

Circular to Clients

Implementation of Changes to Economic Service Charges (ESC)

The Bill to amend the ESC Act was passed in Parliament on May 3, 2017 together with subsequent Committee Stage amendments. The changes to the ESC are implemented with immediate effect (unless a specific date is mentioned). The Bill would become law upon the certification of the Hon. Speaker.

According to the Bill passed in Parliament together with the Committee Stage amendments, the significant changes are as follows.

1. Rate

The rate is increased from 0.25% to 0.5% with effect from 01.04.2016

2. Liability

The exclusion of liability to ESC applied to profit making businesses is removed with effect from **01.04.2016**. Accordingly, any business of which turnover reaches the threshold is liable for ESC, irrespective of profitability in the preceding year.

3. Removal of upper ceiling of ESC Payment

The maximum liability of ESC Rs.120 Mn per year is removed with effect from 01.04.2016. Accordingly, liability arises without any upper limit.

4. The period for setting off of ESC

The period for setting off of ESC against income tax payable for any period commencing from April 1, 2016, is reduced from 5 years to 3 years.

5. Threshold

The present threshold is reduced from Rs 50 Mn to Rs 12.5 Mn. per quarter with effect from **01.04.2017**

6. ESC on Petroleum Retailers (Filling Station)

- Retail sale of petrol, diesel or kerosene is liable for ESC if the aggregate turnover including other lubricants for any quarter reaches the threshold. I.e. Rs.50 Mn (**w.e.f.01.04.2016**) or Rs. 12.5 Mn (**w.e.f.01.04.2017**) per quarter.

- Tax shall be calculated on 1/10th of the relevant turnover of petrol, diesel or kerosene with effect from **01.04.2016** and other Lubricants are liable on the actual turnover.

7. Advance ESC

ESC is charged in advance on the CIF value certified by the Director-General of Customs, of an importer (disregarding the threshold for ESC liability), in respect of every consignment of imports of:-

- any article subject to Special Commodity Levy (SCL), with effect from **01.04.2016**.
- gold, precious metals with effect **24.11.2016**.
- motor vehicles with effect from **01.04.2017**.

The advance payment of ESC could be set off against the actual liability of ESC for the same year of assessment and not entitle for any refund.

8. Re defining the "Person".

The Central Bank of Sri Lanka is redefined as a person for the purpose of ESC and liable for ESC with effect from **01.04.2017**.

Any person or partnership who/which failed to pay due amount of ESC due to insufficient legislative arrangements is required to pay the charge immediately and to avoid any possible legal action.

Jayasinghe & Co.,
Chartered Accountants,
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