

# **Circular to Clients**

## **Budget Proposals 2017 – Taxation**

### **1 Income Tax (Amendments to the Inland Revenue Act No.10 of 2006)**

#### **1.1 Investment Incentives**

**1.1.1** 100% capital allowances will be granted on investment in fixed assets not less than USD 03 mn with not less than 250 employment.

**1.1.2** 200% capital allowances will be granted if the investment with the same conditions referred to above is made in Northern Province.

**1.1.3** 100% capital allowances and for the second year of commercial operation 5% of the investment as a tax credit up to a maximum of tax payable, if such investment is not less than USD 05 mn with minimum 300 employment.

in any trade or business.

#### **1.1.4 Specific concessions**

Specific concessions will be announced for:

- any investment not less than USD 100 mn with minimum employment of 500; or

Any investment not less than USD 500mn.

in any trade or business.

#### **1.1.5 Concessions to exporters**

A rebate will be given equal to 75% of the income tax attributable to excess profit of 2016/17, where profits from exports in foreign currency increased over 15% or more in 2016/17 compared to 2015/16.

#### **1.2 Revision of capital allowances**

The rate of capital allowances will be revised as follows:

- Plant, machinery or equipment – the present rates of 33 1/3 %, 50% and 100% will be revised as 20% (5 equal installments).

- Buildings – the present rate of 10% will be reduced to 5% (20 equal installments).

### **1.3 Revision of time bar provisions**

#### **1.3.1 Assessments**

The present period to issue assessments of 18 months will be reduced to 09 months.

#### **1.3.2 Appeals**

- The present period of 24 months to hear an appeal by the Commissioner General will be reduced to 06 months.
- The present period of 24 months to hear an appeal at the Tax Appeal Commission will be reduced to 06 months.

### **1.4 Simplification of Income Taxation**

The following measures will be taken to simplify the Income Tax regime with minimum number of tax exemptions and by broadening the tax base.

(i) The corporate income tax rates will be revised to 3 tiers structure of lower rate of 14%, standard rate of 28% and the higher rate of 40% as follows:

(a) The lower rate of 14% will be applicable for the profits and income of :

- SMEs
- Export of goods or services
- Agriculture
- Education

For this purpose „SME“ will be defined with specific criteria of having a maximum turnover limit of Rs 500mn per annum.

(b) The higher rate of 40% will be applicable for the profits and income of :

- Betting & Gaming
- Liquor
- Tobacco

(c) The standard rate of 28% will be applicable on the profits and income of all the other sectors including Banking and Finance, insurance, leasing and related activities etc.

(ii) The present tax rate of 10% applicable for Funds (EPF, ETF, etc.), Charitable institutions, Dividends, Treasury Bonds and Treasury Bills and any other sector will be increased to 14%.

(iii) Individual income tax rate structure will be revised as follows:

(a) Profits and income from employment:

- Tax free threshold on employment will be increased from Rs. 750,000 to Rs. 1.2 mn per annum. The deduction for qualifying payments will be adjusted accordingly.

- Rates applicable on the second employment will be revised as follows:

- If the payment does not exceed Rs 50,000/- per month at 10%;
- If the payment exceeds Rs. 50,000/- per month at 20%.

(b) The progressive rate structure will be from 4% to 24% having the equal tax slabs of Rs 600,000/- each.

(iv) Removal of exemptions on profits and income from employment

The following exemptions on profits and income from employment will be removed:

- The present exemption on providing transport.

- Certain special allowances provided for special categories of public services.

### **1.5 Removal of other exemptions**

(i) The present exemption on certain dividends and interest or profits from investment on listed securities (corporate debt securities etc.) 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 sector.

(iii) The present exemption on interest on savings accounts up to Rs.5000/- per month will be removed.

(iv) The present exemption on interest on deposits applicable to senior citizens will be restricted to Rs. 1.5 mn per annum.

#### **1.6 Withholding Tax (WHT)**

(i) WHT on interest income will be increased to 5%.

(ii) WHT of 5% will be introduced for specified fees exceeding Rs. 50,000/- per month.

#### **1.7 Notional tax credit**

The Notional tax credit will be removed and the income on instruments subject to upfront tax such as Treasury Bills, Bonds or Corporate Debt Securities will be taxable on the net interest.

**1.8** The proposed changes in Budget 2016 (subject to subsequent modifications with relevant dates) will be implemented together with the proposals listed above (other than the rate revisions referred to above).

