

Choices. Priorities. Opportunities.

Budget Proposals 2019



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Budget Proposals – 2019

6th March 2019

To Clients of PricewaterhouseCoopers

Dear Client

We are pleased to forward you a Summary and Analysis of the Budget Proposals for 2019, presented in the Parliament on 5th March 2019, by Hon. Mangala Samaraweera, Minister of Finance.

We are also forwarding –

- “Tax facts at a Glance” and
- 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 dark ink, reading 'Charmaine Tillekeratne'. The signature is fluid and cursive, with a long horizontal stroke above the first part of the name.

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

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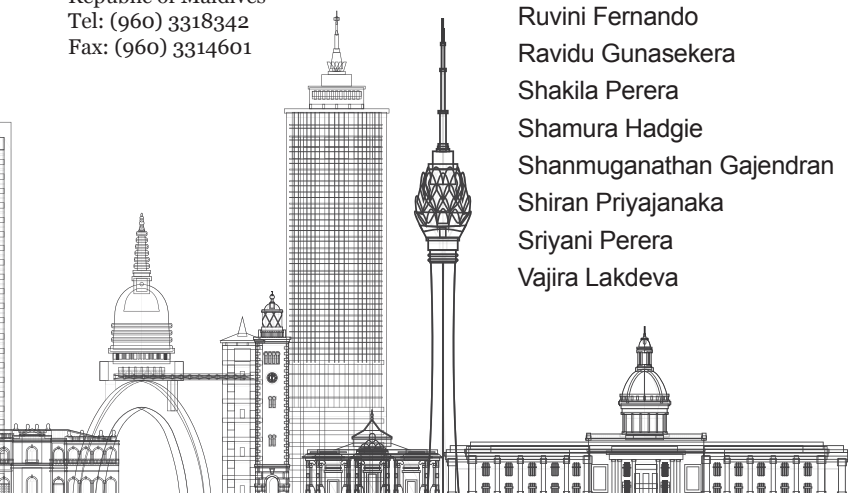
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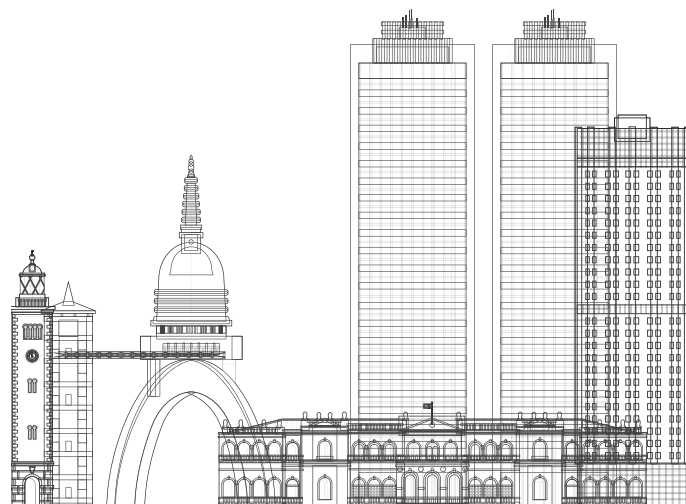
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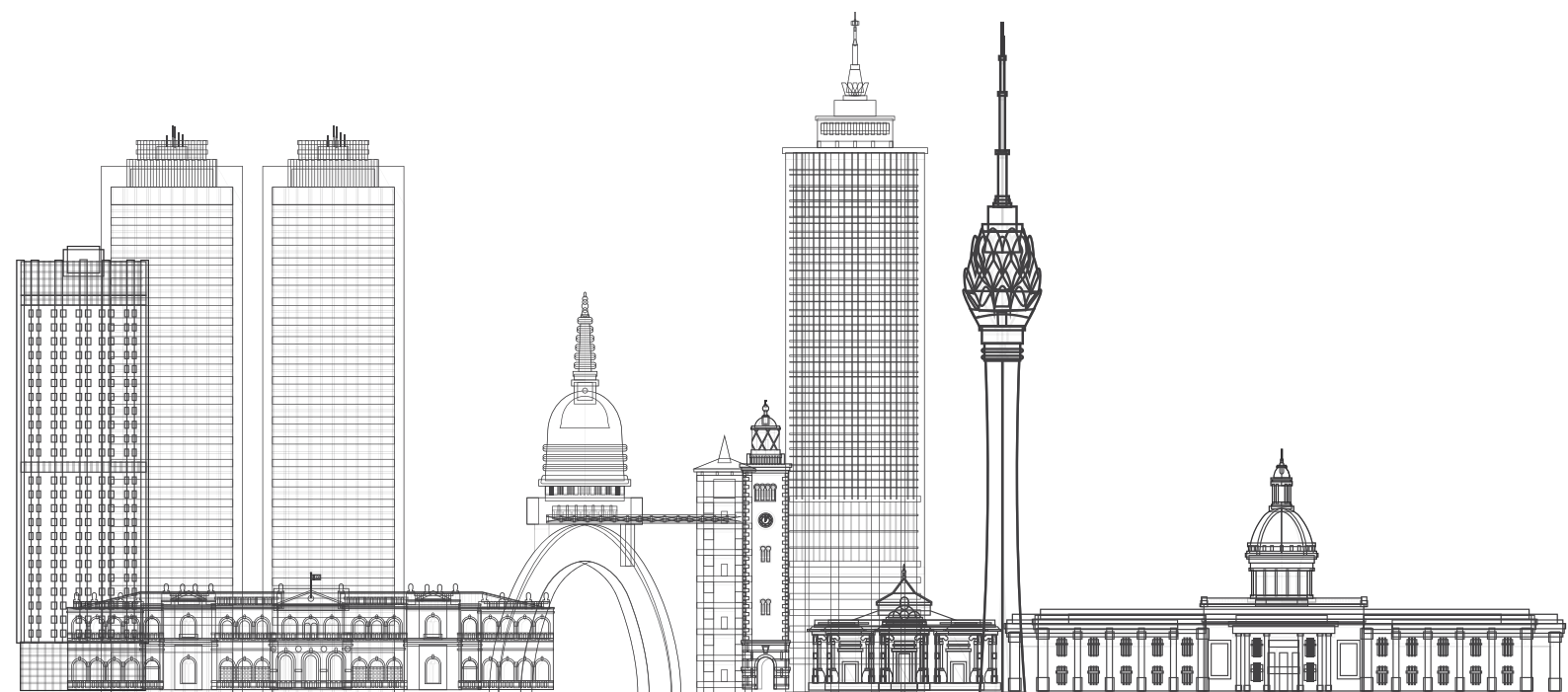
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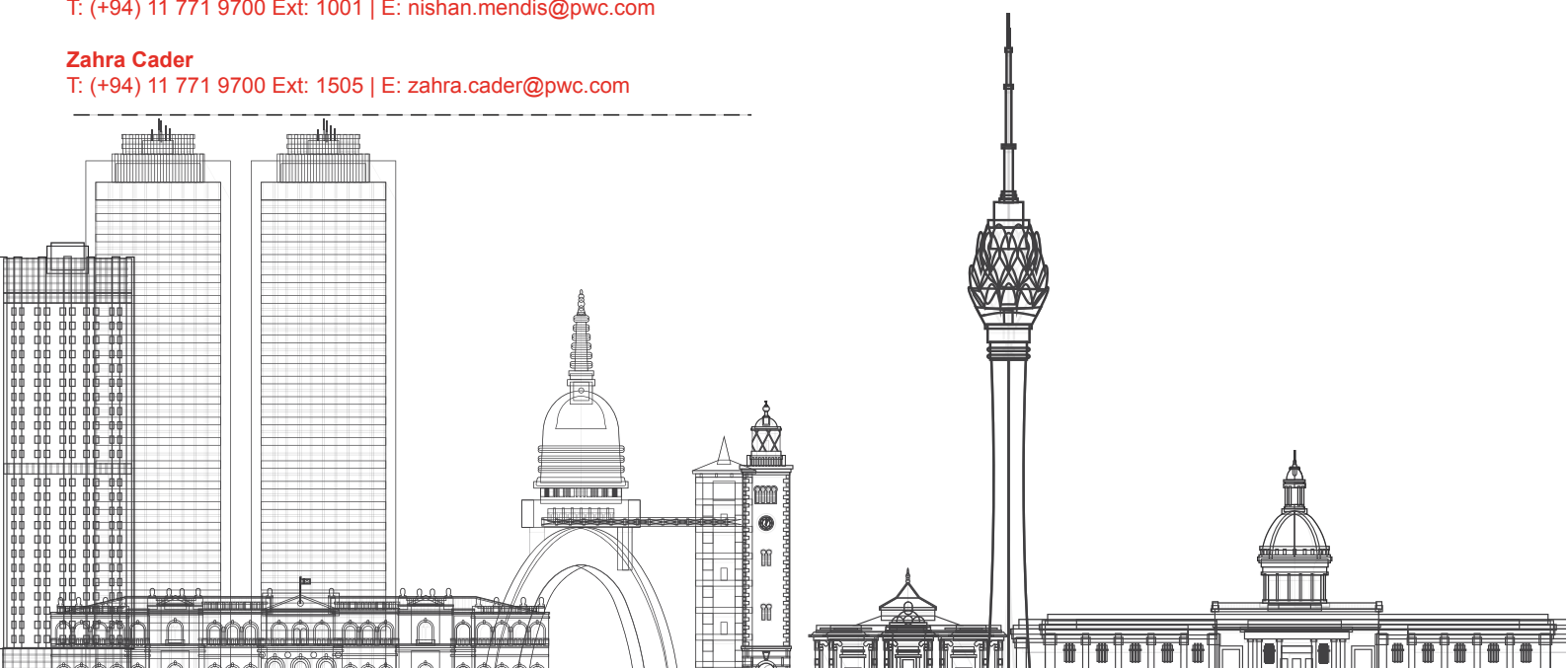
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Sri Lanka Budget Focus – 2019

