

BUDGET AT A GLANCE 2017



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10th November, 2016

Dear Valued Stakeholder,

BUDGET AT A GLANCE - 2017

The Hon. Minister of Finance, Ravi Karunanayaka presented the budget in parliament for the year 2017 on 10th November, 2016.

This year's budget is expected to be a pro-growth budget focusing on all the sectors in the economy by giving much more attention to social welfare in order to rectify the anomalies which were created due to the deficiencies caused to the economy over the last several years.

Bearing in mind our clients and the convenience of processing a budget summary, we have compiled a memorandum contained herein, on the highlights of the aforesaid 2017 budget proposals.

This memorandum is prepared in summary form and should not be used as a substitute to detailed advice given by our firm. The proposals may be subject to changes at the time of legislations are enacted. Therefore, any conclusion should be arrived at only after due consultations and professional advice.

We hope this will serve its purpose by acting as a useful reference guide of the 2017 budget.

This publication is also available in our website www.nh-co.lk.

Thanking you,

Yours faithfully,



.....
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Managing Partner

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CHAPTER 01 - INCOME TAX

1.1 Corporate Income Tax

1.1.1 Corporate Income Tax Rates

Corporate income tax rates will be revised to a 3 tier rate structure comprising of a lower rate of 14%, a standard rate of 28% and higher rate of 40%.

| Industry | Current (%) | Proposal (%) |
|-------------------------------------|-------------|--------------|
| SMEs (Turnover less than Rs. 500Mn) | 12 | 14 |
| Export of goods or services | 12 | 14 |
| Agriculture | 10 / 12 | 14 |
| Education | 10 | 14 |
| Betting and gaming | 40 | 40 |
| Liquor | 40 | 40 |
| Tobacco | 40 | 40 |
| Others | 12 / 28 | 28 |

1.1.2 Income Tax Concessions

- i. Specific concessions will be announced for:
 - Any investment not less than USD 100Mn and generating employment opportunities for a minimum of 500 people; or
 - Any investment not less than USD 500Mn.
- ii. A rebate of 75% of the income tax attributable to excess profit of 2016/2017 will be given, where profits from exports in foreign currency increased over 15% or more in 2016/2017 compared to 2015/2016.
- iii. The new firms that will list on the stock exchange in the year 2017/18 will be entitled to a grant of 25% of the total income tax paid by that firm for the last year prior to listing.
- iv. Major international companies which are ready to relocate their headquarters in Sri Lanka will be exempted from corporate tax.

1.1.3 Depreciation Allowance

Depreciation rates will be revised as follows:

| Asset / Criteria | Current (%) | Proposal (%) |
|---|--|--------------|
| Buildings | 10 | 5 |
| Plant and machinery or equipment | 33 1/3, 50, 100 | 20 |
| Any trade or business If investment in fixed assets is over USD 3Mn; and No. of employees over 250 | Standard rate depending on the nature of the asset | 100 |

CHAPTER 01 - INCOME TAX (CONTINUED)

1.1 Corporate Income Tax (Continued)

1.1.3 Depreciation Allowance (Continued)

| Asset / Criteria | Current (%) | Proposal (%) |
|--|---|--------------|
| Any trade or business If investment is over USD 5Mn; and No. of employees over 300 (Note) | Standard rate depending on the nature of the asset | 100 |
| Any trade or business If investment in fixed assets in the Northern Province is more than USD 3Mn; and No. of employees over 250. | Standard rate depending on the nature of the asset | 200 |

Note : In addition to above, further 5% of the investment as a tax credit up to a maximum of tax payable for the second year of commercial operation will be granted.

1.1.4 Interest, Dividends and Withholding Tax

- i. Certain dividends and interest or profits from investment in listed securities and other instruments will be removed.
- ii. The present exemption on dividends received by unit holders of unit trusts and mutual funds will be removed for corporate unit holders.
- iii. Withholding tax on specified fees will be re-introduced. Accordingly, specified fees exceeding Rs. 50,000 per month or Rs. 500,000 per annum will be subject to withholding tax of 5%.
- iv. Notional tax credit will be removed and the income on instruments subject to upfront tax such as treasury bills, bonds and corporate debt securities will be taxable on the net interest.

