



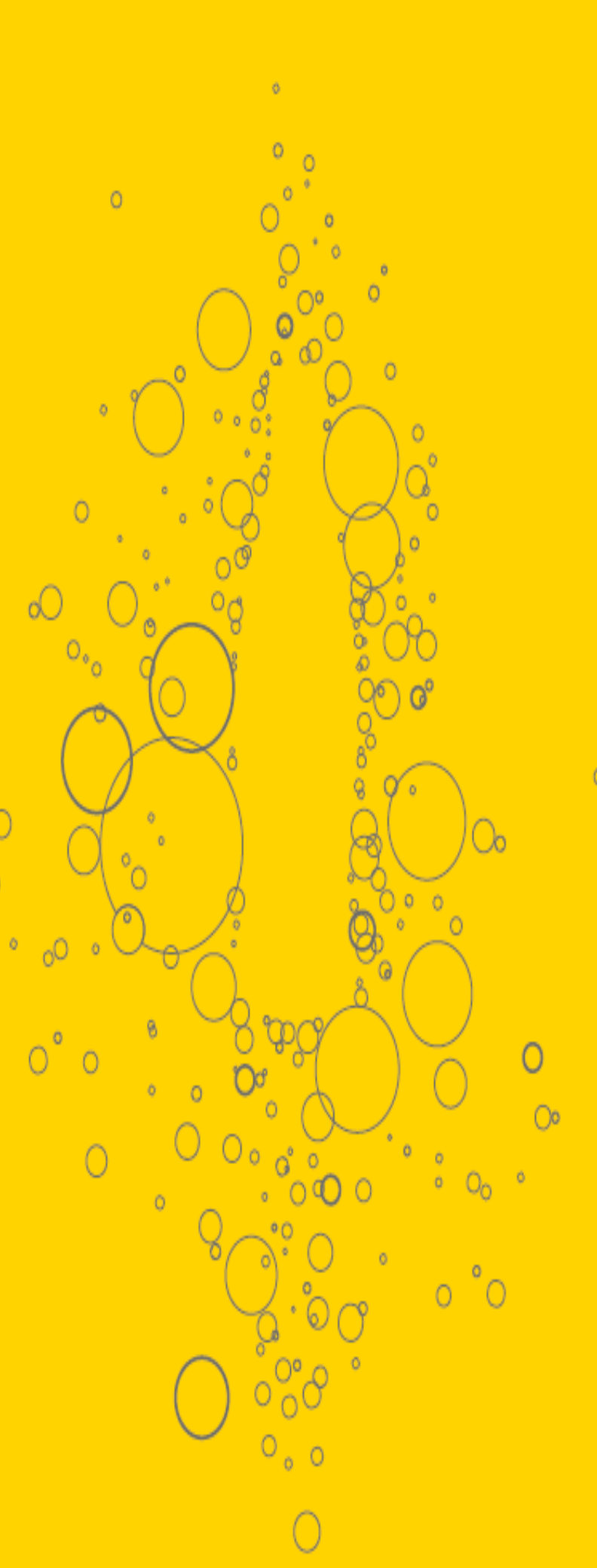
# Budget 2018



**EY**

Building a better working world





## Collaboration for success in the new world of tax

The Government's recent tax reforms are not just aimed at fiscal consolidation, but tend to lead to a more mature and stable tax environment, while aligning to the overall global focus on the taxation of cross-border transactions and e-commerce activities.

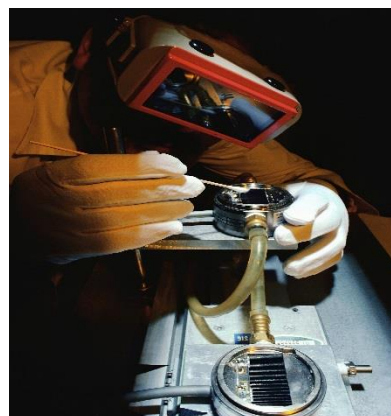
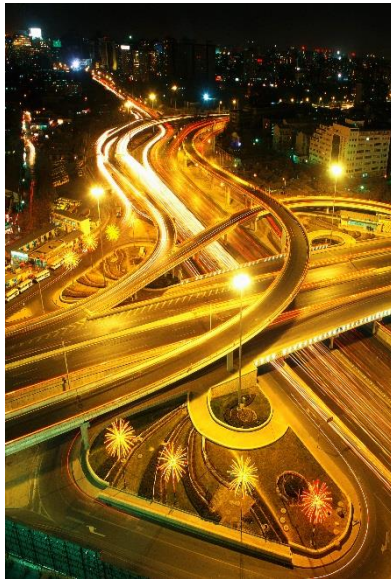
We believe that for reforms to work best, taxpayers, tax advisors and tax administration should work together as all three parties have critical roles to play in adopting and driving innovation as we move toward a new world of tax.



**Building a better  
working world**

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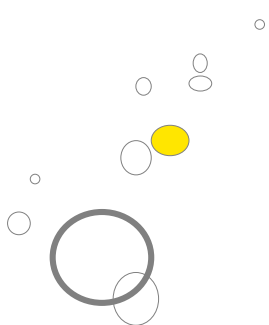
## About EY's Tax Services

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We create highly networked teams that can advise on planning, compliance and reporting and help you maintain constructive tax authority relationships – wherever you operate. Our technical networks across the globe can work with you to reduce inefficiencies, mitigate risk and improve opportunity. Our 50,000 tax professionals, in more than 150 countries, are committed to giving you the quality, consistency and customization you need to support your tax function.

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# *Foreword*

Dear Client,

The Hon. Mangala Samaraweera, Minister of Finance and Mass Media presented what he referred to as blue - green budget enterprise Sri Lanka for the year 2018 on 9 November 2017.

The national budget has been prepared with the aim of achieving medium term targets of a per capita income of USD 5,000, one million new employment, foreign direct investment of USD 5 billion and doubling exports to USD 20 billion per annum. In 2018, it is expected to achieve 5% growth rate and maintain inflation of 6%, a surplus of GDP of 1% and a budget deficit of 4.5% of GDP.

In this document, we have focused the discussion on the taxation proposals of budget 2018 and its impact on different industries and given reference to other socio economic development initiatives.

We do hope this document provides you with some ideas and pause for thought. If any of the issues in this document spark your interest, please get in touch with your EY contact and we will continue the discussion.

# 2

## Overview of the economy



### 1. Policy direction of the government

The vision of the government is to make Sri Lanka an upper middle-income country\* by 2025 by transforming Sri Lanka into an export-oriented economic hub in the Indian Ocean, with a knowledge-based, highly competitive, social-market economy. In order to achieve this vision, the government has formulated a “Three-Year Economic Delivery Programme”.

#### Three year economic delivery programme to boost the economy

The programme aims to raise per capita income to USD 5,797 by 2020;\*\* create 1 million new jobs; increase Foreign Direct Investments (FDIs) to USD 5 billion per year; and double exports to USD 20 billion per year by 2020.



Through this programme, the government will strengthen the drivers of growth and make growth more inclusive by undertaking macroeconomic, factor market, institutional and regulatory reforms to enhance the productivity and competitiveness of the economy. These reforms are expected to raise private investment, especially knowledge-intensive and technology-driven FDIs for export growth in both goods and services. The key strategic pillars highlighted in the programme are as follows:

- ▶ Strengthen the macro economic framework which will have three prongs: fiscal consolidation, ensure price stability, and maintain a market-based competitive exchange rate
- ▶ Strengthen the growth framework through empowering the private sector; incentivise domestic and foreign investment, revamp trade policy to enable an export-driven economy, and facilitate services expansion

Note: \* Upper middle-income economies are those with a GNI per capita between USD 4,036 and USD12,475 (source: World Bank)

\*\* 2016 per capita income of Sri Lanka was USD 3,835

- ▶ Reforms in land, labour and capital markets
- ▶ Develop economic and social infrastructure, i.e. improvement of social goods such as education, skill development, and healthcare
- ▶ Encourage the use of digital and other emerging technologies
- ▶ Develop social safety nets to protect the most vulnerable population
- ▶ Undertake agricultural reforms to minimise food insecurity, and create inclusive growth by developing underserved districts; prioritise environmental protection and disaster management; and energy security.
- ▶ Strengthen governance, rule of law and accountability
- ▶ Strengthen coordination and monitor implementation

#### Indicative macroeconomic targets - as a % of Gross Domestic Product (GDP)

Indicator	Provisional	Estimate	Projection		
	2016	2017	2018	2019	2020
GDP Growth Rate	4.4	4.5*	5.0*	6.0*	6.0*
Investment	31.5	30.3	31.0	31.5	31.5
Private Investment	26.5	25.1	25.6	25.8	25.8
Public Investment	5.0	4.9*	5.4*	5.6	5.7
Total Expenditure	20.4*	20.6*	21.1*	21.1	20.4
Revenue & Grants	15.0*	15.4*	16.4*	16.4	16.9
Current Account Balance	-0.6	0.5	1.1	1.6	2.2
Budget Deficit	-5.4	-5.2*	-4.8*	-4.0	-3.5
Domestic Savings	23.8	23.8	25.0	25.9	26.4

*\*Revised according to Budget Speech 2018*

*Sources: 2017-2020 Public Investment Program; Department of National Planning and Ministry of National Policies & Economic Affairs; Central Bank of Sri Lanka (CBSL)*

#### The focus of Budget 2018

The budget with the theme 'Enterprise Sri Lanka' has focused significantly on the environment and the Small and Medium-sized Enterprises (SME) sector. The government is trying to promote exports through the SME sector facilitating entrepreneurship development and Information Technology (IT) Industry. In addition to host of incentives for the SME sector, the government will allocate LKR 10 billion to set up an enterprise development bank to give long term loans without collateral for entrepreneurs.

The budget is also specifically focusing on facilitating trade and creating a shipping and logistics hub by removing restrictions on foreign ownership of ship agency and freight forwarding businesses. The move is aimed at encouraging international shipping and logistics companies to set up operations in Sri Lanka. The government is also expected to amend the Sri Lanka Ports Authority law and Merchant Shipping Act to cater to the demands of modern day logistics and maritime industries. These changes are expected to set in motion, competition in an industry that the large corporates in Sri Lanka have been operating. The government is expected to set-up an independent regulator for the industry.

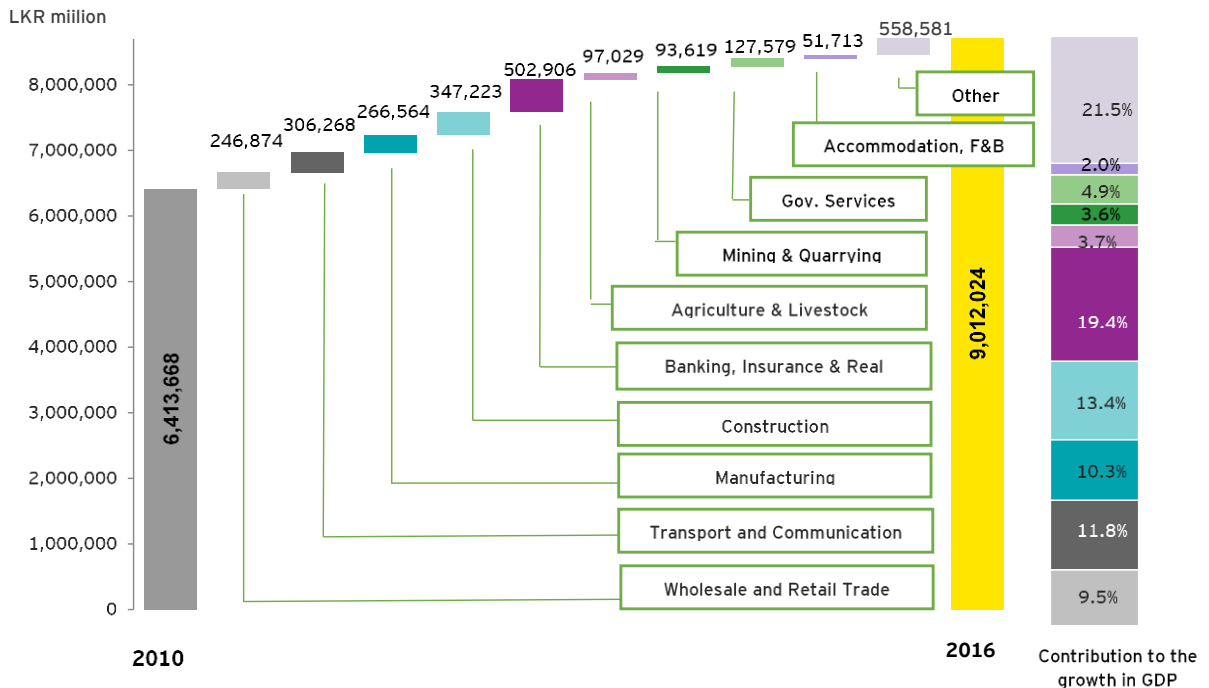
The budget also attempts to give some impetus for local and foreign investments through proposed reforms to archaic law, repeal laws constraining economic activity, new legislation for further reform on the economic front and proposed revamping of institutional framework.

## 2. The economy is slowing down

GDP (at constant 2010 prices) grew at a Compound Annual Growth Rate (CAGR) of 5.8% during the 6 year period from 2010 - 2016. Services sector was the major contributor growing at a CAGR of 6.4%. In year 2016, GDP grew by 4.4% Year-on-Year (YoY).

As per the latest World Bank forecast, Sri Lanka will be growing at a lower rate than other countries in South Asia. The estimated growth for this year is less than 4.5%, with other countries estimated to grow at rates ranging from a highest of 7.2% by Bangladesh, 7.0% by India and 5.3% by Pakistan. Smaller nations such as Nepal, Bhutan and Maldives are tipped to grow by 7.5%, 6.7% and 4.8% respectively. This is estimated to be the trend next year as well. Sri Lanka's growth next year is estimated at 5.0% slightly above Maldives and Nepal but lower in comparison to 7.3% of India, 6.4% of Bangladesh and 5.5% of Pakistan.

It is also pertinent to note that the economy is rapidly transitioning to an urbanized economy, strongly oriented around manufacturing and services.



Source: CBSL



### 3. Progress on fiscal consolidation

#### Summary of the budget

LKR billion	2014	2015	2016	2017 Revised	2018 Budget	Trend
<b>Total Revenue and Grants</b>	<b>1,264</b>	<b>1,534</b>	<b>1,774</b>	<b>1,997</b>	<b>2,326</b>	
<b>Total Revenue</b>	<b>1,255</b>	<b>1,528</b>	<b>1,766</b>	<b>1,989</b>	<b>2,316</b>	
<b>Tax Revenue</b>	<b>1,050</b>	<b>1,356</b>	<b>1,464</b>	<b>1,749</b>	<b>2,034</b>	
Income Tax	198	263	259	308	375	
Taxes on Goods and Services	616	804	842	1,054	1,239	
Taxes on External Trade	236	289	363	387	420	
<b>Non Tax Revenue</b>	<b>145</b>	<b>99</b>	<b>222</b>	<b>152</b>	<b>184</b>	
<b>Provincial Council Tax Sharing and Development Revenue</b>	<b>59</b>	<b>73</b>	<b>80</b>	<b>88</b>	<b>98</b>	
<b>Grants</b>	<b>9</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>10</b>	
<b>Total Expenditure</b>	<b>1,855</b>	<b>2,363</b>	<b>2,414</b>	<b>2,677</b>	<b>3,001</b>	
<b>Recurrent</b>	<b>1,382</b>	<b>1,775</b>	<b>1,838</b>	<b>2,053</b>	<b>2,250</b>	
Salaries and Wages including provincial councils	487	618	633	663	705	
Other Goods and Services	142	201	170	198	218	
Interest	436	527	611	725	820	
Subsidies and Transfers	318	428	425	467	507	
<b>Public Investment</b>	<b>487</b>	<b>603</b>	<b>594</b>	<b>633</b>	<b>761</b>	
<b>Other</b>	<b>(14)</b>	<b>(14)</b>	<b>(18)</b>	<b>(9)</b>	<b>(10)</b>	
<b>Revenue Surplus (+)/Deficit (-)</b>	<b>(128)</b>	<b>(247)</b>	<b>(72)</b>	<b>(64)</b>	<b>66</b>	
<b>Primary Surplus (+)/Deficit (-)</b>	<b>(155)</b>	<b>(302)</b>	<b>(29)</b>	<b>45</b>	<b>145</b>	
<b>Budget Surplus (+)/Deficit (-)</b>	<b>(591)</b>	<b>(830)</b>	<b>(640)</b>	<b>(680)</b>	<b>(675)</b>	
<b>Total Financing</b>	<b>591</b>	<b>830</b>	<b>640</b>	<b>680</b>	<b>675</b>	
<b>Total Foreign Financing</b>	<b>316</b>	<b>369</b>	<b>429</b>	<b>330</b>	<b>300</b>	
Foreign Borrowings Gross	423	556	574	550	580	
Project and Program loans	173	173	208	230	240	
Foreign Commercial	250	383	366	320	340	
Debt Repayments	(107)	(187)	(145)	(220)	(280)	
<b>Total Domestic Financing</b>	<b>276</b>	<b>460</b>	<b>211</b>	<b>350</b>	<b>375</b>	
Non-Bank Borrowings	193	197	399	110	195	
Foreign Investment on T Bills and T Bonds	21	223	(121)	70	60	
Bank Borrowings	62	41	(67)	170	120	
<b>Revenue and Grants/GDP (%)</b>	<b>12.2</b>	<b>14.0</b>	<b>15.0</b>	<b>15.4</b>	<b>16.4</b>	
<b>Revenue/GDP (%)</b>	<b>12.1</b>	<b>14.0</b>	<b>14.9</b>	<b>15.3</b>	<b>16.3</b>	
Tax Revenue/GDP (%)	10.1	12.4	12.4	13.5	14.3	
Non-Tax Revenue/GDP (%)	1.4	0.9	1.9	1.2	1.3	
PCs Tax Sharing and Devolved Revenue/GDP (%)	0.6	0.7	0.7	0.7	0.7	
<b>Grants/GDP (%)</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	
<b>Total Expenditure/GDP (%)</b>	<b>17.9</b>	<b>21.6</b>	<b>20.4</b>	<b>20.6</b>	<b>21.1</b>	
Recurrent Expenditure/GDP (%)	13.3	16.2	15.5	15.8	15.8	
Non-Interest/GDP (%)	9.1	11.4	10.4	10.2	10.1	
Interest/GDP (%)	4.2	4.8	5.2	5.6	5.8	
Public Investment/GDP (%)	4.7	5.5	5.0	4.9	5.4	
<b>Revenue Surplus (+)/Deficit (-) GDP (%)</b>	<b>(1.2)</b>	<b>(2.3)</b>	<b>(0.6)</b>	<b>(0.5)</b>	<b>0.5</b>	
<b>Primary Surplus (+)/Deficit (-) GDP (%)</b>	<b>(1.5)</b>	<b>(2.8)</b>	<b>(0.2)</b>	<b>0.3</b>	<b>1.0</b>	
<b>Budget Deficit/GDP (%) (Excluding Grants)</b>	<b>(5.7)</b>	<b>(7.6)</b>	<b>(5.4)</b>	<b>(5.2)</b>	<b>(4.8)</b>	

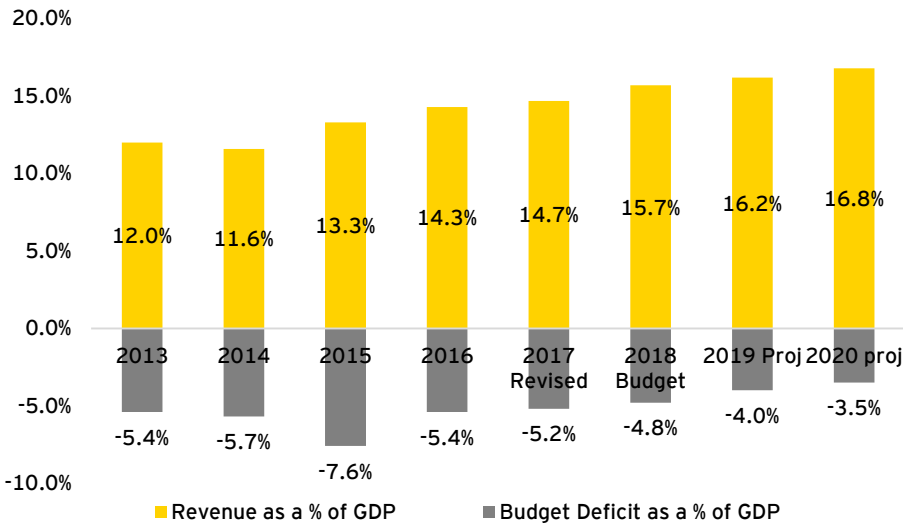
Source: Budget Speech 2018



## Increasing government revenue and rationalizing expenditure

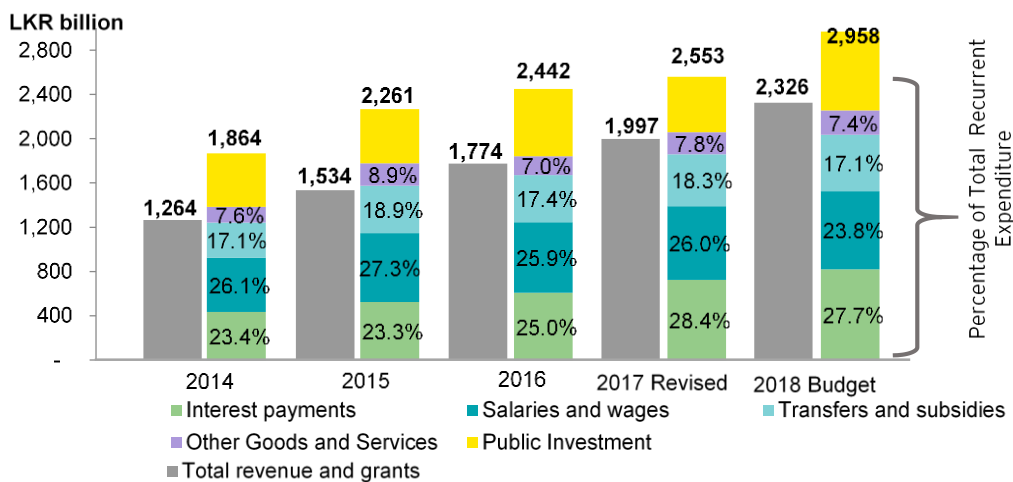
The government has succeeded in boosting revenue and rationalizing spending in order to bring down the fiscal deficit. However, the tightening of fiscal and monetary policies have weighed on the economy.

Sustaining the momentum of revenue mobilization is a major policy priority of the government under its fiscal consolidation programme while ensuring proper management of expenditure. As shown in the chart below, government revenue as a percentage of GDP has improved to 14.3% in 2016 from 13.3% in 2015. Increase in revenue from Value Added Tax (VAT) is the major contributor for the revenue increase in 2016.



Source: CBSL, Budget Speech 2018

The increasing trend of government revenue and GDP is strengthened by the upward tax adjustments introduced by the new Inland Revenue Act such as introducing the capital gains tax which is complemented by the efforts to broaden the tax base and strengthen the administration of taxes. The tax base has been broadened by eliminating exemptions and revising the Pay-As-You-Earn (PAYE) tax etc. Administration of taxes is also expected to improve with the introduction of Revenue Administration Management Information System (RAMIS). Whilst the new Inland Revenue Act is expected to make the tax system more straight forward it is expected to provide a total incremental tax revenue of 0.7% - 0.8% of total GDP.



Source: CBSL, Budget Speech 2018

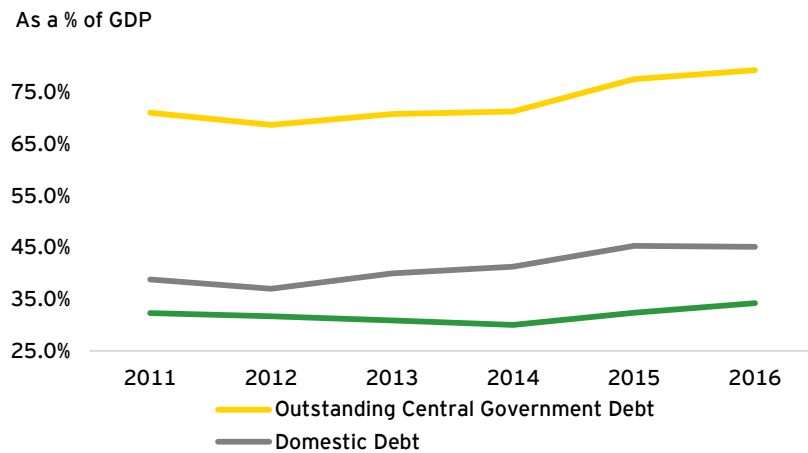
In year 2017 the interest payments are revised to be 28.4% of total expenditure compared to the budgeted 24.9%. In 2018, interest payments are expected to be 27.7% of total expenditure. Public investments which was budgeted to constitute 25.9% of expenditure was revised to 19.6%. This is expected to increase to 23.9% in 2018.

### Lowering budget deficit but increasing government debt

The target budget deficit for 2018 is 4.8% of GDP in comparison to the estimated 5.2%. This is a reducing trend from the deficit of 5.4% in 2016 mainly on the back of revenue improvements. The target is for the government to reach a 3.5% of GDP deficit by 2020.

### Increasing debt and debt repayment

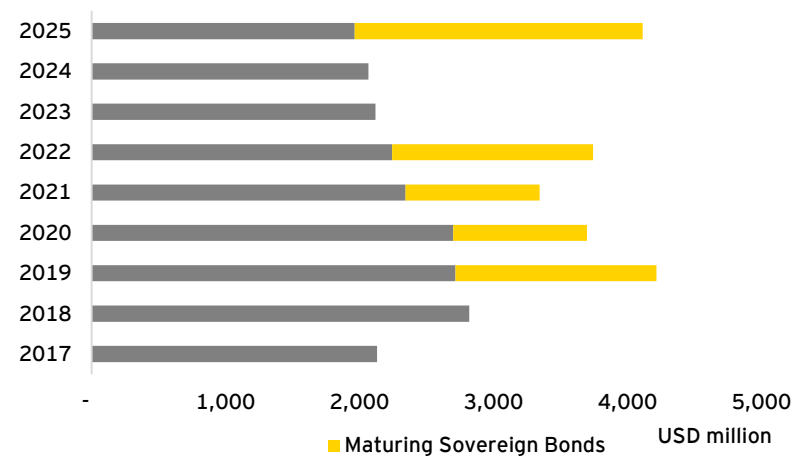
The government total debt stock amounted to LKR 9,387.3 billion at the end of 2016 which resulted in a Government Debt to GDP ratio of 79.3%. Total external debt increased by 10% in 2016 as against the previous year to USD 27.2 billion. Averaging out for the two years 2015 and 2016, debt grew by 6.2% per year compared to 4.5% average per year in the preceding two years.



There exists a marked increase in foreign debt servicing during 2019 - 2022 period mainly due to maturing of international sovereign bonds.

Source: CBSL

### Foreign debt servicing schedule



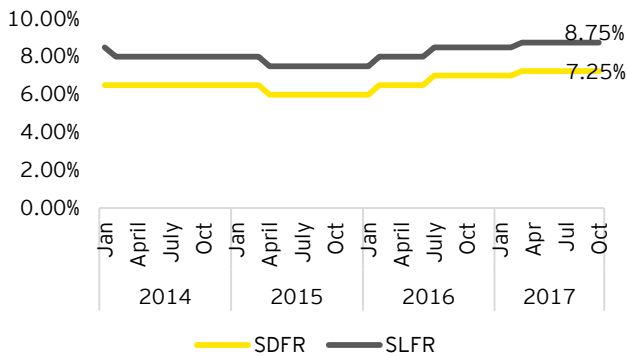
The maturity pattern of the domestic debt reveals that the 50% of the domestic debt are maturing within the next 3 years. Therefore, the government has initiated a program in redeeming short term maturing loans by replacing with longer term maturity debt.

Source: CBSL, Budget Speech 2018

The government expenditure on interest payments in domestic and foreign debt is expected to be LKR 820 billion in 2018, an increase of 13.1% from LKR 725 billion estimated in 2017. The external debt servicing is likely to hit 30% of GDP by the end of 2017.

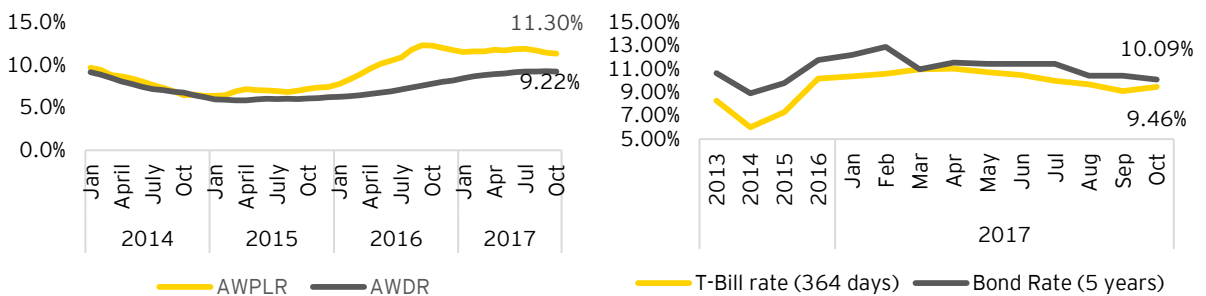
## Interest rates and inflation

### Government policy rates



Considering the developments in the domestic and international macroeconomic environment, the Monetary Board recently decided to maintain the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) of the Central Bank at 7.25% and 8.75%, respectively. The rates were last amended in March 2017 from 7.00% and 8.50% for SDFR and SLFR.

Source: CBSL, SDFR - Standing Deposit Facility Rate, SLFR - Standing Deposit Lending Rate



Source: CBSL, AWPR - Average Weighted Lending Rate, AWDR - Average Weighted Deposit Rate

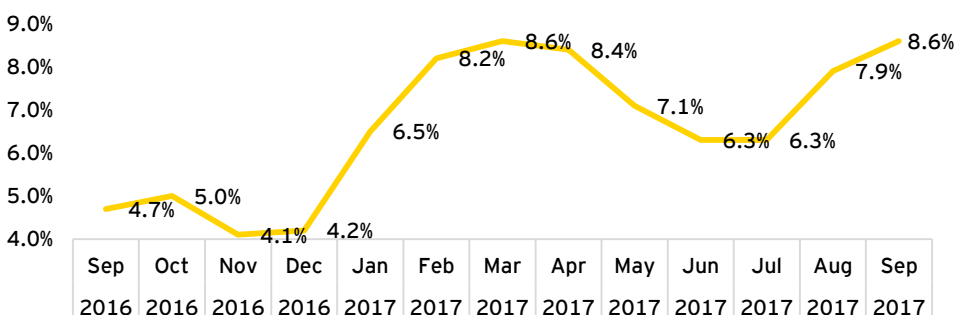
The Central Bank expected the bank interest rates to trend downwards in line with the easing government securities yields as less pressure is expected from government financing towards the second half of the year. However, this is yet to reflect in the bank lending rates as the bank lending rates still remain high.

### Inflation

Inflation measured by National Consumer Price Index (NCPI) showed an increasing trend in 2017. Inflation was at 8.6% in September 2017 on YoY basis. The increase in VAT on 1<sup>st</sup> November 2016, have had an impact on the prevailing inflation rate.

The increase in inflation in 2017 is largely due to the increase of food inflation, which could be attributed to the adverse climate conditions having an impact on agricultural production. Apart from food, the latest monthly increase in inflation from August to September was due to the increase clothing, housing, water, electricity, gas and other equipment. The Monetary Board's goal is to maintain inflation at mid-single digits to facilitate a sustainable growth.

### Inflation as measured by NCPI



Source: CBSL



## 4. Weak external sector

### Import and Exports

USD million	2012	2013	2014	2015	2016 (provisional)
Exports	9,774	10,394	11,130	10,546	10,310
% of GDP	14.6%	14.0%	13.9%	12.8%	12.6%
Imports	19,190	18,003	19,417	18,935	19,400
% of GDP	27.9%	24.2%	24.2%	23.0%	23.8%
Balance of Trades	(9,417)	(7,609)	(8,287)	(8,388)	(9,090)
% of GDP	-13.6%	-10.2%	-10.4%	-10.2%	-11.2%

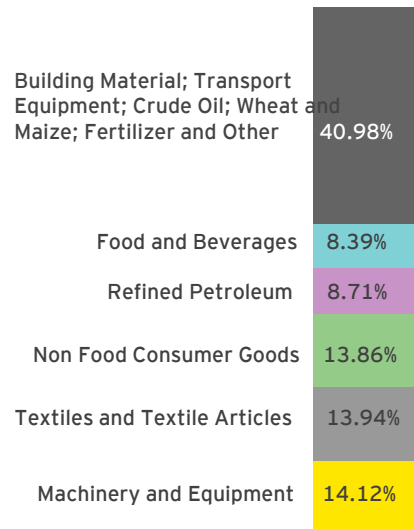
Source: CBSL

There has been no substantial variation in trade activities during last few years and the external sector contribution to GDP was comparatively low, mainly due to the subdued export performance of products such as Tea and Garments/Apparel sectors.

Export Composition: 2016



Import Composition: 2016



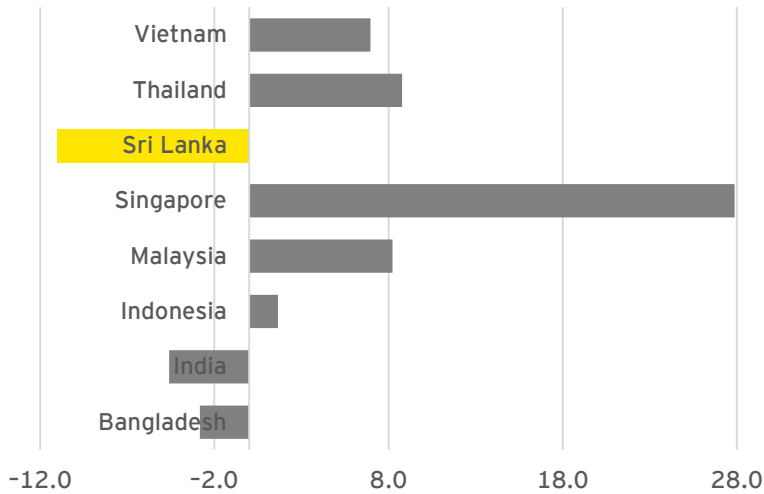
Source: CBSL

However, export performance has increased to 15.5% YoY to USD 7,413 million during the first eight months of 2017, there needs to be caution due to import expenditure growing rapidly, as a result of increase in oil prices. Import expenditure increased by 12.6% YoY to USD 13,599 million during the first eight months of 2017, with trade deficit closing to 12% of the GDP.

Export earnings from textiles and garments increased by 10.1% YoY to USD 433 million indicating the positive impact of the restoration of the GSP+ facility. USA (27.3%), UK (10.1%), India (5.4%), Germany (4.9%) and Italy (4.2%) were the leading markets for merchandise exports of Sri Lanka during 2016, accounting for about 50% of total exports. China (21.7%), India (19.7%), Singapore (6.1%), UAE (5.8%) and Japan (4.9%) were the main import origins during 2016 accounting over 58% of total imports.

The budget indicates that the government will end protectionist policies and abolish para tariffs in 1,200 items but will help the domestic industry to reach international markets by providing support in the nature of subsidies for firms to get shelf - space in foreign markets. The budget also announced that an anti-dumping law and anti-monopoly law will be legislated.

## Trade Balance (% of GDP)

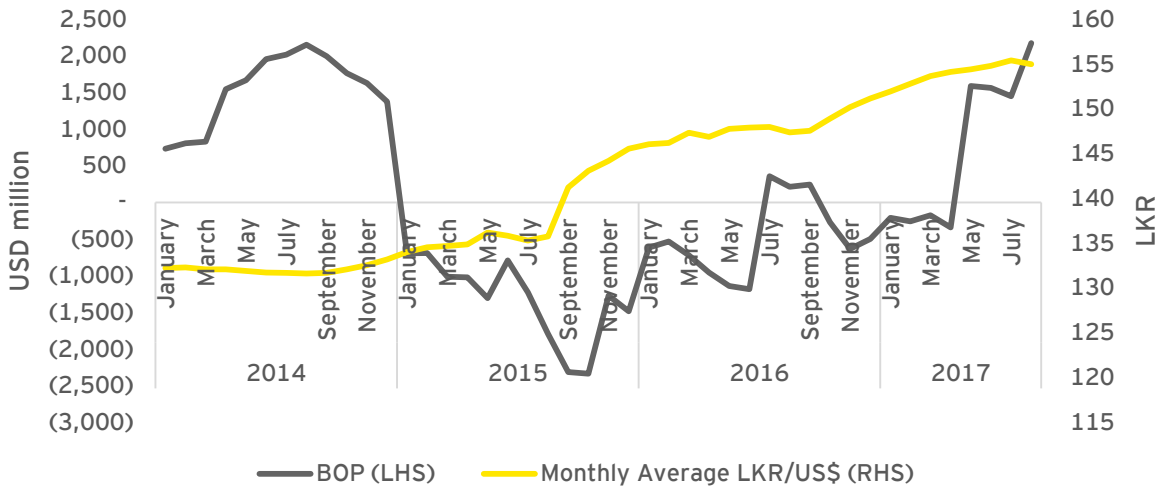


Compared to peer countries, Sri Lanka has not been able to perform satisfactorily in achieving a healthy trade balance. However, the government is expecting to formulate a new National Export Strategy and a new National Trade Policy. Also, establishing a national single window for trade facilitation, and creating a new development bank for development financing with an export-import window will assist to achieve a sustainable trade balance.

Source: CBSL

## Exchange rate stabilized

Balance of payment and exchange rate movement



Source: Central Bank Press Releases of External Sector

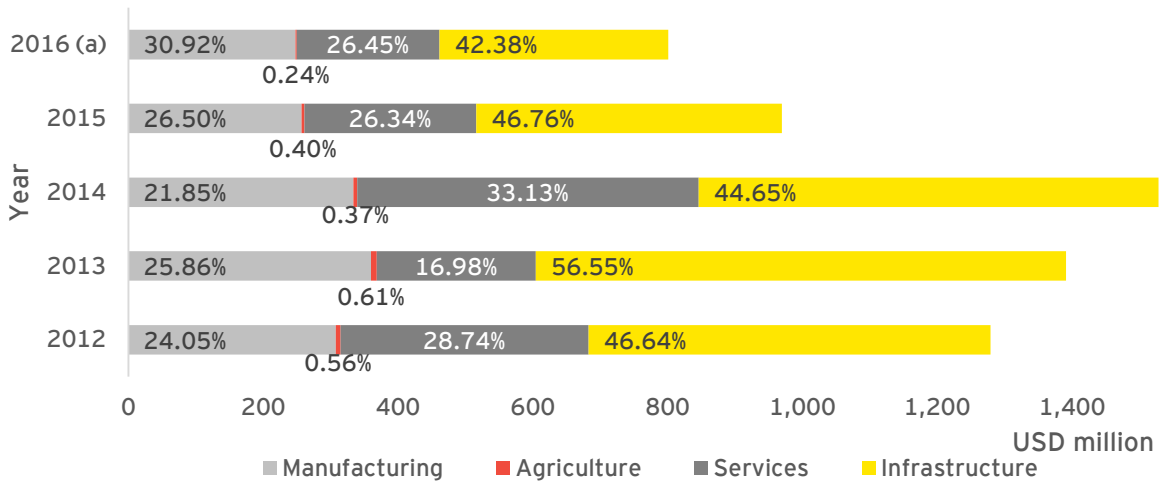
Negative political circumstances in the Middle Eastern region adversely affected the workers' remittances. Inflows from workers' remittances declined by 6.3% up to August 2017 when compared with the corresponding period of 2016. Total tourist arrivals recorded during the first ten months of 2017 indicate an increase of 3.0% when compared to the last year. Also, earnings from tourism up to August 2017 amounted to USD 2,413.7 million when compared to US \$2,333.1 million during the same period in 2016.

The overall Balance of Payment (BoP) has improved during the last couple of months mainly due to the steady inflows to the government securities market; continued portfolio investment inflows to the Colombo Stock Exchange (CSE) and the receipt of the 2<sup>nd</sup> tranche of the foreign currency term financing facility of IMF to the government in August 2017.

The LKR has depreciated by 2.6% against the USD during the period from end of 2016 to mid-October 2017 with the spot rate of USD on November 8th at 153.33/40.

## Foreign direct investments

### Foreign direct investment of BOI enterprises by sector



a) Provisional

Source: CBSL Annual Report 2016

The realized Foreign Direct Investments (FDIs) of Board of Investment (BOI) Enterprises to the country which was on a declining trend since 2014 with a drop of 37% in 2015 and 17% in 2016 has seen a slight turnaround in 2017 with an amount of USD 711.2 million for eight months up to August. The majority portion of FDI inflows in 2016 were reported from tourism, telecommunication and manufacturing sectors. The government expects to increase the FDIs to USD 5 billion per year under the “Three-Year Economic Delivery Programme”.

In an attempt to lift FDIs to desired levels the budget announced that the government will lift the restrictions of listed companies having foreign ownership owning land. Further, budget indicated that the government will liberalize some restrictions on foreigners buying apartments. The budget also indicated that that the government will review existing foreign direct investment processes and benchmark them to developed nations in its attempt to attract higher FDI.



# 3

## *Financial services*



- ▶ **Debt Repayment Levy** - The above levy will be imposed on all transactions entered in to by a commercial bank. It is expected that the revenue collected from this levy will be utilized for the repayment of the government debts. The rate of tax is Rs. 2 per Rs.10,000 worth transaction(i.e., 0.02%) . It is expected that this tax will be similar to the financial transaction levy proposed in the last budget. The levy will be charged on total cash transactions and should be paid by the financial institutions.
- ▶ Loan to value ratio for the electric buses, three wheelers, domestically assembled electric three wheelers, cars and buses will be revised to 90/10.

# 4

## *Telecommunication industry*

It was proposed by the Hon. Minister to introduce the following taxes by amendments to the Finance Act.

- ▶ Cellular Tower Levy - With the objective of consolidating the number of towers used by mobile operators a tax of Rs. 200,000 per month per tower will be introduced. The levy will be paid monthly by the mobile tower operator.
- ▶ SMS Advertising Levy - For bulk SMS advertisements a levy of 25 cents per SMS will be imposed and to be paid by the advertiser



# 5

## *Automobile industry*



- ▶ Motor vehicles - The following far reaching changes have been proposed for the imposition of tax at the point of import in respect of motor vehicles.
  - i. The ad-valorem rate of excise duty on motor vehicles will be removed.
  - ii. Excise duty will be applied based only on the engine capacity (cubic centimeter (cm<sup>3</sup>)) for petrol and diesel motor vehicles.
  - iii. Excise duty base for electric vehicles will be the motor power of the engine (kilowatt (kw))
  - iv. The rate for engine capacity based excise duty on petrol fuel and petrol hybrid motor cars are as follows.

Engine capacity	Petrol fuel (Rs. per cm <sup>3</sup> )	Petrol hybrid (Rs. per cm <sup>3</sup> )
≤ 1000 cm <sup>3</sup>	1,750	1,250
1000 cm <sup>3</sup> < x ≤ 1300 cm <sup>3</sup>	2,750	2,000
1300 cm <sup>3</sup> < x ≤ 1500 cm <sup>3</sup>	3,250	2,500
1500 cm <sup>3</sup> < x ≤ 1600 cm <sup>3</sup>	4,000	3,000
1600 cm <sup>3</sup> < x ≤ 1800 cm <sup>3</sup>	5,000	4,500
1800 cm <sup>3</sup> < x ≤ 2000 cm <sup>3</sup>	6,000	5,000
2000 cm <sup>3</sup> < x ≤ 2500 cm <sup>3</sup>	7,000	6,000
2500 cm <sup>3</sup> < x ≤ 2750 cm <sup>3</sup>	8,000	7,000
2750 cm <sup>3</sup> < x ≤ 3000 cm <sup>3</sup>	9,000	8,000
3000 cm <sup>3</sup> < x ≤ 4000 cm <sup>3</sup>	10,000	9,000
4000 cm <sup>3</sup> <	11,000	10,000



- v. The rate for engine capacity based excise duty on diesel fuel & diesel hybrid motor cars are as follows:

Engine capacity	Diesel fuel (Rs. per cm <sup>3</sup> )	Diesel hybrid (Rs. per cm <sup>3</sup> )
≤ 1500 cm <sup>3</sup>	4,000	3,000
1500 cm <sup>3</sup> < x ≤ 1600 cm <sup>3</sup>	5,000	4,000
1600 cm <sup>3</sup> < x ≤ 1800 cm <sup>3</sup>	6,000	5,000
1800 cm <sup>3</sup> < x ≤ 2000 cm <sup>3</sup>	7,000	6,000
2000 cm <sup>3</sup> < x ≤ 2500 cm <sup>3</sup>	8,000	7,000
2500 cm <sup>3</sup> < x ≤ 2750 cm <sup>3</sup>	9,000	8,000
2750 cm <sup>3</sup> < x ≤ 3000 cm <sup>3</sup>	10,000	9,000
3000 cm <sup>3</sup> < x ≤ 4000 cm <sup>3</sup>	11,000	10,000
4000 cm <sup>3</sup> <	12,000	11,000

- vi. Duty rates for electric vehicles are as follows:

Motor power	Unregistered (brand new) vehicle (Rs. per kw)	Used vehicle (Rs. per kw)
≤ 50 kw	7,500	15,000
50 kw < x ≤ 100 kw	12,500	25,000
100 kw < x ≤ 200 kw	25,000	40,000
200 kw	40,000	55,000

- vii. Duty rates for three wheelers are as follows:

- ▶ Petrol - Rs. 2,100 per cm<sup>3</sup>
- ▶ Diesel - Rs. 1,250 per cm<sup>3</sup>
- ▶ Electric
  - ▶ Unregistered (brand new) - Rs. 7,500 per Kw
  - ▶ Registered (used) - Rs. 10,000 per Kw

- viii. 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

- ▶ Vehicle permits for public sector employees - The following proposals have been made with regard to permits granted to government servants.
  - i. 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.
  - ii. Upper ceiling of CIF value of imported vehicles will be removed.
  - iii. Restriction on transferability will be removed.
  - iv. Payable duty will be the higher value of the duty calculated as per Column (IV) below

**Trade and Investment Policy Circular No: 01/2016**

Authorization	Transferability	Upper limit for CIF	Payable Excise Duty
-	Transferable	No upper limit	Duty after deducting Rs. 3 million from payable duty (i.e. Payable duty - Rs. 3 million) or 35% of the payable duty

**Foreign Affairs Circular No: 210(III)**

Authorization	Transferability	Upper limit for CIF	Payable Excise Duty
-	Transferable	No upper limit	Duty after deducting Rs. 3 million from payable duty (i.e. Payable duty - Rs. 3 million) or 30% of the payable duty

**Public Administration Circular No: 22/99 - Employee Category**

Authorization	Transferability	Upper limit for CIF	Payable Excise Duty
Group I	Transferable	No upper limit	Duty after deducting Rs. 9 million from payable duty (i.e. Payable duty - Rs. 9 million) or 20% of the payable duty
Group II	Transferable	No upper limit	Duty after deducting Rs. 7.5 million from payable duty (i.e. Payable duty - Rs. 7.5 million) or 20% of the payable duty
Group III	Transferable	No upper limit	Duty after deducting Rs. 6 million from payable duty (i.e. Payable duty - Rs. 6 million) or 20% of the payable duty

- v. These changes will be effective from 10 November 2017

- ▶ Luxury Tax on motor vehicles - One-time payment luxury tax will be introduced in lieu of the present system of payment over 7 years. However, the present system will be continued for the vehicles already registered. This will depend on the band of engine capacity or motor power of the vehicle as follows:

Band of engine capacity or motor power	Super luxury (Rs.)	Luxury (Rs.)	Semi luxury (Rs.)
Dual purpose (petrol/diesel) 2200 cm <sup>3</sup> <			250,000
Motor cars Petrol 1800 cm <sup>3</sup> < x ≤ 2500 cm <sup>3</sup> Diesel 2200 cm <sup>3</sup> < x ≤ 3000 cm <sup>3</sup> Electric 200 kw < x ≤ 300 kw			500,000
Motor cars Petrol 2500 cm <sup>3</sup> < x ≤ 3500 cm <sup>3</sup> Diesel 3000 cm <sup>3</sup> < x ≤ 4000 cm <sup>3</sup> Electric 300 kw < x ≤ 400 kw		1,000,000	
Motor cars Petrol 3500 cm <sup>3</sup> < Diesel 4000 cm <sup>3</sup> < Electric 500 kw <	2,000,000		

- ▶ Carbon Tax - A Carbon tax will be imposed on motor vehicles based on the engine capacity as follows.

Type of vehicle	Less than 5 years	5 to 10 years	Over 10 years
Hybrid (Petrol / Diesel)	25 Cents per cm <sup>3</sup>	50 Cents per cm <sup>3</sup>	Rs. 1 per cm <sup>3</sup>
Fuel (Petrol / Diesel)	50 Cents per cm <sup>3</sup>	Rs. 1 per cm <sup>3</sup>	Rs. 1.50 per cm <sup>3</sup>
Passenger bus	Rs. 1,000	Rs. 2,000	Rs. 3,000

However, electric vehicles will be exempted from the levy.



# 6

## *Liquor and other beverages*



The Hon. Minister proposed the following changes to the current Excise Duty imposed under Excise Ordinance and Excise Special Provisions Act.

### 1. Excise Duty under Excise Ordinance

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

Type of liquor	Excise Duty
Hard liquor	Rs. 3,300 per litre of alcohol
Beer	Rs. 2,400 per litre of alcohol
Wine	Rs. 2,400 per litre of alcohol

- ▶ Non-potable alcohol - Excise duty will be imposed on import of non-potable alcohol at Rs.15 per Kg.
- ▶ Raw material used for manufacturing of ethanol - Excise Duty will be imposed on raw materials used for manufacturing of ethanol to be as follows:

Type of raw material	Proposed Duty (Rs.)
Toddy	Rs. 5 per litre
Molasses/Maize/Rice/Fruits	Rs. 10 per Kg

- ▶ Liquor licenses - The rate structure of liquor license fee will be simplified with effect from 1 January 2018 and the issuance of new liquor license will be simplified to promote tourism.

The changes to Excise Duty will be published by Gazette.

## **2. Excise (Special Provisions) Duty**

- ▶ Canned beer - The Excise (Special Provisions) Duty applicable on canned beer will be removed.
- ▶ 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 will be applicable for beverages classified under HS Code 22.02.

The rate will be 50 cents per gram of sugar.


- ▶ 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

## **3. Nation Building Tax**

- ▶ NBT to be introduced on liquor from 1 April 2018.

# 7

## *Real estate*

- 
- ▶ **Condominium Housing** - The sale of condominium housing units which were made exempt from 1 November 2016 have been made liable again after a very short span of 1 year. This will pose several challenges to apartments developers who just went through a significant change from a liable regime to an exempt regime (in November 2016) and would now have to change back to a liable regime from 1 April 2018. This would have significant impacts on the pricing of units as the VAT inputs that are now absorbed as a cost would be compounded by output VAT on sales from 1 April 2018. As the input VAT has already been absorbed as a cost this change could potentially result in the increase in prices of apartments. This would also have an impact on the VAT deferment for input VAT during the project implementation period for projects that are still in the implementation phase.
  - ▶ **Land (Restrictions and Alienation) Act** - proposed to remove the restriction that limits the land ownership rights of listed companies with foreign ownership and to remove the restriction on the ability of foreigners to purchase condominiums below the 4<sup>th</sup> floor.

# 8

## *Shipping*



- ▶ **Exchange Control Law** - currently foreign ownership in companies engaged in shipping and freight forwarding agencies is limited to 40%. This restriction is proposed to be lifted enabling 100% foreign ownership.
- ▶ **Sri Lanka Ports Authority Act and Merchants Shipping Act** - to be amended to introduce an independent Ports Regulator and to cater to the demands of the modern day logistics and marine industry.

# 9

## *Value Added Tax and Nation Building Tax*

### 1. Value Added Tax

The following exemptions that are currently granted for the following items at both import point and point of sale are proposed to be removed. As such with effect from April 1 2018 the following goods would be liable to VAT at 15% at both import point and point of sale.

Item description	Exempted HS Code
Plant & flowers	06.01, 06.02.10, 06.02.20, 06.02.30, 06.02.40, 06.02.90.90
Plastic beads	39.26.90.70
Yarn / fabrics	
Silk yarn	50.01, 50.02,50.03, 50.04,50.05, 50.06,50.07
Wool / fine animal hair / coarse animal hair / woven fabric	51.11, 51.12, 51.13
Cotton	52.01, 52.03, 52.05, 52.06, 52.08, 52.09, 52.10, 52.11, 52.12
Woven fabrics of flax / Woven fabrics of jute	53.09, 53.10
Other vegetable textile fibers, paper yarn & Woven fabric of paper yarn	54.02, 54.03, 54.07, 54.08
Man made filament / Man made textile material	55.09, 55.10, 55.12, 55.13, 55.14,55.15, 55.16
Special woven fabrics / tapestries/ lace / embroidery	58.01,58.02,58.04.21,58.04.29,58.04.30,58.06,58.09, 58.11





Item description	Exempted HS Code
Knitted or crocheted fabrics / Articles of apparel and clothing accessories	60.01, 60.02, 60.03, 60.04, 60.05, 60.06, 62.15
<b>Wood &amp; Articles</b>	44.03,44.07,44.08,44.09
<b>Dyes</b>	32.04.11,32.04.12,32.04.13,32.04.14,32.04.15,32.04.16,32.04.17
<b>Glass Beads</b>	70.18.10
<b>Plant &amp; Machinery / Industrial racks</b>	
Outboard motors and Other	84.07
turbo-jets or turbo-propellers	84.11.91
Concrete pumps	84.13.40
Printing machinery used for printing by means of plates, cylinders, other printers, copying machines and facsimile machines, whether or not combined; parts and accessories	84.43.19.10,84.43.32.30,84.43.32.40,84.43.39.20,84.43.99.30
Machinery, Auxiliary machinery and Laundering machinery (other than washing machines )related to textiles	84.44,84.45,84.46,84.47,84.48,84.51.40.10,84.51.50,84.51.80.10,84.51.90
Calculating and related machinery	84.70.10
Machinery / mechanical appliances with functions not specified or mentioned elsewhere	84.79.89.10,84.79.89.20,84.79.89.30,84.79.89.40
<b>Electronic Goods</b>	
Electric Smoothing Irons	85.16.40
Toasters	85.16.72
Combined with sound recording or reproducing apparatus and other / Not combined with sound recording or reproducing apparatus and other	85.27.21, 85.27.29, 85.27.91, 85.27.92
12v, DC fluorescent lamps (straight tubes as well as compact types)	85.39.31.20
LED lamps and other	85.43.70.30, 85.43.70.90, 85.43.90
<b>Aeroplanes &amp; Parts</b>	88.02, 88.03.30, 88.05.21, 88.05.29
<b>Spectacles</b>	90.01, 90.02, 90.03, 90.04, 90.05
<b>Cameras &amp; Projectors</b>	90.06, 90.07, 90.08, 90.10
<b>Watches</b>	91.01, 91.02, 91.05

The potential impact of the above change to the following persons is elaborated below:

- ▶ **Exporters:** Where the above items are imported and used in manufacturing goods for export there wouldn't be a significant impact as the exporter would be eligible for a deferment at import point (subject to meeting certain conditions). Similarly if the items are purchased locally the VAT may be suspended under the SVAT scheme provided the supplier is registered under the SVAT scheme.
- ▶ **Suppliers to exporters:** Where the above items are imported, processed and supplied to exporters the VAT on imports would have to be paid whilst the sales to the exporter could be suspended under the SVAT scheme. In such a case whilst there would be no impact to the exporter the supplier to the exporter would have to claim a VAT refund (subject to conditions) on the input VAT on imports, which may take a significant amount of time to realize. There may be a deferment of VAT at the import point subject to certain conditions.
- ▶ **Manufactures and sellers to the local market:** Where the above items are imported and sold directly or after processing to the local market the input credit on the VAT paid at import point could be claimed as an input against any out put VAT paid on sales (provided the sale of any processed good is liable to VAT). If the item sold (after processing) is exempt from VAT the input VAT would be a cost.
- ▶ **New exemptions** - In order to promote the renewable energy sector VAT has been exempt on Solar Tracker classified under HS Code 84.79.89.50. It is not clear if this is only on imports or imports and supply.
- ▶ **Airport Refund Scheme** - In order to promote Sri Lanka as a shopping hub it is proposed that a VAT refund scheme for foreign passport holders would be introduced at Airports and Sea Ports with effect from May 1, 2018.

## 2. Nation Building Tax

- ▶ Exemptions - The following items have been exempt from NBT at 2% on importation.
- ▶ Tourism - In support of the tourism and recreational industry the following items have been exempt from NBT at 2% on importation.
- ▶ Non motorized equipment for water sports such as
  - ▶ Kayaks, Canoes, Kite surfing, diving
- ▶ Non powered equipment for aero sports such as
  - ▶ Hang Gliding, Ballooning, dirigibles, Parachutes and paragliding
- ▶ Sale of yachts built by BOI companies to local BOI charter companies.
- ▶ Gems - Gem stones for cutting and re-export purposes.
- ▶ Agriculture
  - ▶ Equipment that enables advanced technology agricultural practices
  - ▶ Greenhouses and poly tunnels
  - ▶ Materials for the construction of greenhouses by any grower.
  - ▶ NBT on domestic coconut oil and kernel products for a period of 1 year.
- ▶ **Solar Charging Stations** - Importation of solar panels, storage batteries and equipment for electric charging stations.
- ▶ **Removal of exemptions** - Liquor which was made exempt from NBT as a result of a composite duty being imposed on the import and manufacture of liquor, is proposed to be made liable to NBT with effect from 1 April 2018. It is assumed that this NBT liability would be over and above the composite duty charged at import point as well at the point of manufacture and sale.

# 10

## *Custom Duties, Ports and Airport Development Levy and Cess*

### **Customs Import Duty**

It has been proposed to exempt Customs Import Duty on the,

- ▶ Importation of crust (semi processed) leather for further processing (Tanning Industry) and the supply of raw materials for the 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.

### **Ports and Airport Development Levy**

It has been proposed to remove PAL on 253 items including on the importation of chemicals & organic chemicals, fertilizer, iron & steel and non-powered equipment & accessories for aero-sports. Please refer Appendix IV for a detailed list of tariff codes.

It has also been proposed to exempt PAL on machines and equipment including solar panels and, storage batteries, which will be imported for the establishment of solar charging stations.

PAL applicable on the sale of yachts built by BOI Companies to the local BOI charter companies is proposed to be exempt.

PAL will also be revised on the importation of non-motorized equipment and accessories for water sports such as Kayaks, Canoes, Kite Surfing, and Diving.



## **Cess**

Cess will be removed on 253 items under specified HS Codes facilitating the emerging sectors namely, Tourism, Pharmaceuticals, Value Adding Industries (such as Cement, Aluminum, etc.) and other Industries (such as specialised food). Please refer Appendix III for a detailed list of tariff codes.

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

## **Other concessions proposed**

It has been proposed to grant tax concessions on imported capital goods through bonding facilities during the construction period of large scale pharmaceutical investments, the dairy industry and for solid waste management ventures. It is assumed the mechanism of providing such incentives proposed will be articulated shortly.

## **Reforms proposed**

Sri Lanka to revise and adopt the 2017 Version of the Harmonized System of Commodity Classification and Coding System, as amended by the World Customs Organization (HS System 2017 Version) effective from 10 November 2017.

Accept digital signatures for electronic documents in line with the objective of ensuring a paperless clearing system.

Introduce a new legislation to replace the 148 year old Customs Ordinance to meet commitments to liberalize trade with the necessary safeguards.

The para-tariffs applicable on tariff lines, which do not at present carry any Customs Duties will be abolished within the next 3 years keeping in line with the policy of liberalisation and globalisation.



PAL on the items classified under following HS Codes will be reduced with immediate effect

HS Code	Description
8415.90.90	Air conditioning machines - Parts
8401.40.00	Parts of nuclear reactors
8450.90.00	Household or laundry-type washing machines - Parts
8418.91.10	Cabinets for refrigerators
8418.91.20	Furniture designed to receive refrigerating or freezing equipment - other cabinets
8418.99.00	Refrigerators - Other
8414.30.00	Compressors of a kind used in refrigerating equipment
8483.50.00	Flywheels and pulleys, including pulley blocks
8471.41.90	Automatic data processing machines (ADPM) and units (other than used / reconditioned)
8471.49.90	ADPM and units - Other, presented in the form of systems (other than used / reconditioned)
8471.50.90	ADPM and units - storage units, input units, output units (other than used / reconditioned)
8473.30.90	ADPM - Parts (other than used / reconditioned)
8501.10.90	Motors of an output not exceeding 37.5 W (other than DC motors)
8501.20.00	Universal AC/DC motors of an output exceeding 37.5 W
7411.10.00	Copper tubes and pipes of refined copper
7212.40.00	Flat-rolled products of iron or non-alloy steel, of a width of less than 600 mm - Painted, varnished or coated with plastics
7210.30.00	Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more - Electronically plated or coated with zinc
3920.30.10	Other plates, sheets, film, foil and strip, of plastics, non-cellular and not reinforced, laminated, supported or similarly combined with other materials - Of polymers of styrene of a thickness not exceeding 2 mm
9032.10.00	Thermostats



Loan Scheme	Beneficiaries	Max loan amount (Rs.)	Interest rate to customer	Interest subsidy from the Government
Ran Aswenna	Category I Small Scale Farmers and Farmer Organizations, Floriculture farmers, Entrepreneurs in ornamental fish related businesses	5,000,000	6.54%	50%
	Category II Agro Processing Establishments	300,000,000	6.54%	50%
Govi Navoda	Small scale farmers, Farmers' organizations (Mechanizing cultivation)	500,000	3.27%	75%
Riya Shakthi	Owners of the school service vans	4,000,000	3.27%	75%
Rivi Bala Savi	Households	350,000	6%	50%
Diri Saviya	Poultry producers, Self-employees	50,000	0%	100%
Sonduru Piyasa	Owners of the houses with less than 750 sq.ft.	200,000	6.54%	50%
Madya Aruna	Category I - (To purchase media equipment) Registered journalists	300,000	0%	100%

Loan Scheme	Beneficiaries	Max Loan Amount LKR	Interest Rate to Customer	Interest Subsidy from the Government
Jaya Isura	<p>Category I</p> <p>Beneficiaries: Small enterprises with an annual turnover between Rs 25 Mn to Rs 250 Mn and with an employment cadre of 10 to 50 who are engaged in agriculture, fisheries, livestock, floriculture, horticulture, light engineering, printing, tourism, handicrafts, apparel, information technology and manufacturing industry sectors.</p>	100,000,000	6.54%	50%
	<p>Category II</p> <p>Medium entrepreneurs with an annual turnover between Rs 250 Mn to Rs 750 Mn and with an employment cadre of 51 to 300 who are engaged in the same sectors mentioned under the Category I.</p>	400,000,000	9.81%	25%
Sonduru Piyasa	Owners of the houses with less than 750 sq.ft.	200,000	6.54%	50%
Madya Aruna	Category I - (To purchase media equipment) Registered journalists	300,000	0%	100%

## 2. Supporting the use of Solar Power

### Tax benefits

NBT and PAL exempted on machines and equipment imported for the establishment of solar charging stations

### Credit schemes

Loan schemes at subsidized interest rate of 8% for Individuals, companies incorporated under the Companies Act, No. 7 of 2007, co-operative societies, farmers/fisheries societies engaged in agriculture, agro processing including drip irrigation, poultry, canning, plantation and tourism industry, investing in technology for the generation of solar power for own use.

## 3. Supporting conversion from Non-Bio Degradable Polythene to environmentally friendly alternatives

50% of the investment cost on equipment and machinery by SME polythene producers when converting from polythene to environment friendly alternatives to be borne by government.

Green Loan Scheme introduced by Pradeshiya Sanwardena Bank (Regional Development Bank) to encourage local entrepreneurs in manufacturing bags, packing materials etc. out of bio degradable materials such as banana fiber, palm leaves, coir and bamboo.

## 4. The "Pavithra Ganga" initiative

Companies that discharge their waste into the Kelani River, lagoons and estuaries will be:

- ▶ supported in the next 5 years to invest in technology to ensure zero discharge of waste into these water bodies .
- ▶ eligible to utilize the "E- Friends" credit facility at a concessionary interest rate of 6-8%.

CEA will issue relevant regulations and will strictly monitor this process.

## 5. Supporting the SME companies

SME companies to be incorporated under the Companies Act, No. 7 of 2007 and will have atleast 10 shareholders each contributing atleast Rs.10,000 in equity will qualify for support.

Support provided by Government include:

- ▶ provision of equipment and facilities such as storage facilities, planting and seeding equipment, weed removers, boats, fishing nets etc.
- ▶ leasing facilities from State banks to purchase such machinery.
- ▶ provision of a letter of undertaking or a guarantee to the respective State Banks for the equipment and other facilities purchased and to bear at least 75% of the lease cost on behalf of the company during the lifetime of the lease.
- ▶ make available the "Enterprise Sri Lanka Credit Schemes".
- ▶ technical support to incorporate companies, maintain books and records, negotiations with financial institutions will be provided by the private sector consultants. Each company to have a consultant to support the company for consultations for a period of 36 months and a further period of 24 months and the cost will be borne by the Government in full and 50% respectively.
- ▶ bear the hire purchase lease rental and the interest subsidies, by the government

These facilities/incentives will be 10% and 15% above the norm for companies headed by "Women" and for companies headed by "Differently Abled Persons" respectively.

Department of Development Finance at the Ministry of Finance and Mass Media will coordinate and provide the financial and non-financial support.

## 6. Supporting the innovation culture and start up companies

### The “Erambuma” Credit Scheme

- ▶ University graduates with viable business ideas are eligible for the “Erambuma” credit facility.
- ▶ Maximum loan size Rs. 1.5 million per idea per person.
- ▶ The interest is 100% subsidized by the Government and the repayment is fully guaranteed through a Government guarantee.

### The “IT Initiative”

Rs. 3 billion over a period of 3 years provided to finance the “IT Initiative”.

This initiative will provide 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
- ▶ 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.

Effective collaboration between the Universities and the Industry will be facilitated by

- ▶ acquiring and augmenting the skills set in line with the demand in collaboration with the University of Colombo (UoC) and Moratuwa (UoM) and, the Sri Lanka Institute of Information Technologies (SLIIT), by the IT industry.
- ▶ This will be operated through the EDB and be managed by a Board comprising mainly of experienced private sector professionals, investors and entrepreneurs.

### The “I2I Initiative”

The “I2I” aims to connect university graduates and NVQ 4 certified graduates for a registered patent or a viable business idea with the industry.

Government to 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

## 7. Export Access Programme

“Export Market Access Support Programme” to be introduced 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 including cost 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. (maximum period of 36 months)

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 to be implemented through the EDB.



## 8. Supporting Tourism:

Homestay Programme:

- ▶ A credit scheme to support home owners registered with the SLTDA to upgrade their houses to meet the required standards to be in the Homestay programme. Up to a maximum of Rs. 5 million per person at an interest rate of 6%, with a maturity period of 10 years.

## 9. Employment Preparation Fund

Fund to be established under the Ministry of National Policies and Economic Development and will be operated through the National Youth Corps.

The fund will finance vocational training courses that are required by the private sector.

Most of these courses will be short term with duration of 3-6 months and at the successful completion, employment will be guaranteed by the private sector.

This fund will be further utilized to:

- ▶ pay a stipend of Rs. 3,500 per month for those following training courses up to a maximum duration of 6 months, and
- ▶ finance the cost of the training course, in full or part.

The Government will incentivize the private sector to employ these youth who successfully follow these training programme(s). Cost of the salary of an employee up to Rs. 6,000 per month for a period of 6 months will be borne by the government. The partner employer will pay a further allowance of Rs. 10,000 per month.

## 10. Supporting the middle income earner to be a home buyer:

Concessionary loan scheme to be introduced by the National Savings Bank to facilitate first time middle income home buyers.

Maximum loan size : Rs. 5 million

Interest rate : 7% per annum

Tenure : 7 years

# 12

## *Legislative reforms*

### 1. Legislative Reforms

The government proposes to carry out several legislative reforms in furtherance of its policy decisions. We highlight below the key legislative reforms.

- ▶ **Shop and Office Employees Act** - considering advancement in information technology which facilitates flexible working patterns, this Act is proposed to be amended giving the employees the option of a five day week with flexible working hours.
- ▶ **Wages Boards Ordinance** - to be reviewed with the purpose of bringing more sectors of the economy within its ambit.
- ▶ **Introduction of the Limited Liability Partnership (LLP)** - Statutes such as the Partnership Ordinance, Prevention of Frauds Ordinance and the Companies Act to be reviewed with a view to introduce LLP which is preferred by venture capital entities.
- ▶ **Bankruptcy Laws** - to be reviewed with a view to strengthening the existing bankruptcy legal regime which will also accommodate the requirements relating to the restructure of underperforming companies.
- ▶ **Anti competitive laws addressing mergers and monopolies** -to be introduced to support the private sector growth through scale whilst ensuring a level playing field.
- ▶ **The Monetary Law Act and the Banking Act**- to be strengthened to ensure economic and price stability and a resilient financial sector.
- ▶ **Customs Ordinance** -to be replaced with a new legislation. Further, 31 State agencies will be connected with the Customs Department through the establishment of a National Single Window.
- ▶ **Logistic hub regulations** - proposed to make certain amendments to the hub regulations which include the liberalization of existing investment regime with the inclusion of working capital, expansion of designated areas, and the introduction of updated operating guidelines.
- ▶ **Excise Ordinance** -to be revamped to suit the present day requirements. An Excise Revenue Management System will also be introduced.

- ▶ **Registrar of Companies** -to establish a one stop shop for business registration through the introduction of a single identification system and the introduction of a system to scan and digitalize company records, create a database for trademarks etc.
- ▶ **Sri Lanka Tourism Development Agency** - to register all tourist service providers with the intention of bringing the informal sector to the broader tax net.
- ▶ **Revival of Underperforming Enterprises or Underutilized Assets Act** -proposed to be repealed with a view to removing the uncertainty created by it in the mind of investors.
- ▶ **Secured Transactions Act, Recovery of Loans (Special Provisions) (Amendment) Act, Land Development Ordinance, Debt Recovery (Special Provisions) Act, Mortgage Act and the Mediation Board Act** -to be amended to improve the efficiency of the financial sector while ensuring consumer convenience and protection.
- ▶ **Rent Act** which limits the ownership of houses and the rent to be charged is proposed to be amended.
- ▶ **Paddy Land Act and the Agricultural Lands Act** -to be amended to permit farming of alternate crops.
- ▶ **Mandatory packaging, labeling and standardization of quality regulations** to be introduced for coconut kernel products.
- ▶ **Tea and Rubber Estates (Control of Fragmentation) Act** -to be amended.
- ▶ **Public Contracts Act**- to be amended.
- ▶ **Anti -Dumping and Countervailing laws** -to be introduced.
- ▶ **Consumer Protection laws** -to be further strengthened to protect consumers from price and quality manipulations.
- ▶ **Development Bank Act** - to be newly enacted for the establishment of a Development Bank. This proposal is in recognition of the SME sector's difficulty in accessing capital due to both the cost of capital and the requirement for collateral.
- ▶ **Liability Management Act, Public Finance Management Act, National Audit Act, Demutualization Act, Securitization Act, National Pension fund Act and Public Enterprises Act**- to be newly enacted.

# Appendices

# Appendix I: Corporate tax at a glance

1

## Corporate tax rates

Description	New
All Companies including banking & finance, insurance, leasing and related activities (other than those taxed at special rates)	28%
Non-Governmental Organizations	28%
Small and medium enterprises (including SMEs engaged in the business of buying and selling)	14%
Export of goods and services (more than 80% of Export)	14%
Agricultural Business (more than 80%)	14%
Educational services (more than 80%)	14%
Promotion of tourism (more than 80%)	14%
Information technology services (more than 80%)	14%
Deemed exports (more than 80%)	14%
Entrepot trade involving import, minor processing and re-export (more than 80%)	14%
Offshore business (more than 80%)	14%
Providing front end services to clients abroad (more than 80%)	14%
Headquarter operations of leading buyers for management of financial supply chain and billing operations (more than 80%)	14%
Logistic services such as bonded warehouse or multi-country consolidation in Sri Lanka (more than 80%)	14%
Transshipment operations (more than 80%)	14%
Freight forwarding (more than 80%)	14%
Sale of gem and jewelry for foreign currency (more than 80%)	14%
Supply of services to any exporter of goods or services or to any foreign principal of such exporter, including any service provided by an agent of a ship operator to to such agent's foreign principal (more than 80%)	14%
Services to ships and containers, provision of computer software, computer programs, computer systems or recording computer data, or specified services	14%
Remittance tax on non-resident companies	14%
Charitable institutions	14%
Employee trust funds, provident or pension funds and termination funds	14%
Liquor, Tobacco, Betting & Gaming (other than such business merely incidental to another business)	40%

2

## Capital Gains Tax

Description	
Gain from the realization of Investment Assets	10%

3

## Tax exemptions

Description	
Gain from realization of asset consisting of shares quoted in any official list published by SEC in Sri Lanka.	
Gain from realization of shares in a non-resident company and dividend paid by such company where the participation is at least 10% of the value of shares of foreign Company.	
Interest income from sovereign bonds denominated in foreign currency to non resident persons or licensed Commercial Bank in Sri Lanka.	
Dividend paid out of dividend received on which WHT has been deducted.	
Any amount derived from sale of any gem on which WHT has been deducted.	

4

## Capital allowances

Description	New
Computers and data handling equipment together with peripheral devices	20%
buses and minibuses, goods vehicles; construction and earthmoving equipment, heavy general purpose or specialized trucks, trailers and trailer-mounted containers; plant and machinery used in manufacturing	20%
Railroad cars, locomotives, and equipment; vessels, barges, tugs, and similar water transportation equipment; aircraft; specialized public utility plant, equipment, and machinery; office furniture, fixtures, and equipment; any depreciable asset not included in another class	20%
Buildings, structures and similar works of a permanent nature	5%
Intangible assets, excluding goodwill	actual useful life or 5% (indefinite useful life)



## 5

## Investment Incentives

Investment criteria	Expenses should be incurred on	Location criteria	Enhanced capital allowance
Exceeds USD 3 Mn	Depreciable assets (other than intangible assets)	Northern province	200%
Exceeds USD 3 Mn, but not exceed USD 100 Mn	Depreciable assets (other than intangible assets)	Other provinces	100%
Exceeds USD 100 Mn	Depreciable assets (other than intangible assets)	Other provinces	150%
Exceeds USD 250 Mn	Assets or shares of a state owned Company	Any province	150%

## 6

## Temporary Concessions

Investment criteria	Expenses should be incurred on	Location criteria	Enhanced capital allowance (4 years)
Up to USD 3 Mn	Computers, data handling equipment, specified plant or machinery buildings, structures	Northern province	200%
Up to USD 3 Mn	Computers, data handling equipment, specified plant or machinery buildings, structures	Other provinces	100%

Category	Conditions	Tax Rate	Applicable years of assessment (After 1 April 2018)
<b>Life Insurance</b> - The portion of gains and profits (surplus distributed) of a life insurance company	Not applicable	14%	3 years
<b>Headquarters relocation</b> - Headquarters or regional head office as specified by the CGIR	Established in Sri Lanka on or after 1-10-2017	0%	3 years
<b>Renewable Energy</b> - Any person	Entered into standardized power purchase agreement on or before 10-11-2016 with the CEB	14%	4 years

Category	Conditions	Concessions	Applicable years of assessment (After 1 April 2018)
Company providing IT Services	<ul style="list-style-type: none"> <li>▶ should have 80% of gross income from the business of providing IT services.</li> <li>▶ at least 50 employees during the whole year; and</li> <li>▶ include those employees in the annual statement.</li> <li>▶ Any unrelieved loss can not be deducted in any succeeding year of assessment.</li> <li>▶ should have 80% of gross income from the business of providing IT services.</li> <li>▶ at least 50 employees during the whole year; and</li> </ul>	135% of the total amount of employee benefits considered for employees' taxable income other than benefits of the company's directors	3 years
<b>R&amp;D Expenses</b> - Any person	R&D expenses defined in section 15	200% of total R&D expenses	3 years

## 7

## Economic Service Charge

Description	For the Y/A 2018/2019
Rate on 10% of the relevant turnover - retail sale of petrol, diesel or kerosene	0.5%
Rate on any other relevant turnover	0.5%
ESC threshold limited per quarter	Rs. 12.5 Mn
Advance WHT of ESC on Articles liable to Special Commodity Levy, Gold or other precious metals, Motor vehicles	Applicable
Basis of imported motor vehicles for Advance WHT- if motor vehicles liable for excise duty	0.5% on the payable excise duty
- if motor vehicles not liable for excise duty	0.5% on the CIF value
Period of deductibility of ESC	3 years

## 8 Nation Building Tax

Description	From November 1, 2016
NBT Rate	2%
Threshold of liable turnover	Rs. 3.0 Mn p.q.
Threshold of liable turnover- locally procured agricultural produce	Rs. 25 Mn p.q.
<b>The removal of the exemption (effective from April 1, 2018)</b>	
Liquor	
<b>New exemptions (effective from April 1, 2018)</b>	
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 enables advanced technology agriculture practices, including greenhouses, poly tunnels and materials for the construction of greenhouses, by any grower.	
Sale of yachts built by BOI companies to the local BOI charter companies	
Domestic sale of coconut oil and kernal products (For 1 year)	
Importation of machines and equipment including solar panels and storage batteries for the establishment of solar charging stations	

## 9 Value Added Tax

Description	From November 1, 2016
VAT Rate	15%
Threshold for VAT Registration	Rs. 3.0 Mn p.q.
<b>The removal of the following exemptions (effective from April 1, 2018)</b>	
Import or supply of imported goods (plants & flowers, plastic beads, yarn/fabrics, wood & articles, dyes, glass beads, plant and machinery /industrial racks, electronic goods, aeroplanes & parts, spectacles, cameras & projectors, watches)	
Sale of condominium housing units	
<b>New exemptions (effective from April 1, 2018)</b>	
Solar tracker classified under HS Code 84 code 84.79. 89.50	

## 10 Other Taxes & Levies

Description	Basis	Liable Person	Rate / Charge
Cellular Tower Levy (CTL)	Monthly per tower	Mobile tower operator	Rs. 200,000/=
SMS Advertising Levy (SMSAL)	Bulk SMS	Advertiser	Rs. 0.25 per SMS
Carbon Tax (CT)	On engine capacity	Owner of the Motor Vehicle	Depend on vehicle type and age
Debt Repayment Levy (DRL)	On all transactions	Financial Institutions	0.02% of transaction value
Luxury Tax on Motor Vehicles	Engine Capacity or Motor Power	Owner of the Vehicle	Supper Luxury - Motor Car - Rs. 2,000,000/=
			Luxury - Motor Car - Rs. 1,000,000/=
			Semi-Luxury - Motor Car - Rs. 500,000/= - Dual purpose - Rs. 250,000/=
Reservations in Sri Lanka by Online Travel Agents (OTAs)	Commission	OTAs	1% of Commission

# Appendix II: Personal income tax at a glance

## 1 Tax rates on income other than employment income

Tax free allowance Rs. 500,000

Taxable income	Rate (%)
On the first Rs. 600,000	4%
On the next Rs. 600,000	8%
On the next Rs. 600,000	12%
On the next Rs. 600,000	16%
On the next Rs. 600,000	20%
Balance	24%

## 2 Tax rates on employment income

Tax free allowance and relief Rs. 1,200,000

Taxable income	Rate (%)
On the first Rs. 600,000	4%
On the next Rs. 600,000	8%
On the next Rs. 600,000	12%
On the next Rs. 600,000	16%
On the next Rs. 600,000	20%
Balance	24%

## 3 Terminal Benefits

Service period is less than 20 years	Total Liable Terminal Benefits		Rate	Service period is more than 20 years	Total Liable Terminal Benefits		Rate
First	2,000,000		No tax	First	5,000,000		No tax
Next	1,000,000		5%	Next	1,000,000		5%
Balance			10%	Balance			10%

## 4 Capital Gain

- Gains from the realization of investment assets taxed at the rate of 10%

## 5 Exemption

- Capital sum paid as compensation or gratuity on personal injury or death.
- Pension paid by Sri Lanka Government.
- Investment income derived by pension fund /ETF paid at retirement.
- Amount paid out of approved Provident Fund.
- Gain on the realization of an investment asset not exceeding 50,000 and total gain on realization of investment assets during a year of assessment not exceeding 600,000.
- Gain on realization of principal place of resident owned at least 3 years prior to realization and lived at least 2 years in that residence during that 3 years.
- Gain on realization of shares quoted in Stock Exchange.
- Annuity for life exceeding 10 years received by a senior citizen.

## 6 Relief

- Interest income received by a senior citizen Rs.1.5 Mn for an year up to the total interest income
- Income earned in foreign currency from any service rendered in or outside Sri Lanka by a resident individual or Partner of a Partnership not exceeding 15 Mn for each year.

## 7 Withholding Tax

- Interest /discount paid to a resident person (other than Senior citizen) - 5%
- Rent paid to a resident person - 10%
- Fees for specified services provides by an individual exceeding 50,000/= p.m -5%
- Service fees or an insurance premium with a source in Sri Lanka to a non- resident person - 14%



# Appendix III: List of items selected for removal of Cess Duty

HS Code	HS Code	HS Code	HS Code	HS Code
0201.10.00	0209.90.00	2101.20.12	4010.19.00	7607.20.10
0201.20.00	0210.11.00	2101.20.13	4010.31.00	7607.20.20
0201.30.00	0210.12.00	2101.20.19	4010.32.00	7608.10.00
0202.10.00	0210.19.00	2106.90.97	4010.33.00	7608.20.00
0202.20.00	0210.20.00	2201.10.10	4010.34.00	7615.20.10
0202.30.00	0210.91.00	2201.10.90	4010.35.00	7802.00.00
0203.11.00	0210.92.00	2201.90.10	4010.36.00	7902.00.00
0203.12.00	0210.93.00	2201.90.90	4010.39.00	8002.00.00
0203.19.00	0210.99.00	2203.00.10	4011.30.00	8301.20.00
0203.21.00	0305.10.00	2203.00.20	4011.70.00	8301.70.00
0203.22.00	0305.20.00	2203.00.90	4011.80.10	8304.00.00
0203.29.00	0305.59.10	2204.10.00	4011.80.90	8306.10.10
0204.10.00	0305.59.90	2204.21.00	4012.13.00	8413.60.00
0204.21.00	0403.10.00	2204.22.00	4012.90.10	8413.70.11
0204.22.00	0403.90.00	2204.29.00	4014.10.00	8413.70.19
0204.23.00	0405.10.00	2204.30.00	4014.90.00	8415.10.10
0204.30.00	0405.20.00	2205.10.00	4016.93.10	8415.20.10
0204.41.00	0405.90.00	2205.90.00	4016.93.20	8415.20.90
0204.42.00	0804.10.10	2206.00.10	4016.99.10	8418.10.10
0204.43.00	0804.10.20	2207.10.00	4016.99.20	8418.10.90
0204.50.00	0806.20.00	2207.20.10	4017.00.10	8418.29.10
0205.00.00	0808.30.00	2207.20.90	4301.10.00	8418.29.20
0206.10.00	0809.40.00	2501.00.00	4301.30.00	8418.29.30
0206.21.00	0810.50.00	2523.30.00	4301.60.00	8418.29.90
0206.22.00	0810.90.90	2523.90.00	4301.80.00	8418.91.10
0206.29.00	0902.30.13	2712.20.00	4301.90.00	8420.10.00
0206.30.00	0902.30.19	2712.90.00	4302.11.00	8421.21.10
0206.41.00	0902.30.23	3302.90.00	4302.19.10	8421.21.90
0206.49.00	0902.30.29	3307.90.10	4302.19.90	8421.23.90
0206.80.00	0902.30.33	3401.20.10	4302.20.00	8423.10.20
0206.90.00	0902.30.39	3906.10.90	4302.30.00	8438.80.40
0207.24.00	0902.40.11	3909.10.00	4823.70.00	8516.60.90
0207.25.00	0902.40.12	3909.20.00	4911.99.30	8539.22.00
0207.26.00	0902.40.13	3909.31.00	6701.00.00	8546.20.00
0207.27.00	0902.40.19	3909.39.00	6703.00.00	8708.70.10
0207.41.00	0902.40.21	3909.40.00	6704.11.00	8708.92.00
0207.42.00	0902.40.22	3910.00.00	6704.19.00	8708.99.40
0207.43.00	0902.40.23	3911.10.00	6704.20.00	8712.00.20
0207.44.00	0902.40.29	3911.90.00	6704.90.00	8712.00.90
0207.45.00	0902.40.91	3912.11.00	6801.00.00	8714.92.10
0207.51.00	0902.40.92	3912.12.00	6815.20.00	9404.29.10
0207.52.00	0902.40.93	3912.20.00	6815.91.00	9404.29.20
0207.53.00	0902.40.99	3913.10.00	6910.10.10	9404.29.30
0207.54.00	1001.99.90	3914.00.00	6910.10.90	9404.29.90
0207.55.00	1513.21.00	3916.10.00	6910.90.10	9404.30.10
0207.60.00	1513.29.00	3916.20.00	7228.30.00	9404.30.90
0208.10.00	1517.10.30	3917.40.10	7404.00.00	9404.90.10
0208.30.00	1517.10.90	3926.10.10	7503.00.00	9603.90.90
0208.40.00	1803.10.00	4007.00.00	7602.00.00	9613.10.00
0208.90.90	1804.00.00	4010.11.00	7604.29.00	9613.20.00
0209.10.00	2101.20.11	4010.12.00		

HS Code	HS Code	HS Code	HS Code	HS Code
0201.10.00	0209.90.00	2101.20.12	4010.19.00	7607.20.10
0201.20.00	0210.11.00	2101.20.13	4010.31.00	7607.20.20
0201.30.00	0210.12.00	2101.20.19	4010.32.00	7608.10.00
0202.10.00	0210.19.00	2106.90.97	4010.33.00	7608.20.00
0202.20.00	0210.20.00	2201.10.10	4010.34.00	7615.20.10
0202.30.00	0210.91.00	2201.10.90	4010.35.00	7802.00.00
0203.11.00	0210.92.00	2201.90.10	4010.36.00	7902.00.00
0203.12.00	0210.93.00	2201.90.90	4010.39.00	8002.00.00
0203.19.00	0210.99.00	2203.00.10	4011.30.00	8301.20.00
0203.21.00	0305.10.00	2203.00.20	4011.70.00	8301.70.00
0203.22.00	0305.20.00	2203.00.90	4011.80.10	8304.00.00
0203.29.00	0305.59.10	2204.10.00	4011.80.90	8306.10.10
0204.10.00	0305.59.90	2204.21.00	4012.13.00	8413.60.00
0204.21.00	0403.10.00	2204.22.00	4012.90.10	8413.70.11
0204.22.00	0403.90.00	2204.29.00	4014.10.00	8413.70.19
0204.23.00	0405.10.00	2204.30.00	4014.90.00	8415.10.10
0204.30.00	0405.20.00	2205.10.00	4016.93.10	8415.20.10
0204.41.00	0405.90.00	2205.90.00	4016.93.20	8415.20.90
0204.42.00	0804.10.10	2206.00.10	4016.99.10	8418.10.10
0204.43.00	0804.10.20	2207.10.00	4016.99.20	8418.10.90
0204.50.00	0806.20.00	2207.20.10	4017.00.10	8418.29.10
0205.00.00	0808.30.00	2207.20.90	4301.10.00	8418.29.20
0206.10.00	0809.40.00	2501.00.00	4301.30.00	8418.29.30
0206.21.00	0810.50.00	2523.30.00	4301.60.00	8418.29.90
0206.22.00	0810.90.90	2523.90.00	4301.80.00	8418.91.10
0206.29.00	0902.30.13	2712.20.00	4301.90.00	8420.10.00
0206.30.00	0902.30.19	2712.90.00	4302.11.00	8421.21.10
0206.41.00	0902.30.23	3302.90.00	4302.19.10	8421.21.90
0206.49.00	0902.30.29	3307.90.10	4302.19.90	8421.23.90
0206.80.00	0902.30.33	3401.20.10	4302.20.00	8423.10.20
0206.90.00	0902.30.39	3906.10.90	4302.30.00	8438.80.40
0207.24.00	0902.40.11	3909.10.00	4823.70.00	8516.60.90
0207.25.00	0902.40.12	3909.20.00	4911.99.30	8539.22.00
0207.26.00	0902.40.13	3909.31.00	6701.00.00	8546.20.00
0207.27.00	0902.40.19	3909.39.00	6703.00.00	8708.70.10
0207.41.00	0902.40.21	3909.40.00	6704.11.00	8708.92.00
0207.42.00	0902.40.22	3910.00.00	6704.19.00	8708.99.40
0207.43.00	0902.40.23	3911.10.00	6704.20.00	8712.00.20
0207.44.00	0902.40.29	3911.90.00	6704.90.00	8712.00.90
0207.45.00	0902.40.91	3912.11.00	6801.00.00	8714.92.10
0207.51.00	0902.40.92	3912.12.00	6815.20.00	9404.29.10
0207.52.00	0902.40.93	3912.20.00	6815.91.00	9404.29.20
0207.53.00	0902.40.99	3913.10.00	6910.10.10	9404.29.30
0207.54.00	1001.99.90	3914.00.00	6910.10.90	9404.29.90
0207.55.00	1513.21.00	3916.10.00	6910.90.10	9404.30.10
0207.60.00	1513.29.00	3916.20.00	7228.30.00	9404.30.90
0208.10.00	1517.10.30	3917.40.10	7404.00.00	9404.90.10
0208.30.00	1517.10.90	3926.10.10	7503.00.00	9603.90.90
0208.40.00	1803.10.00	4007.00.00	7602.00.00	9613.10.00
0208.90.90	1804.00.00	4010.11.00	7604.29.00	9613.20.00
0209.10.00	2101.20.11	4010.12.00		



# Appendix IV: List of items selected for removal of PAL Duty

0101.21.00	0504.00.00	1205.10.00	2701.20.00	2834.10.00
0101.21.00	0505.10.00	1205.90.00	2705.00.00	2835.24.00
0101.29.00	0505.90.00	1206.00.00	2707.20.00	2836.60.00
0101.30.00	0507.10.00	1207.10.10	2708.10.00	2836.91.00
0101.90.00	0507.90.00	1207.21.00	2710.12.10	2836.92.00
0102.21.00	0508.00.10	1207.29.00	2710.19.10	2837.11.00
0102.29.00	0508.00.20	1207.30.00	2710.91.00	2837.19.00
0102.31.00	0508.00.90	1207.50.00	2711.12.00	2837.20.00
0102.39.00	0510.00.10	1207.60.00	2711.19.90	2840.11.00
0102.90.00	0510.00.90	1207.70.00	2711.29.00	2841.30.00
0103.10.00	0511.10.00	1207.91.00	2713.90.00	2841.80.00
0103.91.00	0511.91.10	1207.99.10	2716.00.00	2842.90.10
0103.92.00	0511.91.20	1207.99.90	2801.30.00	2842.90.20
0104.10.10	0511.91.20	1209.10.00	2802.00.00	2842.90.30
0104.10.90	0511.99.10	1209.21.00	2804.40.00	2843.10.00
0104.20.10	0511.99.20	1209.22.00	2804.50.90	2843.29.00
0104.20.90	0511.99.40	1209.23.00	2804.61.00	2843.30.00
0105.11.10	0511.99.50	1209.24.00	2804.80.00	2845.10.00
0105.11.10	0511.99.60	1209.25.00	2804.90.10	2846.10.00
0105.11.20	0511.99.90	1209.29.00	2805.12.00	2849.90.00
0105.11.20	0601.10.00	1209.30.00	2805.19.00	2850.00.00
0105.11.90	0601.20.10	1502.10.00	2806.20.00	2852.10.00
0105.12.10	0601.20.90	2502.00.00	2809.10.00	2852.90.00
0105.12.90	0602.10.00	2504.90.90	2811.11.00	2853.10.00
0105.13.10	0602.20.00	2505.10.10	2811.12.00	2853.90.00
0105.13.90	0602.30.00	2505.10.91	2811.29.20	2901.22.00
0105.14.10	0602.40.00	2508.50.00	2812.19.00	2901.23.00
0105.14.90	0602.90.10	2508.60.00	2812.90.00	2901.24.00
0105.15.10	0602.90.20	2508.70.00	2813.10.00	2901.29.00
0105.15.90	0604.20.00	2510.20.90	2815.30.00	2902.11.00
0105.94.00	0604.90.00	2511.10.00	2819.90.00	2902.20.00
0105.99.00	0709.99.11	2515.11.00	2820.90.00	2902.42.00
0106.12.00	0713.31.11	2515.20.00	2822.00.00	2902.43.00
0106.13.00	0713.31.21	2516.20.00	2824.10.00	2902.60.00
0106.14.00	0713.32.10	2518.10.00	2824.90.00	2903.13.00
0106.19.10	0713.33.10	2518.20.00	2825.10.00	2903.19.10
0106.19.20	0713.34.10	2518.30.00	2825.20.00	2903.22.00
0106.19.90	0713.35.10	2525.10.00	2825.30.00	2903.29.10
0106.20.00	0713.39.10	2528.00.10	2825.40.00	2903.82.00
0106.31.00	0802.21.90	2528.00.90	2825.50.00	2903.99.90
0106.32.00	0802.22.00	2530.90.20	2825.70.00	2904.20.10
0106.32.00	0802.31.90	2601.11.00	2825.80.00	2904.20.90
0106.33.00	0802.32.00	2602.00.00	2826.30.00	2905.16.00
0106.39.00	0810.20.00	2604.00.00	2827.31.00	2905.19.10
0106.41.00	0810.30.00	2608.00.00	2827.35.00	2905.29.00
0106.49.00	0810.40.00	2615.90.00	2827.41.00	2905.43.00
0106.90.00	0810.50.00	2617.10.00	2829.11.00	2905.49.00
0501.00.10	1061.10.00	2617.90.00	2830.90.00	2905.59.00
0501.00.90	1202.30.00	2620.11.00	2831.90.00	2906.12.00
0502.90.00	1204.00.00	2620.99.90	2833.29.10	2906.13.00

2907.15.00	2918.19.00	2932.99.10	3801.20.00	4113.30.90
2907.21.00	2918.22.00	2933.11.00	3802.10.31	4114.10.00
2907.23.00	2918.30.00	2933.32.00	3802.10.32	4114.20.00
2907.29.00	2918.91.00	2933.33.00	3806.20.00	4206.00.00
2908.19.10	2918.99.10	2933.39.20	3807.00.10	4301.10.00
2908.19.90	2919.10.00	2933.49.00	3809.10.00	4301.30.00
2908.99.10	2919.90.10	2933.52.00	3811.11.00	4301.60.00
2908.99.90	2919.90.90	2933.54.00	3813.00.10	4301.80.00
2909.19.90	2920.19.90	2933.59.10	3814.00.20	4301.90.00
2909.20.90	2920.21.00	2933.79.00	3814.00.30	4302.11.00
2909.30.10	2920.22.00	2933.99.10	3815.12.00	4302.19.10
2909.30.99	2921.22.00	2934.10.00	3817.00.20	4302.19.90
2909.41.10	2921.30.00	2934.91.00	3818.00.00	4302.20.00
2909.49.10	2921.42.00	2937.12.00	3824.30.00	4302.30.00
2909.50.10	2921.43.00	2937.19.00	3824.75.00	4303.10.00
2909.60.10	2921.44.00	2937.22.00	3824.79.00	4303.90.00
2910.10.00	2921.45.00	2937.29.00	3825.50.00	4304.00.00
2910.20.00	2921.49.00	2937.90.00	3826.00.00	4401.11.00
2910.30.00	2922.17.00	2938.10.00	3904.61.00	4401.12.00
2910.40.00	2922.19.00	2939.19.00	3904.69.00	4401.21.00
2910.50.00	2922.21.00	2939.20.00	3907.70.00	4401.22.00
2911.00.00	2922.29.10	2939.30.00	3912.11.00	4401.31.00
2912.12.00	2922.29.90	2939.69.00	4011.30.00	4401.39.00
2912.21.00	2922.39.00	2941.20.00	4012.13.00	4402.10.00
2912.49.00	2922.44.00	2941.30.00	4101.20.00	4402.90.10
2912.50.90	2924.23.10	2941.40.00	4101.50.00	4402.90.90
2913.00.00	2924.23.20	3102.50.00	4102.10.00	4404.10.00
2914.19.00	2926.10.00	3102.80.00	4102.21.00	4404.20.00
2914.23.00	2926.20.00	3103.90.00	4102.29.00	4406.11.00
2914.61.00	2926.90.00	3201.10.00	4103.20.00	4406.12.00
2914.62.00	2930.20.10	3201.90.00	4103.90.00	4407.99.10
2914.71.00	2930.20.90	3301.30.00	4103.90.00	4412.39.10
2914.79.00	2930.90.10	3307.90.10	4104.11.90	4413.00.10
2915.13.00	2930.90.20	3502.90.00	4104.19.10	4418.40.00
2915.24.00	2930.90.40	3507.90.10	4104.19.90	4418.50.00
2915.40.00	2931.31.00	3604.10.00	4104.41.00	4501.10.00
2916.15.00	2931.32.00	3605.00.00	4104.49.00	4501.90.00
2916.20.10	2931.34.00	3606.10.00	4105.10.00	4502.00.00
2916.20.20	2931.36.00	3606.90.00	4105.30.00	4503.10.00
2916.20.50	2931.37.00	3701.20.00	4106.21.00	4503.90.00
2916.20.90	2931.38.00	3702.31.10	4106.22.00	4504.10.00
2916.34.00	2931.39.00	3702.32.00	4106.31.00	4504.90.00
2916.39.00	2932.11.00	3702.39.00	4106.32.00	4701.00.00
2917.12.00	2932.12.00	3702.53.90	4106.40.10	4702.00.00
2917.13.00	2932.13.00	3702.54.00	4106.40.90	4703.11.00
2917.33.00	2932.14.00	3702.96.20	4106.91.00	4703.19.00
2917.36.00	2932.20.10	3702.96.90	4106.92.00	4703.21.00
2918.12.00	2932.20.90	3702.97.20	4112.00.00	4703.29.00
2918.13.00	2932.93.00	3704.00.10	4113.20.00	4704.11.00
2918.17.00	2932.94.00	3706.90.00	4113.30.10	4704.19.00
4704.21.00	4905.91.00	7019.11.00	7405.00.00	8411.21.00

4706.10.00	4907.00.10	7019.12.00	7410.21.00	8411.22.00
4706.20.00	4907.00.20	7019.52.00	7410.22.00	8411.81.00
4706.30.00	4907.00.30	7019.90.20	7411.22.00	8411.82.00
4706.91.00	4907.00.40	7020.00.10	7419.10.00	8411.91.00
4706.92.00	4911.91.30	7020.00.40	7419.99.20	8412.10.00
4706.93.00	5113.00.00	7113.11.90	7501.20.00	8418.50.90
4707.10.00	5202.10.00	7113.20.90	7502.10.00	8421.23.00
4707.20.00	5207.90.00	7114.11.00	7502.20.00	8428.10.10
4707.30.00	5208.11.20	7114.20.00	7504.00.00	8428.31.00
4707.90.00	5208.21.10	7116.10.00	7505.12.00	8429.30.00
4802.10.00	5208.21.90	7118.90.90	7505.21.00	8430.20.00
4802.20.00	5305.00.93	7201.20.00	7507.20.00	8430.31.00
4802.40.00	5308.10.00	7202.19.00	7801.91.00	8430.50.00
4802.54.20	5311.00.90	7202.29.00	7804.20.00	8432.90.10
4802.55.10	5607.29.00	7204.21.00	7901.20.00	8435.90.00
4802.56.10	5608.11.10	7205.21.00	7905.00.00	8438.60.00
4802.57.10	5702.39.10	7206.90.00	8001.20.00	8439.10.00
4802.58.20	5702.42.00	7207.20.90	8003.00.00	8439.91.00
4802.61.10	5702.50.20	7208.26.00	8041.11.10	8440.90.00
4802.62.10	5702.50.90	7208.37.00	8102.96.00	8442.40.00
4802.62.20	5702.99.00	7208.38.00	8103.90.00	8443.32.20
4802.62.90	5704.90.10	7218.10.00	8104.19.00	8444.00.00
4804.41.00	5906.91.00	7218.91.00	8104.30.00	8445.11.00
4804.49.00	5908.00.00	7218.99.00	8105.20.00	8445.12.00
4804.51.00	5911.31.00	7221.00.00	8106.00.90	8445.13.00
4805.12.00	6402.19.10	7222.11.00	8107.20.00	8445.19.00
4805.30.00	6403.19.10	7225.50.00	8107.90.00	8445.20.00
4805.50.00	6602.00.90	7225.99.00	8108.20.00	8445.40.00
4805.91.00	6703.00.00	7226.20.00	8109.20.00	8445.90.00
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4805.92.90	6704.19.00	7227.10.00	8111.00.90	8447.11.00
4805.93.10	6704.20.00	7228.10.00	8112.21.00	8448.11.00
4806.20.00	6704.90.00	7228.50.00	8112.29.00	8448.19.00
4808.40.10	6801.00.00	7228.80.00	8113.00.10	8448.20.00
4810.13.10	6901.00.10	7302.30.00	8113.00.90	8448.31.00
4810.14.10	7001.00.90	7304.51.10	8212.20.10	8448.32.00
4810.31.00	7002.10.00	7305.12.90	8215.91.00	8448.33.00
4810.32.00	7002.20.00	7305.20.90	8401.10.00	8448.39.00
4810.39.00	7002.31.00	7305.31.90	8401.20.00	8448.42.00
4811.10.00	7002.39.00	7305.39.10	8401.30.00	8454.10.00
4812.00.00	7003.20.00	7306.11.10	8401.40.00	8457.20.00
4813.10.00	7003.30.00	7306.19.10	8406.10.00	8459.10.00
4818.50.10	7010.10.00	7315.20.00	8406.81.00	8459.21.00
4822.10.00	7010.20.00	7321.19.00	8407.31.10	8459.31.00
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4903.00.00	7014.00.10	7326.20.10	8407.33.10	8459.49.00
4904.00.10	7015.10.00	7402.00.00	8407.34.10	8459.51.00
4904.00.90	7017.10.10	7403.12.00	8409.10.00	8460.12.00
4905.10.00	7017.20.10	7404.00.00	8411.01.20	8460.19.00

8460.31.00	8532.22.10	8703.10.29	9017.10.00
8460.40.00	8532.23.10	8801.00.00	9017.20.10
8461.20.00	8532.23.90	8802.11.00	9017.20.30
8461.30.00	8532.24.10	8802.12.00	9031.41.00
8461.40.00	8532.24.90	8802.30.00	9101.19.10
8468.10.00	8532.25.10	8802.40.00	9108.11.00
8470.30.00	8532.29.10	8802.60.00	9108.12.00
8472.90.10	8532.30.10	8803.20.00	9108.19.00
8472.90.90	8532.90.10	8803.30.00	9108.90.00
8473.10.90	8533.10.00	8803.90.00	9113.10.00
8473.40.10	8533.21.00	8804.00.11	9114.10.00
8473.50.10	8533.31.00	8804.00.19	9114.30.00
8475.10.00	8533.39.00	8804.00.90	9114.40.00
8475.21.00	8533.90.00	8805.10.00	9208.10.00
8476.81.00	8540.20.00	8805.21.00	9208.90.00
8479.89.20	8540.40.00	8805.29.00	9209.30.00
8479.89.50	8540.60.00	8903.10.10	9209.91.00
8501.61.10	8540.79.00	8903.99.10	9209.92.00
8501.61.90	8540.91.00	8904.00.10	9209.94.00
8501.62.00	8540.99.00	8904.00.90	9209.99.10
8501.63.00	8541.10.00	8905.10.00	9209.99.20
8501.64.00	8541.21.00	8905.20.00	9301.10.00
8502.40.00	8541.40.00	8905.90.00	9301.20.00
8506.30.00	8541.50.00	8906.10.00	9301.90.00
8506.40.00	8541.60.00	8906.90.00	9302.00.00
8506.60.00	8541.90.00	8907.10.00	9303.90.00
8519.20.00	8543.10.00	8907.90.00	9307.00.00
8519.30.00	8543.30.00	8908.00.00	9401.10.10
8519.50.00	8543.70.10	9001.20.00	9401.10.90
8519.81.10	8544.20.10	9002.20.00	9405.50.20
8522.10.00	8545.11.00	9002.90.00	9504.90.10
8523.29.20	8545.19.10	9003.90.10	9506.11.00
8527.12.00	8545.19.90	9003.90.90	9506.12.00
8528.49.10	8601.10.00	9005.90.00	9506.19.00
8528.59.10	8601.20.00	9006.30.00	9506.21.00
8528.72.10	8602.10.00	9006.40.00	9506.29.10
8528.72.20	8602.90.00	9006.51.00	9506.29.20
8528.72.31	8603.10.00	9006.52.90	9506.31.00
8528.72.32	8603.90.00	9006.53.10	9506.32.00
8528.72.32	8605.00.00	9006.53.20	9506.40.00
8528.72.33	8606.10.00	9006.53.90	9507.10.00
8528.72.34	8606.30.00	9006.59.10	9507.30.00
8528.72.34	8606.91.10	9006.59.90	9508.10.00
8528.72.35	8606.91.90	9006.61.00	9601.10.00
8528.72.36	8606.92.00	9006.69.00	9601.90.10
8528.72.36	8606.99.00	9006.99.00	9601.90.90
8528.73.10	8607.11.00	9007.10.10	9602.00.90
8528.73.20	8703.10.11	9007.10.90	9614.00.00
8532.21.10	8703.10.19	9012.90.00	9704.00.00
8532.21.90	8703.10.21	9013.10.00	9705.00.00

# Appendix V: Withholding taxes

Payments	Withholding tax rate
Interests and discounts	5% for any person (Final WHT for individuals) Interests on bank deposits of senior citizens (exempt up to Rs. 1.5 million) - rate will be as per regulations
Interest on Treasury Bonds and Treasury Bills	No WHT (liable in the hands of the recipient)
Interest to Financial institutions on ordinary loans and advances	No WHT (liable in the hands of the recipient)
Dividends	14% (Final WHT)
Royalty	14%
Rent	10% for resident persons 14% for non-resident persons
Natural resource payments	14%
Winnings from lottery, reward, betting and gambling	14%
Partnership - Share of income	8%
Gem sold at auction	2.5% ( by National Gem and Jewelry Authority)

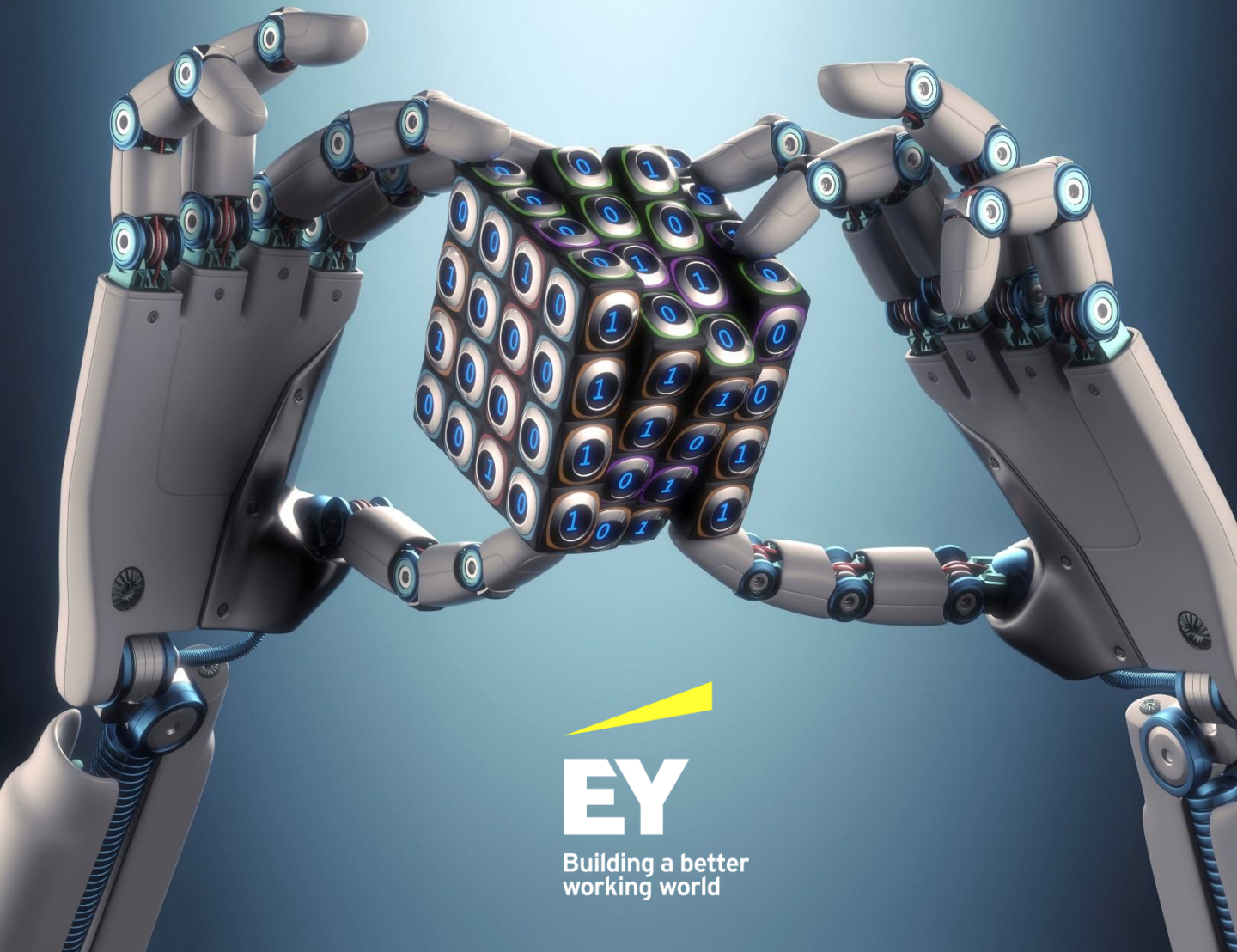
Payments	Withholding tax rate
Service fees to resident individuals on followings; <ul style="list-style-type: none"> <li>i. Teaching, lecturing, examining, invigilating or supervising an examination</li> <li>ii. Commission or brokerage to a resident insurance, sales or canvassing agent</li> <li>iii. Endorsement fees</li> <li>iv. Supply of any article on contract basis through tender or quotation</li> <li>v. Other matters as may be prescribed by regulations</li> </ul>	5% if payment exceeds 50,000 per month
Insurance premium to non-resident persons	14%
Service fees to non-resident persons	14%
Payments to non- resident persons for <ul style="list-style-type: none"> <li>i. land, sea and air transportation</li> <li>ii. telecommunication services</li> </ul>	At the rates provided as per regulations
No WHT arises in respect of all of the above payments <ul style="list-style-type: none"> <li>- if such payments does not have a source in Sri Lanka in terms of Section 73; or</li> <li>- If such payments are exempt under the Exempt Schedule</li> </ul>	



# How can we make a lasting impact in a rapidly changing world?

Our Global Review 2017 highlights how we're embracing digital disruption.

The better the question. The better the answer. The better the world works.



Building a better  
working world