

BUDGET PROPOSAL 2019



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Budget Proposals 2019 – Taxation

1.Income Tax (Amendments to the Inland Revenue Act, No.24 of 2017)

1.1 Exemptions

- 1.1.1 The Earnings by any non-resident person on any sovereign bond denominated in local or foreign currency will be exempted.
- 1.1.2 Interest income earned by any resident person on sovereign bonds denominated in foreign currency, including Sri Lanka Development Bonds (SLDB) will be exempted.
- 1.1.3 Interest income earned by any person on NRFC and RFC accounts will be exempted for 5 years
- 1.1.4 Interest income, up to Rs.5,000/- per month, earned by children of less than 18 years of age, in relation to any deposit account maintained in a financial institution, will be exempted.
- 1.1.5 Interest paid to any person outside Sri Lanka on loans granted by such person to any person in Sri Lanka will be exempted. This exemption will not be applicable to loans granted by a Non-resident company to its Holding company or a Subsidiary Company in Sri Lanka

1.2 Withholding Tax (WHT)

- 1.2.1 Royalty payments not exceeding Rs.50,000 per month, subject to Rs.500,000/- for each year of assessment, made to any resident individual will be exempted from WHT.
- 1.2.2 Rent payments not exceeding Rs.50,000 per month, subject to Rs.500,000/- for each year of assessment, made to any resident individual will be exempted from WHT.

1.3 Incentives for Information Technology

The requirement of minimum 50 employees in order to qualify for the additional deduction equal to 35% of the salary cost when calculating the income from the business of IT will be removed.

1.4 Investment Incentives for Existing Businesses

Tax concessions by way of accelerated depreciation will be granted instead of regular depreciation for the new investments made by existing businesses.

1.5 Definition of Gross Income

The “gross income” referred to in item (iii) of the subparagraph (3) of paragraph 4 of First Schedule will be the total income excluding the investment income. The concessionary tax rate of 14% will be applied only on the income from an activity eligible for the concessionary tax rate. The investment income will be liable for tax at 28%.

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

- 2.1 The piece based VAT rate applicable on domestic sale of certain garments by the export oriented BOI companies will be revised from Rs.75/- to Rs.100/-.
- 2.2 The term “locally produced rice products” will be re-defined for the purpose of clarity and certainty.
- 2.3 VAT imposed on the supply of condominium housing units will be implemented with effect from April 1, 2019 where deed of agreement relating to such supply is not executed prior to April 1, 2019.
- 2.4 Provisions will be incorporated in the VAT Act, enabling the Minister to prescribe the basis for chargeability of VAT on certain goods as may be determined by the Minister, with the view of revenue protection.
- 2.5 Pharmaceutical machineries will be re-defined for the purpose of VAT Act.

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

- 3.1 The exemption on the importation of rough unprocessed gem stones for re-export after cutting and polishing will be granted for the lapidary service providers registered under the National Gem & Jewellery Authority.
- 3.2 Exemption on manufacturing cigarettes will be removed
- 3.3 The cost of the infrastructure projects will be reduced by the removal of NBT on main construction contractor.

- 3.4 NBT at the rate of 3.5% will be imposed on foreign payments made using Electronic Fund Transfer Cards (both Debit and Credit cards) to purchase goods or services including offshore digital services.
- 3.5 In order to remove the NBT anomaly among tour operators, DMC Agencies and hoteliers who are receiving foreign currency will be adjusted.

4. Economic Service Charge (ESC) [Amendments to the ESC Act, No.13 of 2006]

4.1 Amendment to the definition of the term “distributor”

Definition of the term “distributor” will be clarified to include any person or partnership, appointed by an importer of any goods to Sri Lanka, for the sale in the wholesale market, of such goods.

4.2 Revision of rate of ESC applicable on exports

The rate of ESC applicable on the turnover arising from the export of goods or services will be 0.25 per centum.

4.3 Revision of ESC applicable on the importation of certain articles or goods

4.3.1 ESC will be charged at the rate of 0.5% on the importation of any article or good other than any capital goods as prescribed by the Minister of Finance taking in to consideration the economic benefit to the country

4.3.2 ESC base on the importation of any article or good will be the aggregate of the CIF as approved by the Director General of Customs and the amount of any Custom import Duty, CESS PAL and SCL payable in respect of such articles or goods.

5.Excise Duty under Excise Ordinance

5.1 Revision of Excise Duty Rates

5.1.1 The Excise Duty based on the Alcohol volume will be revised as follows:

Type	Rate (Rs. Per litre of alcohol)
Special Arrack	No change
Other Arrack	3,550/-
Country made foreign liquor	3,550/-
Beer less than 5%	2,700/-
Beer more than 5%	2,700/-
Wine - Local plant materials	600/-
Wine - other	2,700/-

5.1.2 The Excise Duty rate of imported liquor will be revised as follows;

- i. Malt Liquor (Beer) - Rs.55/- per bulk litre
- ii. Wine - Rs.110/- per bulk litre
- iii. Other liquor - Rs.215/- per bulk litre

6.Excise (Special Provisions) Duty

6.1 Revision of Duty

6.1.1 Cigarettes

Excise Duty on cigarettes will be increased by 12% as follows;

- i. 60 - 67 mm - Rs.19,500/- per 1000 sticks
- ii. 67 - 72 mm - Rs.23,000/- per 1000 sticks
- iii. 72 - 84 mm - Rs.37,580/- per 1000 sticks
- iv. >84 mm - Rs.42,200/- per 1000 sticks

6.1.2 Excise Duty on sweetened beverages

i) The exempt quantum of sugar contained in beverages will be revised as follows;

(a) Carbonated beverages - 4 grams per 100 ml

(b) Fruit based beverages - 8 grams per 100 ml

ii) Duty rate will be revised to 40 cents per gram of sugar in excess of the exempt quantity.

6.1.3 Excise Duty on palm oil fatty acids will be revised as follows;

i. Palm oil fatty acids - 20%

ii. Tallow fatty acids - 20%

6.1.4 Excise Duty on refrigerators will be revised to 25%

6.1.5 Excise Duty on vehicles imported as Chassis fitted with engines will be reduced.

6.1.6 Motor vehicles

i) Excise Duty on hearses will be revised.

ii) Excise Duty on the hybrid and electric vans will be revised to reflect the energy efficiency benefits.

iii) Excise Duty on the Single cabs will be revised.

iv) Excise Duty on Buddy Trucks with cargo carrying capacity less than 2,000 kg will be reduced.

v) Excise Duty revision on passenger vehicles

a) Fuel

Engine Capacity	Petrol Fuel (Rs. per cm ³)	Diesel Fuel (Rs. per cm ³)
$x \leq 1000\text{cm}^3$	2,000 or 1,650,000*	4,600
$1000\text{cm}^3 < x \leq 1300\text{cm}^3$	3,200	4,600
$1300\text{cm}^3 < x \leq 1500\text{cm}^3$	3,700	4,600
$1500\text{cm}^3 < x \leq 1600\text{cm}^3$	4,250	5,750
$1600\text{cm}^3 < x \leq 1800\text{cm}^3$	5,300	6,900
$1800\text{cm}^3 < x \leq 2000\text{cm}^3$	6,350	8,000

* Duty per unit

(b) Hybrid

Engine Capacity	Petrol Fuel (Rs. per cm ³)	Diesel Fuel (Rs. per cm ³)
$x \leq 1000\text{cm}^3$	1,500,000*	3,400
$1000\text{cm}^3 < x \leq 1300\text{cm}^3$	2,300	3,400
$1300\text{cm}^3 < x \leq 1500\text{cm}^3$	2,850	3,400
$1500\text{cm}^3 < x \leq 1600\text{cm}^3$	4,000	4,600
$1600\text{cm}^3 < x \leq 1800\text{cm}^3$	5,200	5,700
$1800\text{cm}^3 < x \leq 2000\text{cm}^3$	5,700	6,900

* Duty per unit

(c) Electric

Motor Power of the Engine	Less than one year	More than one year and less than three years
$50\text{kW} < x \leq 100\text{kW}$	10,000	20,000

(d) Three Wheelers

Type	Rs. (per cm ³ /Per kW)
Petrol (cm ³)	2,400
Diesel (cm ³)	1,450
Electric (kW)	7,500
Cargo - Petrol (cm ³)	500
Cargo - Diesel (cm ³)	375
Cargo - Electric (kW)	7,500

(e) Motor Cycles

Engine Capacity	Rs. per cm ³
$x \leq 50\text{cm}^3$	575
$50\text{cm}^3 < x \leq 150\text{cm}^3$	1,150
$150\text{cm}^3 < x \leq 200\text{cm}^3$	1,150
$200\text{cm}^3 < x \leq 250\text{cm}^3$	1,725
$250\text{cm}^3 < x \leq 350\text{cm}^3$	1,725
$350\text{cm}^3 < x \leq 450\text{cm}^3$	2,300
$450\text{cm}^3 < x \leq 500\text{cm}^3$	2,300
$500\text{cm}^3 < x \leq 800\text{cm}^3$	2,875
$800\text{cm}^3 < x \leq 1000\text{cm}^3$	2,875
$1000\text{cm}^3 < x$	3,450

7. Betting and Gaming Levy (Amendments to the Betting and Gaming Levy Act, No.40 of 1988)

7.1 Revision of Annual Levy

7.1.1 Annual levy for carrying on the business of gaming other than playing rudjino will be revised to Rs. 400 million

7.1.2 Annual levy for carrying on the business of playing rudjino will be revised to Rs.1 million

7.2 Revision of Casino Entrance Levy

Casino entrance levy will be revised to US \$ 50 per person

7.3 Revision of Levy on Gross Collection

Rate of the levy on gross collection will be revised to 15%

8. Finance Act

8.1 Carbon Tax

Maximum carbon tax payable on commercial vehicles will be capped as follows;

Fuel Type	Less than 05 years	05 to 10 years	Over 10 years
Hybrid (Petrol/Diesel)	25 Cts per cm ₃ or Rs.3,500 Whichever is lower	50 Cts per cm ₃ Rs.5,500/- Whichever is lower	Rs.1.00 per cm ₃ Rs.7,500/ whichever is Lower
Fuel (Petrol/Diesel)	50 Cts per cm ₃ Rs.3,500/- whichever is lower	Rs.1.00 per cm ₃ Rs.5,500/- Whichever is lower	Rs.1.50 per cm ₃ Rs.7,500/- whichever is Lower

8.2 Luxury Tax on Motor Vehicles

i) Luxury Tax on Motor Vehicles will be imposed on the CIF value or the manufacturer's price as the case may be in excess of the Luxury Tax free threshold, as follows;

Type of Vehicle	Luxury Tax free Threshold	Rate (Applicable on the amount exceeding the Luxury Tax free Threshold)
Diesel	Rs. 3.5 Mn	120%
Petrol	Rs.3.5Mn	100%
Hybrid Diesel	Rs. 4.0 Mn	90%
Hybrid Petrol	Rs. 4.0Mn	80%
Electric	Rs. 6.0 Mn	60%

ii) Luxury Tax free threshold will be the Cost Insurance Freight (CIF) value in the case of imported vehicles and ex-factory cost (Manufacturer's price), in the case of locally assembled vehicles.

8.3 International Telecommunication Operators Levy will be removed

8.4 Embarkation Levy will be increased by US \$ 10 to US \$ 60 per passenger

09 Revision of Customs Import Duty

9.1 Rate of the Custom Import Duty on selected goods will be revised

9.2 Unit rate of the Custom Import Duty will be increased by 10% on importation of selected goods

- 9.3 Custom duty applicable on imported fruit drinks will be adjusted with effect from June 1, 2019.
- 9.4 Custom Duty on Undenatured Ethyl Alcohol will be increased by Rs.200 to Rs.1000 per litre

10 CESS Duty

- 10.1 CESS on Beedi leaves will be increased up to Rs.3,500/- per kg.

- 10.2 CESS on items classified under following HS Codes will be removed.

0408.11.00	0802.32.00	0802.62.00	0810.20.00	0813.10.00
0408.91.00	0802.41.00	0802.70.00	0810.30.00	0813.20.00
0802.21.10	0802.42.00	0802.90.10	0810.40.00	0813.30.00
0802.22.00	0802.51.00	0802.90.90	0810.70.00	8418.21.10
0802.31.10	0802.52.00	0808.40.00	0812.10.00	8418.21.90

- 10.3 CESS on items classified under following HS Codes will be adjusted.

2106.90.50	3401.19.20	3920.63.99	3924.10.90	7217.90.10
2202.99.91	3920.51.91	3920.69.91	4011.10.90	8708.91.20
2202.99.99	3920.51.99	3920.69.99	6505.00.10	8708.91.90
3401.11.20	3920.63.11	3924.10.10	6505.00.90	

11 Ports and Airports Development levy

- 11.1 With the view of promoting tourism sector and to reduce the upfront cost of local manufacturing industry, PAL on the items classified under HS Codes 0712.20.00, 0712.90.10 and 7801.10.00 will be reduced to 2.5%.
 - 11.2 The lapidary sector will be encouraged by the removal of PAL on the items classified under HS Codes 8464.10.00, 8464.20.00 and 8464.90.00.
 - 11.3 PAL on the high tech machinery and equipment items classified under HS Codes specified in *Table 1* to this annexure will be reduced to 2.5%.
 - 11.4 In order to remove the disparity between direct imports and purchase from BOI companies, PAL on the sale of pleasure or excursion vessels and yachts manufactured by any BOI company to another BOI company which chartering such vessels and yachts for its business, will be removed.
- 12 Custom Import Duty and CESS will be removed on importation of Go-Kart which is an off road sports vehicle and Go-Kart Tyres to facilitate promotion of international sport tourism.
 - 13 In addition to the auction price, all payable duties will be charged from the bidder on imported beedi leaves forfeited by the Customs.
 - 14 With the view of promoting livestock industry, PAL and NBT will be removed on the importation of Lucerne (alfalfa) meal and pellets.
 - 15 Stamp Duty on the usage of credit cards for foreign purchases will be removed in line with the imposition of NBT on the foreign payments.
 - 16 Commodity Levy will be adjusted on the import of palm oil in lieu of the NBT applicable on local value addition.

Technical Rectifications and Administrative provisions

Necessary amendments will be made to the respective provisions of the, Inland Revenue Act, No.24 of 2017, 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, 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).

Effective Dates of Tax Proposals

Unless stated otherwise, the proposals in relation to:-

- Income Tax amendments will be implemented with effect from the year of assessment commencing from April 1, 2019.
- Value Added Tax, Nation Building Tax, ESC and amendments to Finance Act will be implemented with effect from June 1, 2019.
- Custom Import Duty, Excise (Special Provisions) Duty and Excise (Ordinance) Duty, Special Commodity Levy, CESS and Ports and Airports Development Levy will take effect immediately.

Table 1

Part I- Effective from June 01, 2019.

85011010	85042230	85071090	85163300	85287330	85359000	85423900
85013190	85042390	85072000	85167100	85287390	85391000	85429000
85013200	85043110	85073000	85167200	85301000	85392100	85432000
85013300	85043190	85074000	85167910	85308000	85392200	85437020
85013400	85043210	85075000	85168000	85309000	85392900	85437090
85014010	85043290	85076000	85169010	85311000	85393110	85439000
85014020	85043310	85078000	85169090	85312000	85393190	85452000
85014090	85043390	85079000	85255000	85318010	85393200	85459000
85015110	85043410	85141000	85256000	85318090	85393900	85461000

85015190	85043490	85142000	85261000	85319000	85394100	85462000
85015210	85044010	85143000	85269100	85321010	85394900	85469000
85015290	85044030	85144000	85269200	85321090	85395000	85471000
85015300	85045010	85149000	85271900	85322290	85399000	85472000
85022000	85045090	85151100	85272900	85322590	85401110	85479000
85023100	85049010	85152100	85279900	85322990	85401190	85481010
85023900	85049090	85152900	85284200	85323090	85401210	85481020
85030010	85051100	85153100	85284990	85329090	85401290	85489000
85030020	85051900	85153900	85285200	85332900	85407100	
85030090	85052000	85158000	85285990	85334000	85408100	
85041010	85059000	85159000	85286200	85340000	85408900	
85041090	85061010	85161000	85286900	85351000	85412900	
85042110	85061090	85162100	85287110	85352100	85413000	
85042190	85065000	85162900	85287190	85352900	85423100	
85042210	85068000	85163100	85287239	85353000	85423200	
85042220	85069000	85163200	85287249	85354000	85423300	

Part II - Effective from September 01, 2019.

84021100	84122900	84199000	84264900	84389000	84561200	84642000
84021900	84123100	84209100	84269100	84392000	84562000	84649000
84022000	84123900	84209900	84269900	84393000	84563000	84651000
84031000	84128000	84211100	84271000	84399900	84564000	84652000
84039000	84129000	84211200	84279010	84401000	84565000	84659100
84041000	84141000	84211910	84279090	84411000	84569000	84659200
84042000	84142000	84211990	84282000	84412000	84571000	84659300

84049000	84144000	84212110	84283200	84413000	84573000	84659400
84051000	84145100	84212200	84283300	84414000	84581100	84659500
84059000	84145900	84212910	84283900	84418000	84581900	84659600
84068200	84146000	84212990	84284000	84419000	84589100	84659900
84069000	84161000	84213100	84286000	84423000	84589900	84661000
84071000	84162000	84213900	84289000	84425000	84592900	84662000
84072100	84163000	84219100	84291100	84433210	84594100	84663000
84072900	84169000	84219910	84291900	84433230	84595900	84669100
84073120	84181010	84219920	84292000	84433290	84596100	84669200
84073190	84182110	84219990	84294000	84433910	84596900	84669300
84073220	84182910	84221900	84301000	84433920	84597000	84669400
84073290	84182930	84229000	84303900	84433110	84602200	84671100
84073320	84182990	84241000	84306100	84433930	84602300	84671900
84073390	84183010	84242000	84306900	84433990	84602400	84672100
84073490	84183030	84243000	84311000	84439100	84602900	84672200
84079010	84183090	84244100	84312000	84439910	84603900	84672900
84079090	84184010	84244900	84313100	84439920	84609000	84678100
84081000	84184030	84248200	84313900	84484900	84615000	84678900
84082010	84184090	84248900	84314100	84485900	84619000	84679100
84082090	84185010	84249000	84314200	84490000	84621000	84679200
84089010	84186910	84251100	84314300	84531000	84622100	84679900

84089090	84186930	84251900	84329090	84532000	84622900	84682000
84099110	84186950	84253100	84331900	84538000	84623100	84688000
84099190	84186970	84253900	84335900	84539000	84623900	84689000
84101100	84189190	84254100	84339090	84542000	84624100	84702100
84101200	84191100	84254200	84351000	84543000	84624900	84702900
84101300	84191900	84254900	84362900	84549000	84629100	84705000
84109000	84192000	84261100	84369900	84551000	84629900	84709000
84111100	84193200	84261200	84379000	84552100	84631000	84713010
84111200	84193900	84261900	84382000	84552200	84632000	84714110
84112100	84195000	84262000	84383000	84553000	84633000	84714910
84119900	84196000	84263000	84384000	84559000	84639000	84715010
84122100	84198100	84264100	84385000	84561100	84641000	84716000
84718000	84762900	84797100	84805000	84818060	84829900	84862000
84719000	84768900	84797900	84806000	84819010	84831000	84863000
84721000	84769000	84798100	84807100	84819020	84832000	84864000
84723000	84781000	84798910	84811000	84819030	84833000	84869000
84732100	84789000	84798930	84812000	84819090	84834000	84871000
84732900	84791000	84798940	84813000	84821000	84835000	84879000
84733010	84792010	84799000	84814000	84822000	84836000	

84734090	84792090	84801000	84818010	84823000	84839000
84735090	84793000	84802000	84818020	84824000	84841000
84752900	84794000	84803000	84818030	84825000	84842000
84759000	84795000	84804100	84818040	84828000	84849000
84762100	84796000	84804900	84818050	84829100	84861000