CHAPTER 01 - INCOME TAX (CONTINUED)

1.2 Personal Income Tax

1.2.1 Employment income

i. Tax free employment income

The tax-free threshold on income from employment will be increased to Rs. 1,200,000 per annum (Rs.100,000/- per month).

| Description | Current | Proposal |
|--|---------|----------|
| Tax free allowance (Rs.) | 500,000 | 500,000 |
| Qualifying payment relief on employment income (Rs.) | 250,000 | 700,000 |

ii. Employment under more than one employer

Employees who are employed under more than one employer will be taxed as follows:

Proposal

If the remuneration does not exceed Rs. 50,000 per month at 10%.

If the remuneration exceeds Rs. 50,000 per month at 20%.

Current provision

If the remuneration does not exceed Rs. 25,000 per month at 10%.

If the remuneration exceeds Rs. 25,000 per month at 16%

iii. Removal of exemption on employment income

Proposal

The following exemptions will be removed:

- Providing a transport facility.
- Certain special allowances provided for special categories of public services.

Current provision

- One vehicle provided for travelling or an allowance provided in lieu of the vehicle up to Rs. 50,000 per month is exempt.
- Any special payment made to for emergency or priority services or for any special task rendered or carried out public sector employees.

iv. PAYE tax of employees of state-owned enterprises and other government institutions

PAYE tax of employees of state owned enterprises and other government institutions should be deducted from the employees' emoluments and should not be paid by the institution.

CHAPTER 01 - INCOME TAX (CONTINUED)

1.2 Personal Income Tax (Continued)

1.2.2 Interest income

i. Interest income on savings accounts

Proposal

The present exemption on interest on savings accounts up to LKR 5000 per month will be removed.

Current provision

Interest accruing for, or arising in, to any individual or charitable institution where such individual or charitable institution maintains one savings account or more than one savings account, where the interest paid for a month is less than five thousand rupees is exempt from income tax.

ii. Interest income earned by senior citizens

Proposal

The present exemption on interest on deposits applicable to senior citizens will be restricted to Rs. 1,500,000 per annum.

Current provision

Full amount of interest income earned by senior citizens is exempt.

iii. Withholding tax on interest income

Proposal

WHT on interest income will be increased to 5%.

Current provision

Currently applicable rate is 2.5%.

1.2.3 Income tax slabs for individuals

Income tax slabs applicable for individuals will be revised as follows:

| Tax rate (%) | Current | | Proposal (Rs.) |
|--------------|-------------------------|--------------------|----------------|
| | Employment income (Rs.) | Other income (Rs.) | |
| 4 | 500,000 | 500,000 | 600,000 |
| 8 | 500,000 | 500,000 | 600,000 |
| 12 | 500,000 | 500,000 | 600,000 |
| 16 | Balance | 500,000 | 600,000 |
| 20 | - | 1,000,000 | 600,000 |
| 24 | - | Balance | Balance |

CHAPTER 01 - INCOME TAX (CONTINUED)

1.3 Others

Income tax rate of 10% currently applicable for funds, charitable organisations, dividends and any other sector will be revised to 14%.

1.4 Tax Administration

1.4.1 Revision of Time Bar Provisions

Time periods given for issuing assessments, hearing of appeals by the Commissioner General of Inland Revenue (CGIR) and tax Appeals Commission (TAC) will be revised as follows:

| Type | Current | Proposal |
|----------------------------|-----------|----------|
| Issuing assessments | 18 months | 9 months |
| Hearing of appeals by CGIR | 24 months | 6 months |
| Hearing of appeals by TAC | 24 months | 6 months |

1.4.2 Establishment of the National Tax Council

A National Tax Council will be established and the Office of Tax Ombudsman will be created by an Act of Parliament to resolve grievances of tax payers with the view to increasing tax payers' confidence in the tax system and to avoid litigation.

1.5 Effective Date

Proposals listed above in relation to income tax will be expected to come in to effect with effect from 01st April, 2017. Further, changes proposed in the Budget 2016 (subject to subsequent modifications) will be implemented together with the above proposals.

CHAPTER 02 - VALUE ADDED TAX (VAT)

2.1 Simplified Value Added Tax (SVAT)

The simplified VAT (SVAT) system will be terminated.

2.2 VAT Refunds

- i. A mechanism will be introduced at ports and airports to enable foreigners who stay less than 30 days in Sri Lanka to receive refunds of the VAT on goods purchased by such foreigners.
- ii. To enhance the efficiency of VAT refund process post refunds audits, upon obtaining bank guarantees, to be undertaken.

