

BUDGET PROPOSALS -2008 HIGHLIGHTS

INCOME TAX

(To be made effective from April 1, 2008, unless stated otherwise)

1. Co-operative Societies

- (a) Profits and income of Co-operative Societies (including Co-operative rural banks) will be exempted from income tax for a period of 5 years.
- (b) Accordingly, a Co-operative Society (including any Co-operative rural bank) will also be exempt during that period from withholding tax on interest from any deposit made by such Society in a bank or other financial institution.
- (c) The exemption currently accorded to senior citizens on interest up to Rs.200,000/= from state banks will be extended to cover interest from deposits made in Co-operative Rural Banks as well.
- (d) All unpaid taxes of Co-operative Societies will be written –off.

2. Nagenahira Udanaya

- (a).Profits and income of any new undertaking established within the Eastern Province will be exempted from income tax for a period of 5 years, if such undertaking -
 - (i) Invests over Rs.50 million therein, and
 - (ii) Provides employment opportunities for more than 50 individuals.

The tax holiday will commence from the year of assessment in which the undertaking makes profits, or the year of assessment in which it completes 3 years from the commencement of commercial operations, whichever occurs earlier.

- (b).Interest paid to any financial institution on any loan granted to such an undertaking will be exempted from income tax in the hands of such financial institution.

3. “Api Wenuwen Api” Fund

- (a).Profits and income (including interest income) of the “Api Wenuwen Api” Fund will be exempted from income tax.

Accordingly, the fund will also be exempt from withholding tax on interest from any deposit made in a bank or other financial institution.

- (b).Any donation made to “Api Wenwen Api” Fund is treated as a donation made to a Government fund and accordingly, such donation will be a qualifying payment deductible 100% in arriving at taxable income.

4. Non-resident Homeland Development Bonds

Any Sri Lankan residing abroad who invests in Homeland Development bonds will be exempt from-

- (a) income tax (including withholding tax) on the Interest from such bonds; and
- (b) 100% Property transfer tax in the acquisition of a property.

5. Local Films & Tele-drama Industry

(a) A deduction as a qualifying payment will be allowed –

- (i) on the Cost of construction of a new cinema theatre [in conformity with section 24A(3)(a) of the Inland Revenue Act], up to a maximum of Rs.25 million;
- (ii) on the Cost of modernization of an existing cinema theatre [in conformity with section 24A (3) (b) of the Inland Revenue Act] up to a maximum of Rs.10 million.

(b) Existing ceiling on the deduction, as a qualifying payment, of expenditure on the production of a film will be increased from 25 million to 35 million in relation to any film produced with the approval of the Film Corporation.

6. Gems & Jewellery Industry

- (a) Profits and Income from the Export after cutting and polishing of gems imported in raw forms are exempt from income tax.
- (b) Income tax will be charged only at 2.5% on the value of gems sold at a gem auction conducted under the supervision of the State Gem Corporation.(This tax will be collected through the State Gem Corporation)

7. Investments outside Colombo and Gampaha Districts

- (a).The last date stipulated in section 20 and 21 of the Inland Revenue Act for completing the required amount of investment to qualify for the tax holiday there under will be extended by 1 year from 31 March 2008 to 31 March 2009.
- (b).Any Company relocating any of its undertaking (in conformity with conditions stipulated in section 21 of the Inland Revenue Act) outside the Districts of Colombo and Gampaha, within 2 years from 01.04.2008, the company will have an option either to deduct in full the relocation expenditure as a qualifying payment, or to enjoy a 5 year tax holiday.

8. Incentives for Foreign Earnings

Profits and Income as computed from-

- (a) Salaries, allowances or fees for services rendered by a person or partnership in Sri Lanka to a person or a partnership outside Sri Lanka, or

- (b) Dividends/interests on investments made outside Sri Lanka, will be exempt from income tax, if such profits and income are remitted to Sri Lanka through a bank in Sri Lanka.

9. Limitations of tax holidays

- (a) Any tax holiday already granted under the Inland Revenue Act or any Regulation made in terms of the BOI Law will continue to apply, but not be extended further after the expiration of such period of tax holiday.
- (b) Any tax holiday granted on or after April 1, 2008 under BOI law or under section 17, 18, 19, 22, 23, 24, 24A or 24B of the Inland Revenue Act, (other than to flagship companies or those engaged in development activities or building houses for lower income groups) will not be for more than 3 years.
After the expiry of 3-year tax holiday period, the tax rate applicable will be as follows:

1 st year (after the end of tax holiday)	- 5%
2 nd year ((after the end of tax holiday)	-10%
3 rd year ((after the end of tax holiday)	-15%

- (c) Every tax holiday granted on or after April 1, 2008 is required to be approved by the Ministry of Finance and a list of persons to whom tax holiday granted as such will be published in the Gazette at the end of every year.

10. Other

- (a) Currently, the value of any benefit to an employee from **the allotment of any share or option to buy any share** in any company, in accordance with a scheme uniformly applicable to all the employees of that company, is exempt from income tax.
The proposal is that, the exemption will be available, if the Commissioner General is satisfied that the scheme is a reasonable one.
- (b) Provisions of Withholding tax on:
- specified fees,
 - rent, lease rent or such other payment, and
 - royalty, annuity and management fees.
- will not be applicable to any person or partnership paying Economic Service Charge. This exemption is effected through a direction issued by the Commissioner General to that effect. (The issue of directions in these situations will be made compulsory).
- (c) The income tax calculation of non-citizen employees in Sri Lanka will be made same as that of citizens of Sri Lanka. Special provisions for residency and concessionary rates for non- citizens will be terminated.
- (d) When the employer bears the income tax payable by employees, then the deduction allowable to the employer (in respect of such payment) in computing such employer's income is only the actual amount of tax due and paid. Excess payments or provisions are not deductible.
- (e) A loss incurred in a leasing business cannot be set-off against any other income except profits from such business.

- (f) The deduction, as a qualifying payment, of donations made by a company to an approved charity will be limited to 1/5th of the assessable income or Rs. 500,000, whichever ever is low.
- (g) Depreciation allowance on ships is available only to the ship owner (not to the charterer)
- (h) Hires or rentals in respect of motor vehicles used for traveling are not treated as traveling expenses
- (i) The non-inclusion, in the assessable income, of interest from any Treasury bond purchased out of funds drawn from a Treasury Bond Investment External Rupee Account (TIERA) will be extended to cover any profits and income from such bonds.
- (j) The last date for distribution of distributable profits or payment of tax on non-distribution of required amount of profits of the preceding year of assessment will be the 30th September of the current year.
- (k) 15% tax rate currently applicable to export/qualified export profits forming part of taxable income of a company will be reduced to 10%.
- (l) Deduction will be allowed without any limitation in respect of investments made in housing projects for the development of houses for inmates of shanties in urban areas.

VALUE ADDED TAX

(To be effective from January 1, 2008, unless stated otherwise)

1. Exemptions:

- (a) Supply of Goods or Services by Co-operative Societies registered under Co-operative Societies Law No. 05 of 1972,
- (b) Financial Services of Co-operative Rural Banks,
- (c) Certain identified Government projects,
- (d) Effective from 01.07.2007, the supply of health care services by any medical institute entered into an agreement with the BOI under section 17 of the BOI Law, on or after April 01.2001, where the total cost of the project to which such agreement relates, is not less than 10 m USD,
- (e) Effective from 01.07.2007, the Locally manufactured clay roof tiles, locally produced unprocessed vegetables and fruits, unprocessed fishing products, import of rattans and supply of imported rattans,
- (f) Plant and Machinery imported (for use) by any enterprise qualified for income tax holiday under “Nagenahira Udanaya” programe,
- (g) Milk products made out of milk manufactured in Sri Lanka, Products made out of rice manufactured in Sri Lanka, Locally manufactured sugar and Import of yarn for textile industry,
- (k) with effect from 01.01.2004, the supply of locally produced prawns,

- (l) with effect from 17.07.2007, the locally manufactured chemical naphtha,
- (m) with effect from 17.07.2007, the Import of aircraft engines or aircraft spare parts.