Budget for the year 2019 was presented in Parliament by the Hon. Minister of Finance under the theme of “ENTERPRISE SRI LANKA – Empowering the People and Nurturing the Poor” it’s main objective being empowerment of people of Sri Lanka via political, social and economic empowerment.

To this extent, the 2019 budget focuses on:

- Creating a new breed of private enterprise where success is through merit and the market operates on a rules – based level playing field.
- Strengthening the program of economic liberalization introduced in the previous budget buttressed by a robust safety net, and state intervention to address market failures and ensure social justice.
- increasing investment in social infrastructure, especially in areas of education and health with quality of spending taking precedence over quantity and
- revamping the social safety net with a focus towards graduating its beneficiaries into self-sufficient and empowered citizens

Achievement of said objectives will be addressed in the budget proposals by:

- Facilitating livelihood development
- Supporting exports on integration into global markets
- Enhancing the “Enterprise Sri Lanka” loan scheme for start-ups & small businesses
- Developing a knowledge driven society, improving skills for work by facilitating vocational training and creating a culture of research and development
- Improving public sector delivery
- Creating a caring and healthy society including empowerment of certain sectors
- Accelerating village development, making cities smarter and creating a clean, green and a sustainable environment
- Promoting religion, arts & culture and facilitating reconciliation through economic empowerment
- Enhancing the social safety net

Furthermore, budget 2019 expects to achieve the following medium term targets (i.e. by 2024):

- GDP growth of 4.8%
- Primary surplus of 3.4% of GDP
- Budget deficit of 2.0% of GDP

Overview of Key Taxation Proposals

1. Income Tax

(Effective from 01 April 2019)

Exemption on sovereign bonds, including Sri Lanka Development Bonds

Investment income of a company eligible for a concessionary rate of 14% to be taxed at 28%

