



Journey towards Recovery

Budget Proposals 2022

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2022
BUDGET

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Budget Proposals – 2022

12 November 2021

To Clients of PricewaterhouseCoopers

Dear Client

We are pleased to forward you a Summary and Analysis of the Budget Proposals for 2022, presented in the Parliament on 12 November 2021 by Hon. Basil Rajapaksa, Minister of Finance.

We are also forwarding –

- Booklet on “Tax Updates”

If you would like further information on any of the taxation changes and other measures announced in the Budget, please do not hesitate to get in touch with us.

Yours truly

A handwritten signature in black ink, reading 'Charmaine Tillekeratne'.

Charmaine Tillekeratne
Director – Tax Services
For and on behalf of PricewaterhouseCoopers (Private) Ltd

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Sri Lanka Budget Focus – 2022

Budget speech 2022 presented by Hon. Basil Rajapaksa, Minister of Finance, focuses on the betterment of the public by introducing national budgetary policies that would bring about a structural change and enable the increase of the country's total revenue while decreasing the total expenditure resulting in a subsequent rise in savings and investment. This budget considers the entirety of the National Policy Framework “Vistas of Prosperity and Splendour” which is the policy framework of the government of HE the President Gotabaya Rajapaksa.

The proposals are aimed at moving from a trading economy towards an environmentally friendly production economy driven by technology and innovation while focusing on the export of goods & services and import substitution in identified sectors. This is expected to reduce reliance on foreign debt and foreign currency outflows. The national budget further identifies that increases in taxes have not resulted in an increase in revenue due to poor expenditure management and hence introduces a series of proposals on expenditure management.

The key highlights of the proposal are as follows:

- With effect from 01 January 2022, a special GST would be implemented on telecommunication, motor vehicles, cigarettes, liquor, betting, and gaming sectors.
- A surcharge tax of 25% will be charged on individuals and companies with a taxable income over LKR 2 Bn for the Y/A 2020/2021.
- With effect from 01 April 2022, a Social Security Contribution of 2.5% will be applicable on liable turnover exceeding LKR 120 Mn per annum.
- Restructure of the state sector by introducing KPIs, client charters, providing funds for capital expenditure instead of recurring expenditure and increasing the retirement age to 65 years.
- Establishment of investment zones dedicated to the production of organic fertilizer, pharmaceuticals, raw material for textile and apparel industry, rubber industrial products, export based agro-processing, livestock, agricultural equipment & machinery, fisheries and aquaculture development, production of chemical materials, electric & electronic appliances & IT products, production of sports equipment, steel and heavy metal industry
- Developing Colombo Port as an Entrepot Hub, the Trincomalee Port as an Industrial Port, Galle Port as a Tourist Port and the Hambanthota Port as a Service Port.

Chapter 1 – Surcharge Tax, Social Security Contribution and Special GST

1. Surcharge Tax

A surcharge tax of 25% will be charged on individuals and companies with a taxable income over LKR 2 Bn for the Y/A 2020/2021.

This will be a one-time tax and expected government revenue is LKR 100 Bn. It is assumed that Surcharge tax will not be an “allowed deduction” for income tax.

2. Social Security Contribution

With effect from 01 April 2022, a Social Security Contribution of 2.5% will be applicable on liable turnover exceeding LKR 120 Mn per annum with the aim of rebuilding the country’s economy which is affected by the COVID pandemic. Government revenue will be expected to be increased by LKR 140 Bn from this tax.

Its application is expected to be temporary, however, no timeline is given in the Budget. It is also unclear whether it’s application will be limited to companies or whether it will be applicable to other taxable persons as well.

It is assumed that this will not be an “allowed deduction” for income tax.

3. Special GST

The Special Goods and Services Tax (GST) proposed in the budget 2021 to improve the efficiency of tax collection by consolidation and online application will be implemented through legislation with effect from 01 January 2022.

Features

- Applicable on alcohol, cigarettes, telecommunication, betting & gaming and vehicles
- Online managed
- A consolidated tax - replacing existing taxes/levies collectible by multiple institutions

Chapter 2 – Value Added Tax (VAT)

1. Financial Services VAT (FSVAT)

VAT payable on financial services is proposed to be increased to 18% from the previous 15%, temporarily for the period from 01 January 2022 to 31 December 2022.