2.3 New Exemptions

- i. The following exemptions have been proposed for import and supply of plants, machinery and accessories for renewable energy generation.

| | | | | | | |
|------------|------------|------------|------------|------------|------------|------------|
| 8454.10 | 8501.31.10 | 8503.00.10 | 8503.00.20 | 8503.00.90 | 8504.10.10 | 8504.10.90 |
| 8504.21.10 | 8504.21.90 | 8504.22.10 | 8504.22.20 | 8504.22.30 | 8504.22.90 | 8504.23.90 |
| 8504.31.10 | 8504.31.90 | 8504.32.10 | 8504.32.90 | 8504.33.10 | 8504.33.90 | 8504.34.90 |
| 8504.40.10 | 8504.40.20 | 8504.40.30 | 8504.40.90 | 8504.50.10 | 8504.50.90 | 8504.90.10 |
| 8504.90.90 | 8513.10.10 | 8539.31.20 | 8541.40 | 9032.89.10 | 9405.10.10 | 9405.10.20 |
| 9405.20.20 | 9405.20.20 | 9405.40.30 | 9405.40.40 | | | |

- ii. Plant and machinery imported by the Ceylon Electricity Board for generation, transmission and distribution of electricity.
- iii. Import of transplanners, hand weeders, etc. for the use by farmers and farmer cooperatives. International telecommunication services provided to local operators by External Gateway Operators.
- iv. Supply of geriatric care services and child care services.
- v. Locally manufactured dairy products.
- vi. Certain electrical goods identified under the following HS Code Nos:

| | | | | | | |
|------------|---------|---------|---------|------------|------------|------------|
| 8516.40 | 8516.72 | 8527.21 | 8527.29 | 8527.91 | 8527.92 | 8528.72.41 |
| 8528.72.91 | 9101.11 | 9101.19 | 9101.19 | 9101.19.10 | 9101.19.90 | 9101.21 |
| 9101.91 | 9101.99 | 9102.11 | 9102.12 | 9102.19 | 9102.21 | 9102.29 |
| 9102.91 | 9102.99 | 9105.11 | 9105.19 | 9105.21 | 9105.29 | 9105.91 |
| 9105.99 | | | | | | |

- vii. Magazines, journals or periodicals other than newspapers, identified under the following HS Code Nos:

4901.10 4901.91 4901.99 4901.99.10 4902.10.10 4902.90.10

- viii. Medical machinery and medical equipment identified under HS Code No. 8421.29.10

CHAPTER 02 - VALUE ADDED TAX (VAT) (CONTINUED)

2.4 Removal of Exemptions

- i. Gold coins, precious metals and precious stones identified under the following HS Code Nos:

| | | | | | | | |
|------|------|------|------|------|------|------------|------|
| 7101 | 7102 | 7103 | 7104 | 7105 | 7106 | 7107 | 7108 |
| 7109 | 7110 | 7111 | 7113 | 7114 | 7116 | 7118.90.10 | |

- ii. Import or supply of jewellery.
iii. Locally manufactured milk powder.

2.5 VAT Administration

- i. Smart e-invoice devices will be introduced to be used at the point of sale by the VAT registered persons in order to simplify and strengthen.
- ii. To speed up VAT collection process and make the system more simple and efficient, it has been proposed to introduce smart e-invoice devices for usage at the point of sale by the VAT registered persons. This system is to be extended to the Excise Department as well.
- iii. Given that the VAT Law was enacted in 2002 and has undergone a series of amendments since its enacted, it has been proposed to consolidate same with incorporating amendments up to date.

2.6 Effective Date

Proposals listed above in relation to VAT will be expected to come in to effect with effect from 01st January, 2017. However, VAT on importation of certain items will take effect immediately.

