td>
<td>12%</td>
</tr>
<tr>
<td>Balance</td>
<td>16% (over</td>
<td>Next Rs. 600,000</td>
<td>16%</td>
</tr>
<tr>
<td></td>
<td>Rs.2.25 Mn)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Next Rs. 600,000</td>
<td>20%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Balance</td>
<td>24% (over</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Rs.4.2 Mn)</td>
</tr>
</tbody>
</table>

- List of exemption given in the exciting Inland Revenue Act has been removed.

- New Exemption has been Introduced reimbursement or payment of medical expenses available to all fulltime employees on equal terms.
Business Income

• The law specifies that gains and profits from business should include the following:
  a). Service fees;
  b). Consideration received in respect of trading stock;
  c). Gains from the realization of capital assets and liabilities of a business;
  d). Gains on realization of depreciable assets of a business;
  e). Amounts derived as consideration for accepting a restriction on the capacity to conduct a business;
  f). Gifts received by a person in respect of the business
  g). Amounts derived that are effectively connected with a business and that would otherwise be included in calculating a person’s income from an investment; and
  h). Other amounts to be included under the Act.

• Tax rates for business have been revised
  - Lower Rate 14%
  - Standard Rate 28%
  - Higher Rate 40%

<table>
<thead>
<tr>
<th>Sector/Institution</th>
<th>Proposed Rate</th>
<th>Prevailing Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>SMEs</td>
<td>14%</td>
<td>12%</td>
</tr>
<tr>
<td>Exporters of Goods and Services</td>
<td>14%</td>
<td>0%/12%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>14%</td>
<td>10%/12%</td>
</tr>
<tr>
<td>Educational Services</td>
<td>14%</td>
<td>10%</td>
</tr>
<tr>
<td>Promotion of Tourism</td>
<td>14%</td>
<td>12%</td>
</tr>
<tr>
<td>Information Technology Services</td>
<td>14%</td>
<td>0%/10%/28%</td>
</tr>
<tr>
<td>Liquor/Tobacco/Betting and Gaming</td>
<td>40%</td>
<td>40%</td>
</tr>
<tr>
<td>Others</td>
<td>28%</td>
<td>0%/10%/12%/28%</td>
</tr>
</tbody>
</table>

• In calculating income from business, the following are deductible.
  a). Expenses to the extent they are incurred during the year.
  b). Incurred in the production of income.
### Key Sectors where the rate of tax is increased from 10% or 12% to 28%

- Construction Services
- Healthcare Services
- Warehousing
- Agro processing, animal feed and fishing
- Alternative energy including mini – hydro power projects (on expiry of 3 years)
- Clubs and association

### Losses

- The current laws provide business loss can be deducted but the deduction is limited to 35% of assessable income. According to the new bill the loss can be deducted in full. A remaining loss can be carried forward up to 6 years.
**Depreciation Allowances**
Depreciation allowance rates have been revised.

<table>
<thead>
<tr>
<th>Asset category</th>
<th>Proposed Act</th>
<th>Current law</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computers and data handling equipment together with peripheral devices.</td>
<td>20%</td>
<td>25%</td>
</tr>
<tr>
<td>Buses and minibuses, goods vehicles; construction and earth-moving equipment, heavy general purpose or specialised trucks, trailers and trailer-mounted containers; plant and machinery used in manufacturing</td>
<td>20%</td>
<td>20% /33 1/3%</td>
</tr>
<tr>
<td>Railroad cars, locomotives, and equipment; vessels, barges, tugs, and similar water transportation equipment; aircraft; specialised public utility plant, equipment, and machinery; office furniture, fixtures, and equipment; any depreciable asset not included in another class</td>
<td>20%</td>
<td>20% /33 1/3%</td>
</tr>
<tr>
<td>Buildings, structures and similar works of a permanent nature</td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>Intangible assets, excluding goodwill</td>
<td>The actual useful life of the intangible asset, or where the intangible asset has an indefinite useful life – 5%</td>
<td>10%</td>
</tr>
</tbody>
</table>

- The threshold for SME sector is 500 Mn under the new act.
Investment Income

Investment income categories.

- Dividend
- Interest
- Royalties
- Annuities
- Gains from the realization of investment assets (capital gain)
- Consideration for accepting restriction on the investment assets.
- Gifts received in respect of the investment.
- Winning from betting and gambling.