Further, the budget proposals specifically provide that this tax should not be shifted to the customers.

2. Amendment VAT exemption on medical equipment

The VAT amendment Act No. 9 of 2021 provided an exemption for import or supply of “machinery and equipment including medical, surgical and dental instruments, apparatus, accessories and parts thereof, hospital or medical furniture and drugs, chemical and similar items, as recommended by the Secretary to the Ministry of the Minister assigned the subject of Health, as required for the provision of health services to address the COVID-19 pandemic, with effect from 20 May 2020”

This provision is proposed to be amended with effect from 01 January 2022 by adding the approval of the Minister of Finance as a pre-requisite for the exemption and removing the reference to COVID-19.

Chapter 3 – Customs Excise and Cess

1. Custom and other import duties

1.1 Restructuring the administration process

- Updating the HS code system which is currently being used by the Sri Lanka Customs.
- Introduction of advanced technological tools globally being used in customs operations.
- Implementation of a grading system for exporters and provide free customs facilities to exporters with high grades.
- Establishing a Single Window System to facilitate the import-export process by integrating all institutions that work with Sri Lanka Customs.
- The Custom duties and CESS rates (excluding the HS codes pertaining to liquor, cigarettes, motor vehicles and domestically produced agricultural products) are proposed to be simplified together with the licensing mechanism for imports. Further the custom clearances will be issued once, such imports have been cleared by the respective standards Institution and the Quarantine authorities.

1.2 Release of all seized vehicles by customs

It is proposed to release all seized vehicles by the Sri Lankan customs after the payment of the relevant taxes and fines.

2. Excise Duty

2.1 Excise (Special Provisions) Duty on Cigarettes

Taxes on cigarettes will be increased with immediate effect. As a result the price of a cigarette will be increased by LKR 5. An additional revenue of LKR 8 Bn is expected through this tax increase.

However this duty is anticipated to be effective only until 31 December 2021. It is assumed that all taxes applicable on cigarettes will be consolidated under the special GST once it is introduced with effect of 01 January 2022.

2.2 Excise Duty on Liquor

Excise duty on liquor will be increased with immediate effect. An additional revenue of LKR 25 Bn is expected through this tax increase.

However, this duty is anticipated to be effective only until 31 December 2021. It is assumed that all taxes applicable on liquor will be consolidated under the special GST once it is introduced with effect of 01 January 2022.

Chapter 4 – Other Taxes and Levies

- Introduction of a fee in respect of vehicles which undergo motor traffic accidents and allowing the insurer to reimburse the fee from the insurance.
- Introduction of a fee for modernization, modification or upgrading of vehicles.
- An opportunity will be provided to legalize all unauthorized roadworthy motor vehicles and motorcycles by paying a penalty during a period of amnesty.
- Introduction of a licensing system for conducting leisure related activities at premises developed as special zones.
- Issuance of telecom related licenses by the Telecommunication Regulatory Commission will be carried out by way of an auction.
- No business registration fees will be charged in the year 2022 in order to provide an impetus for new start-ups.

Chapter 5 – COVID–19 Relief

Tax reliefs are not granted however, funds are allocated to certain sectors to provide relief.

Affected party	Amount of funds allocated
Micro, small and medium scale businessmen	An additional amount of LKR 5,000 Mn
School van owners	LKR 400 Mn
Three Wheel owners	LKR 600 Mn
Private bus owners	LKR 1,500 Mn
Special sectors such as Arts and Entertainment	LKR 500 Mn

Chapter 6 – Tax Administration

Strengthen the Large Taxpayer's Unit and Upper Corporate Unit established under the Inland Revenue Department to further increase the revenue generated from large taxpayers.

Addressing deficiencies within the digitised platforms of revenue agencies – RAMIS at Inland Revenue Department and Single Window System at Sri Lanka Customs.

Expediting the implementation of the digital revenue collection system of Excise Department and simplify the issuance of license process.

Integration of all banks and financial institutions with Lanka Clear by using the online tax payment platform.

Establish legal provisions to apply technological processes to tax administration in order to collect due penalties from tax evaders.

No business registration fees in the year 2022 in order to provide an impetus for new start-ups.

Amend the Finance Act to simplify the complex processes currently in place for new business registration process adopted by the Board of Investment, Department of Foreign Exchange and Export Development Board and to consolidate fees levied by various institutions in this regard.

Introduce amendments to the tax law in relation to the use of digital identification numbers and other legal requirements.

Allowing the submission of digital invoices and documents as valid documents in tax filing wherever possible through the digital platforms with the proper verification system in place.

Chapter 7 – Other proposals

1. Expenditure management

- Issue of quarterly warrants instead of the annual warrant authorizing the expenditure of government institutions.
- Funds for capital expenditure to replace recurrent expenditure, for SOE's.
- A multi-disciplinary consultative committee to formulate a strategic way forward to improve the business focus and financial discipline of SOE's
- Suspend the construction of new office premises for two years.
- Amendments to the Appropriation Bill preventing requests for Supplementary Estimates for 2022 by all Ministries.
- Reduce the fuel allowance provided to Ministers and government officers by 5 litres per month.
- Cut down the telephone and electricity expenses of government institutions by 25% and 10% respectively.
- Pension entitlement of Members of Parliament to be extended to 10 years.
- New salary structure to be established for the public service by removing the anomalies.
- Salary increment to be granted timely without appraisal reports (except for those who are subject to disciplinary action).
- Retirement age of public service to be extended to 65 years.

2. Improve efficiencies of government institutions

- An Integrated Results Based Management System to be established to monitor progress of plans.
- Client Charter to be prepared for every government institution.
- Introduce an appraisal system for the public service based on KPIs and satisfaction of clients.
- Samurdhi movement to be transformed as a rural development movement.
- Samurdhi banks to be converted to one-stop shops.
- Conduct proper investigations into alleged frauds on depositors of cooperative and rural banks and reimburse financial damages.

- State Owned Media Institutions to be entrusted with the responsibility of reviewing its business focus/financial discipline.
- Life and property insurances of Sri Lanka Insurance Corporation to be amalgamated.
- Business registration process adopted by the BOI, Department of Foreign Exchange and EDB to be simplified and fees levied by various institutions to be consolidated.
- Factors taken into account in preparing the Government budget to be reflected at implementation level by each Ministry.

3. State Intervention

- A country wide telecommunication network to be established covering all 10,155 schools in the country using Fibre Optic technology.
- A three-wheeler Regulatory Authority to be established.
- A contributory pension scheme to be established for senior citizens who do not currently receive pensions.
- Act on Rights of the Differently-abled to be introduced whilst launching a programme for the development of their entrepreneurship and skills.
- A programme to address the issues on children and mental health development to be introduced.
- Issues, requirements and deficiencies in relation to the production of fruits, vegetables, fish based products, liquid milk and commercial crops to be reviewed and local and international market-oriented products to be expanded.
- LKR 8.5 Bn that Perpetual Treasuries Limited has earned in violation of the Code of Conduct of the Central Bank of Sri Lanka to be transferred to the Treasury.

4. New Policies

- New programme to provide necessary knowledge, to encourage flower growers and to promote export-oriented production.
- Facilitate and encourage private sector to produce pharmaceutical items in SL targeting the international market.
- Production of raw materials required by the apparel industry to be commenced thereby opening a new avenue of entering the international market.

- Implement a rapid programme to promote the local handloom and the Batik production industry.
- Sri Lanka to be a main centre for the purchase of gems in the world market.
- Restriction on importation and promotion of investments in rubber-related products.
- Local manufacture of equipment and appliances required for the generation of renewable energy to be encouraged.
- Action to be taken to link Sri Lanka to global wellness tourism industry.
- Event tourism, destination tourism and homestays to be promoted.
- New programme for establishing new Ayurveda treatment centres and promoting traditional indigenous medicine and natural treatment methods.
- Capacity of special categories of organic fertilizer for targeted cultivation/crops to be expanded.
- Diversification of agricultural products and value added agricultural products to be promoted to generate foreign income.
- Hi-Tec agro parks to be established.
- New laws to be introduced on the usage of lands owned by plantation companies as well as those of both public and private ownership.
- Green Agricultural Development Act to be drafted.
- Propose to make Sri Lanka Asia's Hub.
- Colombo Port to be developed as an Entrepot Hub, Trincomalee Port to an Industrial Port, Galle Port as a Tourist Port and Hambanthota Port as a Service Port. (Naval Hub).
- Sri Lanka to be established as an international free port.
- Two new Refineries focused on exports are planned to be established in Hambanthota and Trincomalee.
- Development of the infrastructure facilities and standards of the Universities.
- Laws and regulations that impede the inflow of foreign exchange earned by IT young free-lancers to be amended.
- Technologies such as Blockchain to be used to strengthen internal systems
- Laws and regulatory framework to be introduced to encourage banks to convert their branches into smart banking units using digitalization.
- Proposal to commence three new techno-parks in Habarana, Nuwara Eliya (Mahagasthota) and Kandy (Digana).

- Conditions imposed for FDIs to be reviewed and revised.
- Special Finance Bill to ensure the safety of local and foreign exporters, to ensure the safety of transactions of foreign current accounts and to simplify the conditions that are imposed by the Central Bank on exports with regard to foreign currency conversions and transfers.
- Lands and tax concessions to encourage investors to establish an international school and a hospital in every district to be provided.
- Investments through PPP and local and international sources to implement mixed development projects utilising unproductive land, owned by Department of Railways to be obtained.
- Monitoring of all infrastructure development projects of the government to be decentralized.
- Procurement Processes to be modernized.
- Existing facilities to provide knowledge, skills and other requirements for going overseas for employment to be improved and opportunities in this regard to be enhanced.
- Discussions to be initiated to obtain green bond financing facilities and to respond to climate change through those projects.
- Obtaining of recommendations for all constructions from relevant institutions to be mandatory.
- Limitations on government employee obtaining the membership of another government professional association to be removed.
- Limitations on integration, consolidation and centralization of several professional associations of different services to be removed.

5. Expenditure Proposals

No.	Proposal	Allocation (LKR Mn)
1.	Providing relief for using organic herbicides	4,000
2.	Modernization of Agriculture	5,000
3.	Modernization of plantation sector and providing relief	10,000
4.	Fisheries and aquaculture development	1,000
5.	Livestock development	1,000
6.	Development of traditional cottage industries	1,000
7.	Development of textile industries including Handloom and Batik	1,000

No.	Proposal	Allocation (LKR Mn)
8.	Infrastructure facilities for new product investment zones	5,000
9.	Small and Medium Scale Industry Zones	5,000
10.	Water for All programme	15,000
11.	<i>Vari Saubhagya</i>	20,000
12.	100,000 Km roads (including estate sector roads)	20,000
13.	Development of renewable energy	500
14.	Development of urban houses	2,000
15.	Development of rural houses	5,000
16.	Development of estate houses	500
17.	Rural Development Projects	42,063
18.	Development of local government divisions	19,668
19.	Decentralized budget	3,375
20.	Rural livelihood development	19,894
21.	Relief for Micro, Small and Medium Scale Entrepreneurs	5,000
22.	Relief for school van owners	400
23.	Relief for three-wheeler owners	600
24.	Relief for private bus owners	1,500
25.	Relief for areas of art and entertainment	500
26.	Environment conservation	2,000
27.	Forest conservation	2,000
28.	Wildlife protection	1,000
29.	Development of schools	5,300
30.	Health and indigenous medicine	5,000
31.	Development of sports facilities	3,000
32.	Minor irrigation	2,000
33.	Vocational and Technical Training	2,000
34.	Passenger Transport	2,000
35.	Court infrastructure facilities	5,000
36.	Public security, law and order	500
37.	Sanitary facilities for prisoners	200
38.	Facilities for elders and people with special needs	1,000

Budget Proposals 2022

No.	Proposal	Allocation (LKR Mn)
39.	Pregnant mothers	1,000
40.	Home economy	15,000
41.	Home shop	15,000
42.	Digitalization of the public sector	500
43.	Motor cycles for government employees	500
44.	Removal of salary anomalies of teachers and principals	30,000
45.	Confirmation of graduate trainees	7,600
46.	Compensating the politically victimized	100
47.	Removal of anomalies of pensioners	500
48.	Maintenance of Buddhist temples	500
49.	Compensation for disappeared people	300
50.	Contribution for professional association	100
51.	Saving of expenditure	(30,000)

Sri Lanka Economy at a Glance

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Budget deficit (% of GDP)	(11.1)	(6.8)	(5.3)	(5.5)	(5.3)	(7.6)	(5.7)	(5.4)	(5.6)	(6.2)	(7.0)	(9.9)	(7.0)	(6.9)	(7.0)	(7.0)
Current account (deficit) (USD Mn)	(1,083)	(1,843)	(2,799)	(2,309)	(1,742)	(1,883)	(1,988)	(2,541)	(3,982)	(4,615)	(1,075)	(214)	(3,885)	(1,401)	(1,498)	(650)
Balance of payments (deficit)/ surplus (USD Mn)	(2,328)	377	(1,103)	2,069	(500)	(1,489)	1,369	985	151	(1,059)	921	2,725	(1,384)	530	203	501
Total international reserves (USD Mn)	8,521	10,402	9,582	10,436	8,433	9,336	9,884	8,573	8,585	7,991	8,620	7,030	3,639	4,956	4,005	4,200
Total Foreign Assets (USD Mn) (Month of same year imports)	4.2	4.6	5.2	6.0	5.3	5.9	6.1	5.7	5.4	4.7	7.7	8.3	3.1	5.3	4.7	5.7
Unemployment %	5.5	4.8	4.4	4.2	4.4	4.7	4.3	4.4	4.0	4.2	4.9	5.8	5.40	6.0	6.5	7.7
GDP at market prices (LKR Bn)	14,973	15,013	14,366	13,328	11,996	10,951	10,361	9,592	8,732	7,219	6,414	4,835	4,410	3,578	2,938	2,452
GDP at market prices (USD Bn)	80.7	84.0	88.4	87.4	82.4	80.6	79.4	74.3	68.4	65.3	56.7	42.0	40.7	32.4	28.3	24.4
Mid-year population (Mn persons)	21.9	21.8	21.6	21.4	21.2	20.9	20.7	20.5	20.4	20.8	20.6	20.5	20.2	20.0	19.9	19.6
Per capita GDP at market price (LKR)	683,106	688,573	662,949	621,531	565,773	522,204	498,660	465,976	427,538	345,544	310,214	236,144	217,855	178,586	147,985	124,862
Per capita GDP at market price (USD)	3,682	3,852	4,079	4,077	3,886	3,841	3,819	3,609	3,351	3,125	2,744	2,054	2,011	1,614	1,423	1,242
Real GDP growth rate %	(3.6)	2.3	3.3	3.6	4.5	5.0	5.0	3.4	9.1	8.4	8.0	3.5	6.0	6.8	7.7	6.2
Interest Rate																
- AWDRAverage Weighted Deposit Rate) - Monthly %	5.8	8.20	8.81	9.07	8.17	6.20	6.20	9.37	10.10	7.24	6.23	8.01	11.63	10.31	7.60	6.24
- AWPR (Average Weighted Prime Lending Rate) - Monthly %	5.81	9.74	12.09	11.55	11.52	7.53	6.26	10.13	14.40	10.77	9.29	10.91	18.50	17.95	15.19	12.24
Exchange rate LKR/ USD (Annual Average)	185.52	178.78	162.54	152.46	145.60	135.94	130.56	129.11	127.60	110.57	113.06	114.94	108.33	110.62	103.96	100.50
Capital Market Index																
- All Share Price Index	6,774	6,129	6,052	6,369	6,228	6,894	7,299	5,912	5,643	6,074	6,635	3,385	1,503	2,541	2,722	1,922
- Milanka Price Index	-	-	-	-	-	-	-	-	5,119	5,229	7,061	3,849	1,631	3,291	3,711	2,451
- S&P Index	2,638	2,937	3,135	3,671	3,496	3,625	4,089	3,263	3,085	-	-	-	-	-	-	-

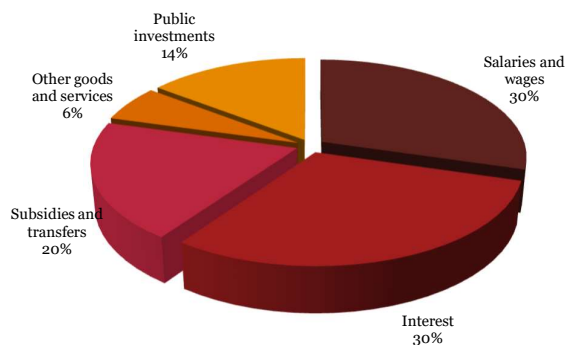
Budget Estimates

The budget 2021 estimates total revenue and grants of LKR 1,561 Bn (2020 – LKR 1,588 Bn) consisting of tax revenue from income tax LKR 295 Bn (2020 – LKR 324 Bn), taxes on goods and services LKR 650 Bn (2020 – LKR 631 Bn), taxes on external trade LKR 380 Bn (2020 – LKR 403 Bn) non-tax revenue LKR 170 Bn (2020– LKR 162 Bn), provincial councils tax sharing and devolved revenue LKR 61 Bn (2020 – LKR 60 Bn) and grants of LKR 5 Bn (2020– LKR 8 Bn) against a total estimated expenditure of LKR 3,387 Bn (2020 – LKR 2,854 Bn). The estimated expenditure consists of recurring expenditure LKR 2,817 Bn (2020 – LKR 2,445 Bn) and public investment of LKR 582 Bn (2020 – LKR 419 Bn).

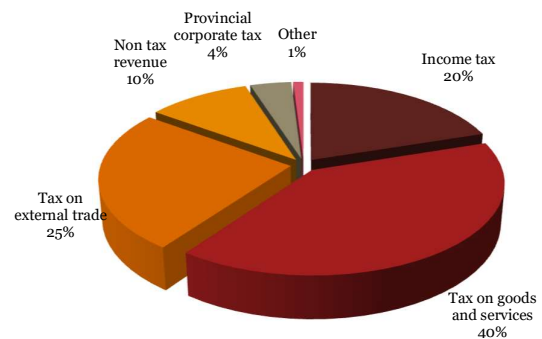
The resulting budget deficit of LKR 1,826 Bn (2020 – LKR 1,266 Bn) is expected to be financed by foreign financing of LKR (48) Bn (2020 – LKR 225 Bn) and domestic financing of LKR 1,874 Bn (2020 – LKR 1,491 Bn).

The pie charts below depict the revenue and expenditure estimates of 2020 and 2021 respectively.

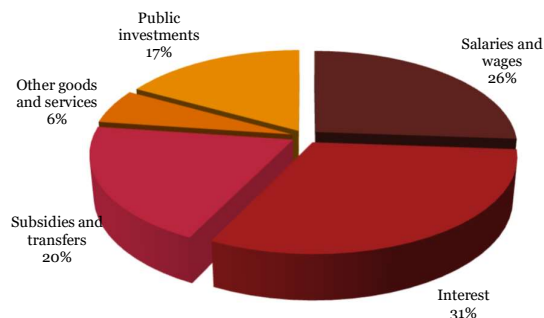
Total Expenditure 2020



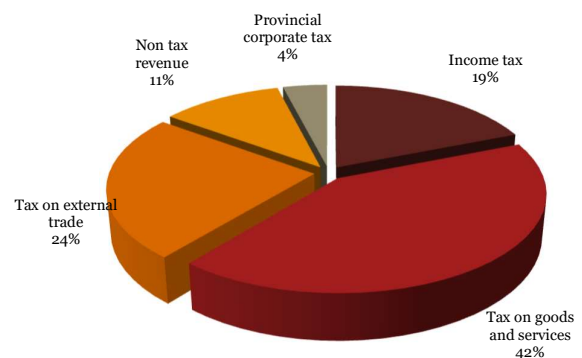
Total Revenue 2020



Total Expenditure 2021



Total Revenue 2021



Let's Talk

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