**2 Value Added Tax (VAT) [Amendments to VAT Act No 14 of 2002]**

2.1 The SVAT system will be terminated.

2.2 VAT refund mechanism will be introduced at the point of departure of foreigners who stay not more than 30 days in Sri Lanka on goods purchased by such foreigners.

2.3 The following supplies will be exempted from VAT:

- Plants, machinery and accessories for renewable energy generation identified under the following H.S Code Nos.

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, 9405.20.10, 9405.20.20, 9405.40.30, 9405.40.40

- International telecommunication services provided to local operators by External Gateway Operators.

- Supply of geriatric care services and child care services.

- Certain electrical goods identified under HS Code Nos

8516.40	8516.72	8527.21	8527.29	8527.91	8527.92
8528.72.41	8528.72.9	9101.11	9101.19	9101.19.10	9101.19.90
	1				
9101.21	9101.29	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	

- Magazines, journals or periodicals other than newspapers, identified under HS Code Nos 4901.10, 4901.91, 4901.99, 4901.99.10, 4902.10.10, 4902.90.10.

- Medical Machinery

**2.4** The following exemptions will be removed:

- Gold coins, precious metals and precious stones identified under following HS Codes Nos.

7101, 7102, 7103, 7104, 7105, 7106, 7107, 7108, 7109, 7110,

7111, 7113, 7114, 7116, 7118.90.10.

- Import or supply of jewellery.

- Locally manufactured milk powder.

### **3 Nation Building Tax (NBT) [Amendments to NBT Act No.9 of 2009]**

#### **3.1 The following exemptions will be removed:**

- any goods required for the purpose of providing of services of international transportation, being goods consigned to Sri Lankan Air Lines Ltd, Mihin Lanka (Pvt) Ltd or Air Lanka Catering Services Ltd.
- any article imported or sold by any society registered under Co- operative 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.
- the services of a travel agent in respect of inbound tours, if such person is registered with the Ceylon Tourist Board.
- services being construction services including the services of sub-contractors.
- sale of residential apartments.
- 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.

#### **3.2 The following will be exempted:**

- International telecommunication services provided to local operators by External Gateway Operators.
- printed books, magazines, journals or periodicals other than newspapers, identified under HS Code Nos 4901.10, 4901.91, 4901.99, 4901.99.10, 4902.10.10, 4902.90.10.
- 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.

#### **4 Economic Service Charge (ESC) [Amendments to ESC Act No 13 of 2006]**

5.1 The present threshold will be reduced from Rs 50mn per quarter to Rs 12.5 mn per quarter.

5.2 Advance WHT of ESC will be introduced on import of vehicles.

5.3 The proposed changes in Budget 2016 (subject to subsequent modifications) will be implemented together with the proposals listed above.



## **Other Taxes**

### **1 Betting and Gaming Levy (Amendments to Betting and Gaming Levy Act No.40 of 1988)**

1.1 The present annual levy on the business of Gaming will be increased to Rs. 250 million per year.

1.2 The proposed changes in Budget 2016 will be implemented with the revision of the annual levy referred to above.

### **2 Customs Duty**

(i) Duty will be reduced by Rs.35 per kg on milk powder.

(ii) Duty will be increased to Rs. 800 per liter on potable ethanol.

(iii) With a view to facilitate the industries and trading, the duty of industrial raw materials has been reduced.

(iv) Duty rates of 96 tariff lines have been adjusted according to the Sri Lanka's bound rate commitments to the World Trade Organization

(v) H.S Code National Sub Divisions have been created considering the requests made by business community and the directive given by the World Customs Organization (WCO).

(vi) On the above, the Gazette Notification is to be issued.

### **3 Special Commodity Levy**

The tax rate applicable for White Sugar will be revised to Rs.7/Kg. from the existing tax of Rs. 2/Kg. The Gazette Notification is to be issued.

### **4 Ports and Airports Development Levy (PAL)[Amendments to PAL Act No 18 of 2011]**

4.1 PAL on printed books, magazines, journals and periodicals will be removed.

4.2 PAL on Pharmaceutical products under HS Code Nos 3926.90.80, 9602.00.10 will be reduced to 2.5%.

## 5 Excise Duty under Excise Ordinance

5.1 The present Wastage and Evaporation allowances on liquor production will be revised as follows:

- Wastage 0.10%.
- Evaporation 0.05%.

5.2 An annual License Fee will be imposed on importers of Beedi leaves at Rs. 05mn.

5.3 Excise Duty will be introduced on imported non- potable alcohol at Rs 25/- per litre

5.4 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 Lt
Coconut toddy	10/- per Lt
Maize	20/- per Kg
Rice	20/- per Kg
Any other	20/- per Kg

5.5 Changes to Excise Duty will be Gazetted.

## 6 Excise (Special Provisions) Duty

6.1 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 350 ml at Rs 15/- per can:

on any lottery ticket at Rs 5/- per ticket.

