

Programme for Economic Revival

His Excellency the President, and the Honorable Prime Minister and Minister of Finance and Economic Affairs have raised concerns regarding the serious setback in the economy as reflected in the persistently low growth rates during the last 3 years along with the rising cost of living. The Honorable Prime Minister is of the view that ill-conceived economic and financial policies of the previous Government have led to this situation by marginalizing local entrepreneurs, industries and domestic production.

As 2018/2019 Maha cultivation season has begun with extremely favorable weather throughout the country, the economy is set to get a new revival as all hydro power reservoirs and irrigated schemes have reached full storage capacity to generate electricity, provision of drinking water and water for cultivation. The Government thinks that this is the best opportunity to prepare the country to get the maximum benefit from agricultural production. At the same time the consumers are saddled with high cost of living. In this background the Prime Minister and Minister of Finance and Economic Affairs has given direction to implement following initiatives to revive the economy.

1. In order to ease the pressure on high cost of living while also protecting the local farmer, Special Commodity Levy will be reduced on Dhal by Rs.5 per Kg, Chickpeas by Rs. 5 per Kg, Black gram by Rs.25 per Kg. Customs Duty will also be waived on Wheat grain to Rs. 9 per Kg from the existing waiver of Rs.6 per Kg. Sugar will be brought under the Special Commodity Levy whereby the applicable taxes on Sugar will also be reduced by Rs.10 per Kg. Accordingly, the commodity prices will be reduced with immediate effect.
2. Given the impact of fuel pricing on all strata of the society specially those engaged in transport, agriculture and fisheries sectors, price of Petrol (Octane 92) will be reduced by Rs. 10 per litre, Auto Diesel by Rs.7 per litre and Lubricants including the 2T lubricants used in three-wheelers and small agricultural engines by Rs.10 per litre with effect from mid night today. At the same time a cost based pricing mechanism will be implemented on fuel in place of the monthly fuel price formula.
3. A guaranteed price scheme will be introduced for Paddy, Onion and Potatoes produced locally by our farmers. Accordingly, SCL will be raised during harvesting period to protect farmers through remunerative guaranteed prices. As

potatoes and B-Onions are being harvested, SCL on potatoes and B-Onions will be maintained at Rs.40 per Kg.

4. In order to mitigate the impact of adverse weather conditions which resulted in farmers losing their livelihood and becoming heavily indebted, interest and the penal interest incurred by farmers and small Paddy Mill owners on loans up to a maximum of Rs.50 million, from all Commercial Banks during the past 3 years, will be written off in full and will be borne by the Government.
5. The maximum threshold on Loan advances given by Samurdhi Banks to Samurdhi beneficiaries to support their livelihood activities will be increased by Rs.10,000/-.
6. Fertilizer prices for paddy will be maintained at Rs.500/50kg bag and fertilizer prices for other crops will be reduced to Rs. 1,000/50kg bag from Rs. 1,500/50kg bag.
7. The concessionary income tax rate of 14% on agriculture is presently applied only for the companies engaged in agricultural businesses. The income of individuals from Agricultural undertakings will also be reduced from the existing maximum rate of 24% to 14% so that individual farming agriculture is also encouraged.
8. The concessionary Income Tax rate of 14% is presently applicable under the SME categories only for Companies. This rate will be extended to include individuals including those providing professional services. Therefore, the income tax rate for professional services will be reduced from 24 percent to 14 percent.
9. Withholding tax will be exempted on Interest on any savings and fixed deposits maintained in any financial institution.
10. To encourage local entrepreneurs, professionals and migrant workers to remit their earnings in foreign currency on services provided outside Sri Lanka, Income tax will be exempted on such remittances.
11. The adverse impact created by high indirect taxes will be mitigated by simplification of VAT and NBT. The VAT threshold will be increased from Rs.12 million per annum to Rs.24 million per annum.

12. The threshold for the VAT liability of wholesale and retail sector also will be increased from Rs.50 million to Rs.100 million per twelve months providing benefits to small traders and businesses.
13. The VAT rate applicable on the import of Sawn Timber will be reduced to 5% to support the local Construction Industry.
14. VAT on import of fabric will be exempt providing benefits to the small and medium garment manufacturers.
15. Considering the high tax imposed on the Telecommunication services, the Telecommunication Levy of 25% will be reduced to 15%.

The thrust if these initiatives are to encourage production and simplify the tax system. It will certainly help households with additional income in their hands. The proposed changes to the tax system will also encourage inward remittances and savings.

The Government also expects to reduce its expenditure with the rationalization of Cabinet ministries as reflected in a lesser number of ministries and reexamination of capital expenditure programs. Accordingly, the government is confident that the primary surplus of 1.8 percent of GDP and the budget deficit of around 4.9 percent of GDP that have been targeted for 2018 could be achieved in support for further fiscal consolidation to provide economic stability. The measures to further consolidation of external trade and payment transactions are also being examined to provide much needed stability to the exchange rate.

His Excellency the President and Honorable Prime Minister and Minister of Finance and Economic Affairs have directed the implantation of the above policy measures. The necessary Gazettes for the aforementioned tax related proposals will be issued today and Cabinet approval is sought to amend the necessary tax laws.

Ministry of Finance and Economic Affairs

01.11.2018