CHAPTER 03 - NATION BUILDING TAX (NBT)

3.1 New Exemptions

- i. International telecommunication services provided to local operators by External Gateway Operators.
- ii. Printed books, magazines, journals or periodicals other than newspapers, identified under the following HS Code Nos:

4901.10 4901.91 4901.99 4901.99.10 4902.10.10 4902.90.10

- iii. Solar panel modules and accessories under the following HS Code Nos:

8454.10 8501.31.10 8513.10.10 8539.31.20 8541.40
 9032.89.10 9405.10.10 9405.10.20 9405.20.10 9405.20.20
 9405.40.30 9405.40.40

3.2 Removal of Exemptions

- i. Any goods required for the purpose of providing services of international transportation, being goods consigned to Sri Lankan Air Lines Ltd, Mihin Lanka (Pvt) Ltd or Air Lanka Catering Services Ltd.
- ii. Any article imported or sold by any society registered under the Cooperative Societies Act No. 5 of 1972 or under the respective statutes enacted by the Provincial Councils providing for such registration or Lak Sathosa Limited registered under the Companies Act No. 7 of 2007.
- iii. Services provided by any society registered under the Co-operative Societies Law No. 5 of 1972 or under any Statute enacted by a Provincial Council or Lak Sathosa Limited registered under the Companies Act No. 7 of 2007.
- iv. The services of a travel agent in respect of inbound tours, if such person is registered with the Ceylon Tourist Board.
- v. Services being construction services including the services of subcontractors.
- vi. Sale of residential apartments.

3.3 Effective Date

Proposals listed above in relation to NBT will be expected to come in to effect with effect from 01st January, 2017. However, NBT on importation of certain items will take effect immediately.

CHAPTER 04 - ECONOMIC SERVICE CHARGE (ESC)

4.1 Liable Threshold

The ESC threshold will be reduced to Rs. 12.5Mn per quarter from the present threshold of Rs.50Mn per quarter.

4.2 ESC As A Form of Advance WHT

ESC will be charged at the point of customs on the importation of motor vehicles as a form of advance WHT.

4.3 Effective Date

Proposals listed above in relation to ESC will be expected to come in to effect with effect from 01st April, 2017. Further, changes proposed in the Budget 2016 (subject to subsequent modifications) will be implemented together with the above proposals.

CHAPTER 05 - MISCELLANEOUS TAXES AND LEVIES

5.1 Capital Gain Tax

Capital Gain Tax which was abolished with effect from 01st April, 2002 will be reintroduced commencing from the year of assessment 2017/2018 at the rate of 10% on the gain realized from disposal of immovable properties.

5.2 Telecommunication Levy

- i. Telecommunication levy on internet services will be increased from 10% to 25%.
- ii. A SIM activation levy of Rs. 200 will be imposed for a SIM.
- iii. Digitalization of the country
 - All mobile operators will be given a 6 month period to convert their infrastructure enabling to provide the 3G facility and a surcharge at Rs. 100Mn per district will be imposed for failing to provide such facility.
 - All metro areas are required to be converted to 4G by June 30, 2018.
- iv. The present annual spectrum charge will be increased by 25%.

5.3 Special Commodity Levy

Tax rate applicable for white sugar will be revised to Rs. 7 per Kg from the existing rate of Rs. 2 per Kg.

CHAPTER 05 - MISCELLANEOUS TAXES AND LEVIES (CONTINUED)

5.4 Ports and Airports Development Levy (PAL)

- i. 75% waiver will be granted on the PAL when importing high tech automated machinery and equipment, with the approval of the Ministry of Industry and Commerce.
- ii. PAL on printed books, magazines, journals and periodicals will be removed.
- iii. PAL on pharmaceutical products under HS Code Nos. 3926.90.80 and 9602.00.10 will be reduced to 2.5%.
- iv. PAL will be removed on the imports of the transplanter, hand weeders, etc. by farmers and farmer cooperatives.

5.5 Customs Duty

- i. Duty on the importation of portable alcohol will be increased from Rs.500 to Rs. 800 per liter.
- ii. Duty will be reduced by Rs. 35 per Kg on milk powder.
- iii. The duty on industrial raw materials has been reduced with a view to facilitate the industries and trading.
- iv. Duty rates of 96 tariff lines have been adjusted according to Sri Lanka's bound rate commitments to the World Trade Organization.
- v. HS Code National Sub Divisions have been created considering the requests made by the business community and the directive given by the World Customs Organization (WCO).
- vi. Duty will be removed on the imports of the transplanter, hand weeders, etc. by farmers and farmer cooperatives.

5.6 Betting and Gaming Levy

The present annual levy of Rs. 200Mn on the business of gaming will be increased to Rs. 250Mn. The proposed changes in the 2016 Budget, will be implemented with the revision of the annual levy referred to above.