Dividend
The definition of the dividend has been broadened. However the basis of the taxation is remain.

WHT on dividend is 14%.

Dividend distributed out of foreign dividend received is taxed at 14%.

Exemption for Dividend
Dividend received by a non resident is exempt if the paying company has invested more than $ 1000 Mn or depreciable assets.

Foreign dividends is exempt if there is a participation of at least 10% of the value of shares in the foreign company.

Interest
Interest income up to Rs.1.5Mn for senior citizen is exempt.

5% WHT will be charged on
- Individuals
- Club And Associations
- Employee's Trust Fund
- Providend Funds
- Pension Funds
- Charitable Institutions exempt for care of children and elderly or disabled.
- Financial Institutions
- Companies other than financial institution
- Foreign currency accounts maintained by corporate (FCBU & NRFC)

Except for individuals for all of the other categories given above, interest income will form part of the assessable income and the WHT credit will be given.

**Capital Gain**

Capital gains tax has been introduced with exemptions. The tax will be charged when investment asset are realized. The proposed rate is 10%.

**What are Investment assets?**

- An investment asset is a capital asset held as part of an investment.
- A capital asset is defined to mean.  
  - Land or building   
  - A membership interest in a company or partnership   
  - A security or other financial asset   
  - An option, right or other interest in the above assets   
  - But excludes trading stock or a depreciable asset

Therefore an investment asset is any of the above assets held as part of an investment and not as an asset connected to the business.

**Realization of investment assets**

- Realization of an asset means when the owner of that asset parts with the ownership of that asset by
- Sale, Transfer, exchange, distribution, cancellation, redemption, destruction, loss, expiry, expropriation or surrender
➢ When a person ceases to exist including the death of an individual there would be a realization of that asset immediately before
➢ This would include gifting of an asset.

Gains from realization of assets
➢ How is the gain computed

Gain = Consideration – Cost of the asset

➢ Cost of an investment asset held as at September 30, 2017, shall be equal to the market value at that time.

Gains from realization of assets
➢ Cost of the asset includes
  - Expenditure to acquire
  - Expenditure on construction
  - Expenditure in altering, maintaining and repairing
  - Advertising
  - Transfer taxes
  - Duties
  - Expenditure in preserving or defending title
  - Service fees for retaining accountants, lawyers for the above purposes

Consideration
➢ The consideration is defined to mean the amount received or receivable for the asset.
➢ Only where consideration is given in kind-the market value must be considered.
➢ Exempt amounts shall be excluded from the consideration.
Exemptions
No tax will be imposed if it’s the principle place of residence if it is owned continuously for 3 years before disposal and lived in for at least 2 years.

➢ Gains by a resident individual from the realization of investments assets that does not exceed Rs 50,000/- per asset and does not exceed Rs 600,000/= per annum in total.
➢ Gains from the realization of assets consisting of shares quoted in any official list published by any stock exchange licensed by the SEC Sri Lanka.

Exclusions
➢ In the following cases the Act deems that there would be no capital gain from the realization of an asset as it deems the amount realized from the transfer to be the net cost of the asset.
➢ Transfer of an asset to a spouse or former spouse due to death or part of a divorce settlement (where the spouse specifically asks for this exclusion to apply in writing).
➢ Transfer on death – the realization of any asset upon the death of an individual.

Capital gains from realization of investment assets
➢ Transfer to an associate – where the associate is defined to include the individuals

child, spouse, parent, grandparent, grandchild, sibling, aunt, uncle, nephew, niece or first cousin including by way of marriage or adoption

and where the asset is an interest in land or building.
Losses from realization of assets

➢ Unrelieved losses from a business may be deducted in calculating investment income.
➢ Unrelieved losses from an investment can be deducted only in calculating income from investments.
➢ A gain from the realization of an investment asset cannot be reduced by a loss on the disposal of another investment asset.
PART TWO

ADMINISTRATION PROCEDURES

Changes to the administration procedure has been introduced.

➢ Time bar provision for raising assessment has been extended to 4 years.
➢ The proposed Law does not mandate the Commissioner General to give reason when the return is not accepted.
➢ Appeal procedure has been revised the word appeal has been replaced by the term review.
This publication was prepared to present time-sensitive information affecting our clients. Hence, it has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice.