Annex I

HIGHLIGHTS OF THE BUDGET 2016 – SUMMARY OF TAX PROPOSALS

The budget proposals for the year 2016 were presented in the Parliament of Sri Lanka on 20th November 2015 by the Hon. Minister of Finance, aiming at accelerated development, focusing on simplifying the tax and regulatory environment, encouraging FDI, creating environment to promote local industry, greater employment opportunities etc.

The targeted Budget Deficit is 5.9% of GDP

1.0 Income Tax

Corporate Income Tax rates will be limited to two and are applicable at 15% and 30%. The higher rate of 30% is applicable on the profits and income on activities such as banking and finance including insurance, leasing and related activities, trading activities other than manufacturing or providing of services, tobacco, liquor, betting.

The lower rate of 15% is applicable on all other sectors which includes services, manufacturing and agriculture.

The proposed Income Tax Concessions are summarized below:

1.1 Research& Development expenses

- A triple deduction for research & development expenses will be extended, only if technology advancement and yield development are established.

1.2 Agriculture

- Development of seeds and planting materials by company – A reduction of 50% of the tax payable on the profits from the locally developed seeds and planting materials for a period of 5 years.

- Drip irrigation, greenhouse technology and high yielding seeds – A reduction of 50% of the tax payable on the profits from agriculture by a company using drip irrigation method, greenhouse technology and high yielding seeds for a period of 5 years.

- Fruit and Vegetable Industry – A qualifying relief payment has been granted in addition to depreciation allowance on the cost of acquisition of any machinery used for canning of fruits and vegetables.

1.3 Development of micro and SME sector

- The tax payable by Private Equity Funds or Venture Capital companies on the profits earned by providing funds to upgrade SMEs registered with the SME Board of CSE up to the trading level, will be reduced by 50% for a period of 5 years.

- The creation of incubators for SMEs not by splitting or reconstruction of an existing SME by investing in designated areas will be entitled to 50% reduction of the tax payable on profits of such activity for a period of 3 years.

1.4 Incentives for Thrust Industries – The tax payable on the profits from the manufacture of**red clay tiles** locally will be reduced by 50% for a period of 3 years.

1.5 Concessions to other sectors

- The profits from the following activities carried out by any person will be reduced by 50% for a period of five years.

  - An academic entity which offer internationally accredited Courses or training programs aimed at geriatric care or child care;
  - Engaged in building housing facilities for the elderly persons;
  - Construction and sale of housing units in collaboration with the Government, to officers of the government sector.

- A reduction of 50% of the tax payable for a period of 5 years from the commencement of the commercial operations by any company specifically incorporated for Meetings, Incentives, Conferences and Exhibitions on the profits from such activities.

- Modernizing existing factories – The profits generated by a company which is attributable to the expansion carried out by modernization of existing factories which is considered based on the employment generation within a period of one year commencing from April 1, 2016, will be reduced by 50% for a period of 3 years.

- Endowments towards R&D to qualify for 300% - The triple deduction currently available for R&D will be extended to endowments given to National Universities to engage in research.

- Purifying sea sand – The cost of acquisition of machinery used for purifying sea sand will be treated as a qualifying payment in addition to the depreciation allowance claimable on such machinery.

1.6 Tea & Rubber Cultivation

- Profits & income which is currently taxable at 10% will be exempted for 2 years in which the government has a shareholding commencing from April 1 2016.

2.0 Value Added Tax

The current VAT rate of 11% & 0% will be revised into 3 bands.

- 0% (Zero rated) – **exports of good & services** for foreign currency receipts will be zero rated.
- 8% (Standard rate) – this will be applicable on manufactured and imported goods
- 12.5% (Higher rate) – this will be applicable on the service sector

3.0 Nation Building Tax (NBT)

The rate of NBT is proposed to be increased from the current 2% to 4%.

4.0 Economics Service Charge (ESC)

The ESC will be increased to 0.5% from current rate of 0.25%.

5.0 Customs and Excise Duty

It is proposed to establishanone stop shop to provide all necessary permissions, clearance and approvals at a single window platform connecting relevant Government agencies such as Department of Import & Export Control, Inland Revenue Department, Department of Commerce, Department of Agriculture, Consumer Affairs Authority etc.

5.1 Customs Duty

The current 4 band tariff structure of exempt, 7.5%, 15% and 25% will be revised to 3 bands of exempt, 15% and 30%.

- Tiles, Ceramic and sanitary ware will be removed from existing negative list of the BOI.

5.2 Excise Duty

The current concessions and rates will be revised.

5.3 Port & Airport Development Levy (PAL)

- The existing PAL rate will be increased from 5% to 7.5%
- The PAL rate on certain electronic and electrical items will be reduced to 2.5%
- PAL on certain machinery will be removed (Plant and machineries used for construction, dairy and agricultural industries)

5.4 Cess

A 10% Cess will be imposed on the import of jewellery to encourage the local industry.

Cess applicable on export of Pepper, Cloves & Nutmeg will be removed.

5.5 Special Commodity Levy (SCL)

- The levy on import of fish & fish related products to be increased to Rs. 50/- to promote local industry.
- Special commodity levy on vegetable fat proposed to be reduced, to protect the local confectionary industry.

Other important points:

- **On apparel and footwear.**

- The present composite tax imposed on sale of garments to the local market by export oriented companies (under the VAT Act) will be increased to Rs. 200/- per piece. The same rate (Rs. 200/- per piece) will apply to the sale of footwear to the local market by export oriented companies.

- The current rate for sale of fabric (Rs. 40/- per Kg) and cut pieces (Rs. 25/- per piece) remain the same.

- The sale of export quality products to the local market by export oriented BOI companies will be restricted to 5% of the total turnover.

- **On Fruits & Vegetable industry**

- Machinery utilized for dehydrated and canned fruits industry will be free from import duty

- **On Dairy industry**

- Import duties will be reduced on machinery and equipments

- **On Gems and Jewellary**

- It has been proposed for the Central Bank to introduce a scheme allowing 50 licenses to import gold free of all import duties.

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