

BUDGET PROPOSALS - 2009

Highlights

1. Income Tax

(Inland Revenue Act. No.10 of 2006)

Proposed changes to income tax will be effective from April 1, 2009, unless stated otherwise.

1.1. Tax Rates - Individuals

Tax rate schedule applicable to individuals, will be revised by expanding the tax slabs as follows:

Taxable Income Slab (Rs)	Tax Rate	Taxable Income (Rs)	Tax (Rs.)
1st 400,000	5%	400,000	20,000
2nd 400,000	10%	800,000	60,000
3rd 400,000	15%	1,200,000	120,000
4th 500,000	20%	1,700,000	220,000
5th 500,000	25%	2,200,000	345,000
6th 500,000	30%	2,700,000	495,000
Balance	35%		

1.2 WHT on interest from deposits in banks or financial institutions

The assessable income brackets for tax deduction from interest on any deposit in a bank or financial institution will be revised as follows:

If any interest is paid or credited to an individual in any Y/A and such individual makes in writing a declaration to the branch of the Bank or Financial Institution that-

- His/her assessable income for that Y/A, does not exceed Rs. 300,000/-, then **no** tax is deducted from such interest; or
- His/her assessable income for that Y/A, exceeds Rs. 300,000, but does not exceed Rs.1,000,000, then tax will be deducted at 2 ½ % from such interest.

(The above is not applicable in relation to any certificate of deposit. In that case the tax will be deducted upfront at 10%)

If the assessable income exceeds Rs. 1,000,000, whether a declaration is made or not tax will be deducted at 10%.

There will be no further taxation of such interest, if a tax has been deducted therefrom at 10%, or (on the basis of an orderly declaration) at 2.5%.

1.3 Exemptions/ Concessions

- 1.3.1** Interest income of Lady Lochore Loan Fund on loans granted to employees of the Government will be exempt from income tax.
- 1.3.2** Effective from 21.10.2008 -
 - (a) any interest paid on; or
 - (b) any trade profit arising from the sale of

foreign currency denominated sovereign bonds issued by the Government of Sri Lanka paid to
 - any non resident person, or
 - licensed commercial bank in Sri Lanka,is exempt from income tax.
- 1.3.3** Fifty percent (50%) of profits to the writer from the sale of a book of such writer, within the first year from the date of the first printing of that book, will be exempt from income tax.
- 1.3.4** Fifty percent (50%) of the profits to the producer (of a drama) from staging that drama in the first year, will be exempt from income tax.
- 1.3.5** Royalty paid to a singer on the broadcasting/telecasting of any song of that singer is exempt from income tax.
- 1.3.6** Profits from the export of tea packets containing not more than 1 Kg in a packet will be taxed at a concessionary rate of not exceeding 15%.
(Section 60 will be amended to define Black tea in bulk accordingly)
- 1.3.7** the maximum income tax rate applicable on profits from employment of employees providing professional services to any person or partnership which is exempt from income tax (being a person or partnership rendering professional services to a person or partnership outside Sri Lanka for payment in foreign currency), will be 20%, if such employees are paid for in foreign currency.
- 1.3.8** The 5 year tax holiday on profits and income from any new or upgraded cinema is extended to 7 years
(Section 24 A will be amended accordingly)

2. Value Added Tax

(Value Added Tax Act No.14 of 2002)

Proposed changes to VAT will be made effective from 01.01.2009, unless stated otherwise.

2.1 Exemptions:

2.1.1 The supply of locally manufactured

- (i) tea machinery, with effect from **01.10 2008**; or
- (ii) surgical gauze used for surgeries.

(The paragraph (b) of Part II of the First Schedule will be amended)

2.1.2 The importation of -

- (i) buses on or after **09.07.2008**, to replace the buses destroyed due to terrorist activities;
- (ii) brass sheets, brass ingots , thread, dyes, paraffin wax and shellac for the manufacture of brassware by the National Craft Council with the approval of Ministry of Rural Industries and self employment promotion;
- (iii) solar panel modules and accessories for the generation of solar power energy specified under HS Code Nos. 8501.31.10/8541.40.10/8513.10.10/9405.10.10/9405.10.20 /9405.20.10/9405.20.20/9405.40.30/9504.40.40/9032.89. 10/8539.31.20;
- (iv) chemical naphtha by the Ceylon Petroleum Corporation to be supplied to Ceylon Electricity Board for the generation of electricity;

(The paragraph (c) of PART II of the First Schedule will be amended)

- (v) Construction work of Gama Naguma, Maga Naguma, Samurdhi, and community irrigation projects, carried out through the participation of the community;

(The PART II of the First Schedule will be amended)

- (vi) Lady Lochore Loan Fund from VAT on financial services;

(The relevant amendments will be made to Chapter III A)

2.2 Changes relating to Input Tax claims

2.2.1 Claim of input tax credit on custom declaration related to import of goods:

The present period of one year for the claim of input tax credit on customs declarations related to importation of goods will be extended for a period of two years;
(The section 22(6) will be amended)

2.2.2 Restriction of input credits:

The claimability of input tax credit in relation to VAT paid at 20% will be restricted to 10%;
(The section 22 will be amended)

2.3 Expansion of VAT suspension through Export Development Board:

The facility of suspension scheme of deemed exporters (through Export Development Board), will be extended to certain specific services provided to exporters as well, with effect from **01.06.2008**.
(The section 2(2) (d) will be amended)

2.4 The limit for VAT Registration:

(i) Normal VAT:

The registrable limit for VAT will be increased to Rs. 650,000/- per taxable period; or Rs. 2,500,000/- per year.
(The section 10 will be amended)

(ii) Optional VAT:

The upper limit of the registration for optional VAT will be increased to Rs. 3,000,000/-.
(The section 25 (I) will be amended)

2.5 Rates Changes

Standard Rate

The standard rate 15%, will be reduced to 12%.

Basic Rate of 5%:

- The goods which are liable to tax under the provisions of Special Commodity Levy Act. No. 48 of 2007 will be removed from the Basic Rate Schedule ; and
- The rest of the goods in that Schedule will be taxed at the standard rate of 12%.

(The section 2 and the other relevant sections will be amended)

3. Economic Service Charge (ESC)

(Economic Service Charge Act No.13 of 2006)

The changes will be made effective from April 1, 2009

3.1 Increase of the upper limit:

The upper limit of ESC payable will be increased, (from Rs.15 Million) to Rs.30 Million per quarter.

(The section 2 (2) will be amended)

3.2 Removal of grace period:

The grace period of 36 months applicable to commence ESC liability will be removed.

(The section 2(2) will be amended)

3.3 Amendments to the definitions:

3.3.1 Expanding the definition of turnover in relation to any trade or business of a bank to include other financial institutions and pawn brokers as well;

(The section 2(3) will be amended).

3.3.2 The definition of “turnover” will be amended to exclude from the turnover, the proceeds from the sale of any foreign currency denominated sovereign bond issued by the Government of Sri Lanka to any non resident person or any licensed Commercial Bank in Sri Lanka.

(The section 2(3) will be amended).

4. Debits Tax

(Debits Tax Act No.16 of 2002)

The other recovery provisions as referred to in the Inland Revenue Act, in addition to the existing provision of recovery through the Magistrate will be incorporated with effect from **1.1.2009**.

(The section 11 will be amended)

5. Social Responsibility Levy

(PART I of the Finance Act No 5 of 2005)

The Act will be amended effective from **1.4.2008**, for application of Social Responsibility Levy in relation to income tax payable by companies under the respective provisions of the Inland Revenue Act.

6. Construction Industry Guarantee Fund Levy

(PART III of the Finance Act No 5 of 2005)

The respective part of the Act will be amended to make provisions for the collection of Construction Industry Guarantee Fund Levy **as a withholding tax**, at the time of withholding of income tax under section 153 of the Inland Revenue Act, from the person engaged in the construction industry.

7. Nation Building Levy

(To be imposed with effect from 01.01. 2009)

- 1) Nation Building Levy is payable by
 - (a) importers;
 - (b) manufactures; and
 - (c) providers of services
- 2) Taxable period is the quarter and the Levy will operate only for the eight quarters of years 2009 and 2010.
- 3) Base of the Levy is the turnover (net of exclusions) which in the case of -
 - (a) an importer, is the CIF value of the articles imported;
 - (b) any other liable persons, is the amount received or receivable in respect of any transaction entered into by such person, reduced by
 - (i.) bad debts incurred;
 - (ii.) Excise Duty paid under the Excise Duty (Special Provisions) Act. No 13 of 1989; and
 - (iii.) Value Added Tax paid under the Value Added Tax Act No 14 of 2002
- 4) Threshold: The Levy is payable for any quarter, if the turnover for that quarter exceeds Rs.100, 000/=
- 5) Rate : The rate of the Levy will be 1%

- 6) Every liable person (other than importers) will be required to furnish a return of his quarterly turnover on a form to be specified by the Commissioner General of Inland Revenue and to pay the Levy on self - assessment basis, within 20 days of the end of each quarter . The Levy payable by importers will be collected by the Director General of Customs at the time the Customs duties or other charges etc., if any, are collected.
- 7) The provisions of the Inland Revenue Act, No 10 of 2006 relating to assessments, appeals, recovery etc.. will be made applicable to the assessments, appeals, recovery etc.. of the Levy.
- 8) Credits : Every manufacturer will be entitled to credit for the Levy paid on materials
 - (i.) imported (other than plant machinery etc.); or
 - (ii.) purchased from any other manufacturer ,and which are used exclusively in such business of manufacture.

Where any Nation Building Levy for any quarter is paid in excess of the liability for that quarter, then such excess may be carried forward to succeeding quarters and set off against Nation Building Levy liabilities for such quarter, but no part of the Levy shall be refunded.

- 9) Exclusions: The following will not form part of the turnover on which the Levy is payable.
 - (i) the proceeds from the export by such person of any article manufactured by him;
 - (ii) the value of any article not being plant, machinery or fixtures imported by such person exclusively for use in, or for, the manufacture by such person of any article for export;
 - (iii) the proceeds from the sale of any article manufactured outside Sri Lanka by the person importing such article.
 - (iv) the proceeds from the sale of any article to any exporter if the Commissioner General is satisfied, on the production of a letter of credit opened in any bank in Sri Lanka in respect of the export of that article or other documentary evidence that such article has in fact been exported from Sri Lanka;
 - (v) the value of any article which is imported, if proved to the satisfaction of the Commissioner General of Inland Revenue, that such article is imported to Sri Lanka for -
 - (a) display at an exhibition;
 - (b) the temporary use in Sri Lanka in any project approved by the Minister;
 - (c) for the purposes of repairs to that article to be carried out in Sri Lanka; or

- (d) any other similar purpose,
and is to be re-shipped by such person, within a period of one year from
the date of importation of such article to Sri Lanka;
- (vi) the value of any article imported, if proved to the satisfaction of the
Director General of Customs, that such article was, prior to its
importation, taken out of Sri Lanka for repairs;
- (vii) the value of any cinematographic film or tele-drama produced in Sri
Lanka and sent out of Sri Lanka for further processing or printing with
the approval of the National Film Corporation.
- (viii) the value of any spare part imported by any airline or shipping
company, if proved to the satisfaction of the Commissioner-General, that
such spare part is to be used for the maintenance of any aircraft of ship,
used in international traffic and owned or chartered by such airline or
shipping company;
- (ix) the proceeds from the sale of any article, or any sum received or
receivable in respect of the provision of any service to the United
Nations Organization or to any specialized agency of such organization
or to the diplomatic mission of any foreign Government or to any
member of the diplomatic staff of such mission or to any other person
approved by the Minister on the recommendation of the Minister of
Foreign Affairs as being of the status of a diplomatic mission.
- (x) any sum received or receivable by any person from the provision of any
one or more of the following services -
- (a) Carriers on the business of Banking or Finance
 - (b) supply of electricity;
 - (c) medical services;
 - (d) supply of water;
 - (e) transport of goods or passengers
 - (f) leasing of movable properties.
 - (g) service of a construction contractor, not being a sub-
contractor, insofar as such services are in respect of
constructing any building, road, bridge, water supply,
drainage or sewerage system, harbour, airport or any
infrastructure project in telecommunication or electricity;
 - (h) services provided to any exporter of any article, being
services directly related to improving the quality and
character of such article;
 - (i) the services of sewing garments provided to any exporter
of such garments;

- (j) services of a freight forwarder, shipping agent licensed under the Licensing of Shipping Agents Act No. 10 of 1972 or courier insofar as such services are in respect of the exporter of any article from Sri Lanka;
 - (k) services provided by a public corporation, insofar as such services are in respect of the export of any article from Sri Lanka;
 - (l) operating a hotel, guest house, restaurant or other similar business, if, such hotel, guest house, restaurant or other similar business is registered under the Value Added Tax Act, No. 14 of 2002;
 - (m) the services of an auctioneer, broker, insurance agent or commission agent of any local produce;
 - (n) the services of a travel agent in respect of inbound tours, if such person is registered with the Ceylon Tourist Board.
 - (o) services of a computer software developer in respect of software developed by such person for use wholly outside Sri Lanka and for which payment is received in foreign currency through a bank
 - (p) services provided over the Internet, using custom-built software, by an enterprise, exclusively for the provision of such services being services enabling or facilitating the sale of goods, or for the provision of services, by a person in Sri Lanka to persons outside Sri Lanka, for payment in foreign currency;
 - (q) client support services provided over the internet or telephone, by an enterprise, exclusively for the provision of such services, to one or more identified clients outside Sri Lanka, for payment in foreign currency;
- (xi) life insurance premia where such person carries on any insurance business;
 - (xii) the CIF Value of any article imported if such article is subject to the Special Commodity Levy charged under the Special Commodity Levy Act No 48 of 2007;
 - (xiii) distribution or production and supply, of any cinematographic films primarily for exhibition in cinemas;
 - (xiv) exhibiting films in a cinema;
 - (xv) Value at the point of import or proceeds from the sale of following articles
 - a) Fertilizer ;
 - b) Petroleum and Petroleum products;
 - c) L P Gas ; and

- d) pharmaceuticals
- (xvi) any other, as may be specified by the Minister by order published in the Gazette.

8. Customs Duty

8.1 Tariff revisions under Free Trade Agreements signed by Sri Lanka

Tariff revisions to be made in respect of selected imports under the bilateral and the regional free trade agreements, of which Sri Lanka is a signatory, will be implemented with effect from 07th November 2008.

(i) In terms of the South Asian Free Trade Area (SAFTA) agreement, Sri Lanka is required to offer a preferential column of 10% from the general duty rates in respect of items where the general duty rate is less than 20% to the developing member countries of SAARC. Further, the existing general duty rates should be waived off by a preferential column of 30% for under developed countries in respect of relevant items in terms of the agreement.

(ii) Waive off the balance 30% of the preferential column (thus becoming preferential duty to zero) in respect of items in the residual list which should have been implemented w.e.f. 01.03.2008 under India - Sri Lanka Trade Agreement (ISFTA).

(iii) Waive off a preferential column of 20% in respect of items in the Phasing out List which should have been implemented w.e.f. 12.06.2008 under Pakistan - Sri Lanka trade agreement (PSFTA).

8.2 Export Duty on Value Added Vein Quartz

In respect of export of Vein Quartz, an export duty equivalent to 20% of the Free on Board (FOB) value of a Metric Ton is currently payable. In order to encourage those who engage in domestic value addition on Vein Quartz, the export tariff would be revised as given in the table below and will be implemented with effect from 07th November 2008.

FOB for Vein Quartz (per M. T.) (H.S. Codes 2506.10)		Export Duty %
Raw Vein Quartz	Up to 139	20
Value added in range of Vein	140-190	14

Quartz		
Value added in range of Vein Quartz	191-240	09
Value added in range of Vein Quartz	241-299	03
Value added in range of Vein Quartz	Exceeding 300	Free

8.3 Tariff amendments to promote local industries and other amendments

Sr. No	HS Codes	Description	Customs Duty	
			Prevailing Rates of Customs Duty	Proposed Customs Duty
1.	4810.29	Paper and Paperboard	2.5%	Free
2.	8437.10.90 8437.80.90	Machinery for grading seed, grain	2.5%	Free
3.	3907.91	Polyesters	2.5%	6%
4.	4410.11 4410.12 4410.19 4410.90	Creation of new HS Codes and revision of tax for Particle board	6%	4410.11.10-2.5% 4410.11.90-6% 4410.12 } 4410.19 } 6% 4410.90
5.	4805.91	Uncoated paper and paperboard	15%	6%
6.	5208.11	Creation of new HS Codes Unbleached woven fabrics of	Free	5208.11.10-Free 5208.11.90-Free

		cotton		
7.	4011.20 4011.10 4011.99.90	Tyres - used on buses or lorries Tyres - used on motor cars Tyres - other	28% or Rs.70/= per kg 28% or Rs.80/= per kg	28% or Rs.90/= per kg
8.	1701.11 1701.12 1701.91.10 1701.91.90 1701.99.30 1701.99.90	Raw Sugar (To protect local producers)	Rs. 10 per kg	Rs. 12 per kg
9.	8704.21.51 8704.21.52 8704.21.61 8704.21.62 8704.31.41 8704.31.42 8704.31.51 8704.31.52	Revision of tax for cargo carrying vehicles	6% 6% 15% 15% 6% 6% 15% 15%	6% 6% 6% 6% 6% 6% 6% 6%
10.	8539.31.10	Energy efficient AC compact fluorescent lamps	2.5%	Free
11.	2523.21 2523.29.10	Cement	15%	6%

	2523.29.20 2523.29.30 2523.30 2523.90			
12.	8507.10	Automotive Batteries	28%	28% or Rs.85/= per kg
13	84.15	Air conditioners	15%	28%
14.	4811.41.20 4811.90.10 4811.49.20 4821.10.10 4811.51.20 4821.90.10 4811.59.20 4811.99.20 4811.60.10	Creation of new HS Codes for soap wrappers		
15.	8516.79.10 8543.70.20	Creation of new HS Codes for Electric Mosquito Destroyers		
16.	8438.80.30 8438.80.40	Creation of new HS Codes for Tea Stalk Extracting Machines		
17.	8704.21.71 8704.21.72 8704.31.61 8704.31.62	Revision of text of national sub divisions to separate double cabs from crew cabs		
18.	9617.00.10 9617.00.90	Creation of new HS Codes for vacuum containers for transport of semen in liquid nitrogen		
19.	87.00	Creation of new HS Codes for Hearses and Gas operated Auto Trishaws		

20.	8501.31.10 8541.40.10 8513.10.10 9405.10.10 9405.10.20 9405.20.10 9405.20.20 9405.40.30 9504.40.40 9032.89.10 8539.31.20	Creation of new HS Codes to identify product related to solar systems
21.	List of Concessions 1. Incorporate Weather Stations to the item no. 12 2.To include Hearses as a new item	
22.	List of Exemptions 1.Intermediate goods to be used for fashion jewellery industry 2. Packaging materials for the purpose of pharmaceutical industry 3. Raw materials, components parts and accessories for the manufacture of energy saving compact lamps. 4. Materials used for donor funded projects implemented by Ceylon Electricity board 5 .Raw materials to be used for handicraft industry 6. Components and parts used for fabrication of tea machinery	
23.	Reformatting of National Sub-Divisions in H.S. Codes system	

8.4 Surcharge

Currently applicable Surcharge of 15%, imposed under Section 10 (A) of Chapter 235 of the Customs Ordinance, will remain unchanged

9. Port and Airport Development Levy

Rate of the levy is increased from 3% to 5%.

10. Special Commodity Levy

Special Commodity Levy, currently applicable for a selected number of essential commodities, imposed under the Special Commodity Levy Act No. 48 of 2007 and in terms of the orders published in the Extra Ordinary Gazette No. 1564/03 of 26. 08. 2008 will be revised with effect from 07th November 2008.

11. Imports and Exports (Control) Act No. 01 Of 1969

A Gazette will be published under the Import and Export Control Act to incorporate changes that are required to be made, corresponding to the changes proposed in tariff, which are given below.

- 1). Re-formatting of national sub-headings in the Harmonized Commodity Coding System which is used for levying of import tariff .
- 2). Removal of discrepancies in respect of importation of hearses and double cabs.

12. Cess

The new Cess rates applicable on selected imported items will be gazetted under Section 14 (1) of the Export Development Act No. 40 of 1979. The New gazette notification will be effective from 7th November 2009.

13 Excise Duty

The New Excise Duty rates applicable on excisable articles will be gazetted under Section 03 of the Excise (Special Provision) Act No 13 of 1989. The New Gazette Notification will be effective from 7th November 2008.