2. Rate Reductions

VAT rate on the following is reduced from 15% to 5%:

- (a) with effect from 05.06.2007, the Import of canned fish, Dhal and green peas,
- (b) Petrol,
- (c) The following equipments imported on or after 01.01.2008 with the approval of the State Film Corporation.

HS No.	Description
8539 . 29 Electric Filament or discharge lamps, Including sealed beam lamp units and ultra violet or infra-red lamps; are – lamps
8545.19.01	Arc Lamp Carbon

3. Other

- (a) Deferment facility on temporary import of plant and equipments used in long-term development projects will be extended until the project is completed.
- (b) Input Tax paid will be allowed to service suppliers of certain identified Government projects which are exempted from VAT subject to the conditions specified in section 22(6).
- (c) The period specified in section 22 (6) for the claim of input tax credit will be modified to claim such input credit within 12 months from the date of the invoice.
- (d) The name of the Value Added Tax (WHT) referred to in section 26(A) will be changed to VAT (Advanced Tax)

ECONOMIC SERVICE CHARGE (ESC)

With effect from 01.04.2008, the following changes will be effected:

- (a) The ESC rate applicable on the sale of liquor or motor vehicles is increased from 0.5% to 1 %,
- (b) The ESC rate applicable to partnerships will have to be decided based on the nature of its business.
- (c) Export of apparels through buying offices – applicable rate is 0.1%.
- (d) Any business of export or earning Foreign Exchange - applicable rate is not more than 0.25%.

REDUCTION OF TAXES IN DEFAULT

A Special Act will be introduced for the purpose of collecting taxes in default. This Act will contain provisions relating to recovery of all outstanding taxes as at 31.03.2007 and to resolve related issues expeditiously. The Act will also include -

- (a) Provision for appointing an independent committee consisting of 3 members and chaired by a retired member of judiciary, and
- (b) Mechanism to write-off, as may be approved by the committee, all outstanding taxes as at 01.04.2007, of state institutions and those who are legally declared bankrupt,

Action will be taken to recover outstanding turnover tax, National Security Levy and Goods and Services Tax through a special judicial process.

Provisions will be included in the Inland Revenue Act and the VAT Act, to ensure that the outstanding taxes in a year to be kept less than 3% of total revenue of the previous year.

OTHER TAXES AND LEVIES

(a) Environment Conservation Levy

An Environment Conservation Levy Act will be introduced ensuring environment conservation. A permanent household, with a vehicle and a telephone and the electricity connection will be liable to this environment conservation levy, which will be at Rs. 20/- per month.

(b) Cess

A Cess of Rs. 50/- per Kg will be imposed on textiles imported for domestic consumption.

The new Cess rates applicable on selected imported items will be published in the Gazette under section 14(1) of the Export Development Act No. 40 of 1979, effective from 8th November, 2007.

(c) Excise Duty

The present duty of 20/- per liter of petrol will be removed; the price of cigarettes will be increased by 2/- and liquor will be increased by Rs 35/- for a bottle.

The new Excise duty rates applicable on excisable articles will be gazetted under section 3 of the Excise (Special Provisions) Act No.13 of 1989.

The new gazette notification will be effective from 8th November, 2007.

(d) Regional Infrastructure Development Levy

All existing Regional Infrastructure Development Levy rates will be increased by 2.5 and new rate will be effective from 1 January 2008.

The necessary amendments will be made to the Regional Infrastructure Development Levy Act No. 51 of 2006

(e) Port and Airport Development Levy.

Registration of a ship under Sri Lanka Flag will not be considered as an Import.

Such import will be exempt from Port and Airport Development Levy.

(f) Cellular Mobile Telephone Subscriber's Levy

The 10% Levy applicable to mobile phones will be extended to wireless Phones as well.