- 6.2** (i) 50% Excise Duty waiver from the payable duty for importing a motor car with CIF value not exceeding USD 50,000 will be granted to a person who exports minimum of 20 vehicles with a total value not less than USD 200,000.
- (ii) Excise Duty on motor vehicles will be revised.
- 6.3** Excise (Special Provisions) Duty changes will be Gazetted.

## **7 Cess**

- (i) will be increased on:
- rubber to Rs.15 per kg.
  - Printing ink identified under H.S. Code Nos 3215 .11 and 3215.19 to Rs. 30 per kg.
- (ii) Cess on 100 items will be removed.

## **8 Changes to Finance Acts**

- 8.1** Finance Act, No. 10 of 2015 will be amended to streamline the one-off taxes introduced.
- 8.2** Luxury & Semi- Luxury Motor Vehicle Tax [Amendment to PART II of the Finance Act, No. 16 of 1995] will be revised.
- 8.3** A Financial Transaction Levy will be introduced at 0.05% on the basis of the total transaction value by banks or financial institutions.
- 8.4** An Annual License fee and a fee on voluntary liquidation will be imposed on companies.
- 8.5** Vehicle Entitlement Levy is applicable from 01.01.2016 and such levy collected by the CGIR will be collected by the Director General of Customs at the point of Customs with effect from 01.01.2017.
- 8.6** Tele Drama Levy applicable on the foreign tele dramas flowing in to the country and dubbed in Sinhala, Tamil or any other language will be increased.
- 8.7** Embarkation Levy will be increased to USD 50.

**8.8 Charges for Court Cases/ Case Filing fee:** A filing fee will be imposed when filing a Court case by any person in any Court.

**8.9 Annual License fees on Firearms:** Annual License Fee of Rs 20,000 will be imposed on firearms other than firearms used for agricultural purposes. A penalty of Rs. 5mn will be charged for using firearms without paying the License fee.

**8.10 Import License Fees:** A fee will be charged for license to import lubricants, bitumen or gold.

## **9 Telecommunication Levies**

**9.1 Telecommunication Levy on Internet services** will be increased to 25%.

**9.2 SIM Activation Levy** of Rs 200 will be imposed for a SIM.

**9.3 Digitalization of the country** -

- All mobile operators will be given a 6 months period to convert their infrastructure enabling to provide 3G facility and a surcharge at Rs. 100 mn per district will be imposed for failing to provide such facility,

- All metro areas have to be converted to 4G by 30th June 2018.

**9.4 The present Annual Spectrum Charge** will be increased by 25%.

## **10 Capital Gain Tax**

A capital gain tax will be imposed at the rate of 10% on the gain realized from disposal of immovable properties.

## **11 Other fees and Levies**

**11.1 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.

**11.2 A Carbon Tax** will be imposed on vehicles other than electric cars and tractors. This fee will include existing emission test fee as well.

## **12 Other Amendments**

The 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.

## **13 Technical Rectifications and Administrative provisions**

Necessary amendments will be made to the respective provisions of the Inland Revenue Act No 10 of 2006, Value Added Tax Act No.14 of 2002, Nation Building Tax Act No 9 of 2009, Economic Service Charge Act No 13 of 2006, Finance Acts and Finance (Amendment) Acts, Betting and Gaming Levy Act No.40 of 1988, Default Tax (Special Provisions) Act No 16 of 2010, Telecommunication Levy Act No 21 of 2011, Ports and Airports Development Levy Act No 18 of 2011, Tax Appeals Commission Act No 23 of 2011, Imports and Exports (Control) Act No. 1 of 1969, Stamp Duty ( Special Provisions) Act No 12 of 2006 and Land (Restriction on Alienation) Act No 38 of 2014 in order to streamline the revenue administration and to rectify certain ambiguities and unintended effects (including differences in translations).

## **14 Effective Dates of Proposals**

Unless stated otherwise, the proposals in relation to:-

- (i) Income Tax and ESC will take effect commencing from April 1, 2017,
- (ii) Value Added Tax, Nation Building Tax, Betting and Gaming Levy (except certain amendments which are effective from 1.1.2016) will be implemented with effect from January 1, 2017,
- (iii) Cess, Ports and Airport Development Levy, Custom Duty, Excise (Special Provisions) Duty, Excise Duty and VAT and NBT on importation of certain items will take effect immediately.