5.7 Excise (Special Provisions) Duty

- i. Excise (Special Provisions) Duty will be imposed:
 - On beer cans :
Not more than 350ml at the rate of Rs. 10 per can ; and
More than 350ml at Rs.15 per can.
 - On any lottery ticket at Rs. 5 per ticket.
- ii. - An excise duty waiver of 50% from the duty payable for importing a motor car with a CIF value less than USD 50,000 will be granted to a person who exports a minimum of 20 vehicles with a total value not less than USD 200,000.
 - Excise duty on motor vehicles will be revised.

CHAPTER 05 - MISCELLANEOUS TAXES AND LEVIES (CONTINUED)

5.8 Cess

- i. Cess will be increased on:
 - Export of rubber to Rs.15 per Kg.
 - Printing ink identified under HS Code Nos 3215 .11 and 3215.19 to Rs. 30 per Kg.
- ii. Cess on 100 items will be removed.
- iii. A sugar stabilization fund to be established by imposing 2% Cess on imported sugar and 5% on ethanol imports.
- iv. Cess of 25% which is applicable on pre-fabricated structures related to the construction industry is to be removed.
- v. The animal feed industry is allowed to import maize, subject to the payment of Cess, when there is a shortage of domestically produced maize. This Cess will be reimbursed as an export rebate on the export of chicken.

5.9 Excise Duty under the Excise Ordinance

- i. The present wastage and evaporation allowances on liquor production will be revised as follows:
 - Wastage - 0.10%.
 - Evaporation - 0.05%.
- ii. An annual license fee of Rs. 5Mn will be imposed on importers of Beedi leaves.
- iii. Excise duty will be introduced on imported non-portable alcohol at Rs. 25 per litre.
- iv. Excise duty will be imposed on raw materials used for manufacturing of ethanol as follows:

| Type of raw material | Proposed Duty (Rs.) |
|----------------------|---------------------|
| Molasses | 20 per Ltr |
| Coconut toddy | 10 per Ltr |
| Maize | 20 per Kg |
| Rice | 20 per Kg |
| Any other | 20 per Kg |

5.10 Changes to Finance Act

- i. The Finance Act No. 10 of 2015 will be amended to streamline the one-off taxes introduced.
- ii. The luxury and semi-luxury motor vehicle tax [amendment to part II of the Finance Act No. 16 of 1995] will be revised.
- iii. A financial transaction levy will be introduced at 0.05% on the basis of the total transaction value by banks or financial institutions.
- iv. An annual license fee and a fee on voluntary liquidation will be imposed on companies.

CHAPTER 05 - MISCELLANEOUS TAXES AND LEVIES (CONTINUED)

5.11 Vehicle entitlement levy

Vehicle entitlement levy is applicable from January 1, 2016 and such levy collected by the CGIR will be collected by the Director General of Customs at the point of Customs with effect from January 1, 2017.

5.12 Teledrama levy

Teledrama applicable on the foreign teledramas flowing in to the country and dubbed in Sinhala, Tamil or any other language will be increased.

5.13 Embarkation levy

Embarkation levy will be increased to USD 50 from USD 25.

5.14 Charges for court cases/ case filing fee

A filing fee will be imposed when filing a court case by any person in any court.

5.15 Annual license fees on firearms

An annual license fee of Rs. 20,000 will be imposed on firearms other than the firearms used for agricultural purposes. A penalty of Rs. 5Mn will be charged for using firearms without paying the license fee.

5.16 Import license fees

A fee will be charged for license to import lubricants, bitumen or gold.

5.17 Other fees and levies

- i. Revision of fines charged on traffic offences
Traffic offences will be re-classified in order to be subject to spot fines and the minimum fine will be increased to Rs. 2,500.
- ii. A carbon tax will be imposed on vehicles other than electric cars and tractors.
This fee will include the existing emission test fee.
- iii. A Gazette Notification is to be issued to determine the cost of freight as 15% of the Free On Board (FOB) value of imported goods, when an importer imports his own goods by his own vessel or an importer imports single goods by using a chartered vessel as a bulk cargo.
- iv. To support the tea industry through a more simplified tax and tariff structure, it is proposed to abolish the import and export control fee of 1% on the CIF price of tea, and remove the fees on the packing of tea and the logo registration.
- v. The annual renewal of licenses with the Sri Lanka Tea Board, which had six categories to be reduced to two, where large companies will be subjected to fee of Rs. 500,000 per annum and smaller companies to a fee of Rs. 50,000 per annum.

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