1.1 New exemptions

Tax on gains and profits	Withholding tax
Earnings by any non-resident person on any sovereign bond denominated in local or foreign currency	Royalty payments not exceeding LKR50,000 per month subject to LKR500,000 for each year of assessment, made to any resident individual
Interest income earned by any resident person on sovereign bonds denominated in foreign currency, including Sri Lanka Development Bonds (SLDB)	Rent payments not exceeding LKR50,000 per month subject to LKR500,000 for each year of assessment, made to any resident individual
Interest income earned by any person on NRFC and RFC accounts for 5 years	
Interest income, up to LKR5,000 per month, earned by children of less than 18 years of age, in relation to any deposit account maintained in a financial institution	
Interest paid to any person outside Sri Lanka on loans granted by such person to any person in Sri Lanka (other than interest paid on loans granted by a non-resident company to its holding company or a subsidiary company in Sri Lanka)	

1.2 Incentives

Information Technology sector	Investments by existing businesses	Large scale projects
The requirement of a minimum 50 employees for eligibility for the additional deduction equal to 35% of the salary cost, to be removed	New investments made by existing businesses to be granted accelerated depreciation	Investments above USD50Mn to USD100Mn 100% deduction of the expenditure incurred on depreciable assets, excluding intangible assets, in a project approved by the BOI for a period of 10 years from commercial operations
		Investments above USD100Mn 150% deduction of the expenditure incurred on depreciable assets, excluding intangible assets, in a project approved by the BOI for a period of 10 years from commercial operations
		Investments above USD1Bn • 150% deduction of the expenditure incurred on depreciable assets, excluding intangible assets, in a project approved by the BOI for a period of 10 years from commercial operations • the period for deduction of unrelieved losses to be increased to 25 years • dividends and employment income of expatriate employees to be exempt from WHT during the period that such dividends are paid out of profits sheltered by enhanced capital allowances

1.3 Gross income

- A concessionary rate of 14% is granted under the Inland Revenue Act for companies ***predominantly*** conducting specified businesses.

“predominantly” means 80% or more calculated based on ***gross income***.

Gross income to be defined as the total income excluding the investment income.

- The concessionary tax rate of 14% to be applied only on the income from an activity eligible for the concessionary tax rate. The investment income to be liable for tax at 28%.

2. Value Added Tax

(Effective from 01 June 2019)

VAT imposed on condominium housing units to be implemented with effect from 1 April 2019

Removal of exemptions	Revisions
Supply of condominium housing units where deed of agreement relating to such supply is not executed prior to 01 April 2019	Piece based VAT rate applicable on domestic sale of certain garments by the export oriented BOI companies to be increased from LKR75 to LKR100
	The term 'locally produced rice products' to be re-defined for the purpose of clarity and certainty
	'Pharmaceutical machinery' to be re-defined
	Minister to prescribe the basis for chargeability of VAT on certain goods as may be determined by the Minister

3. Nation Building Tax

(Effective from 01 June 2019)

Main construction contractor to be exempt from NBT on infrastructure projects
Exemption on manufacturing cigarettes to be removed

New exemptions	Removal of exemptions	Revisions
Main construction contractor for infrastructure projects	Manufacture of cigarettes	NBT at the rate of 3.5% to 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 (Stamp duty to be removed)
Importation of Lucerne (alfalfa) meal and pellets		NBT on DMC Agencies and hoteliers who are receiving foreign currency
Large scale projects (investment above USD50Mn) during project construction period until commencement of commercial operations		Importation of rough unprocessed gem stones for re-export after cutting and polishing for the lapidary service providers registered under the National Gem & Jewellery Authority

4. Economic Service Charge

(Effective from 01 June 2019)

Turnover from the export of goods or services to be eligible for a concessionary rate of 0.25%

Revisions

Turnover arising from the export of goods or services which are subject to corporate income tax at 14% to be taxed at 0.25%

The term 'distributor' 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. Accordingly, such person or partnership would be excluded from chargeability to ESC.

Importation of any article or good other than any capital goods as prescribed by the Minister of Finance to be taxed at 0.5%

Revisions

ESC base on the importation of any article or good to 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. Duties and fiscal levies on imports

(With immediate effect)

PAL on tourism sector and local manufacturing industry (specified HS codes) reduced to 2.5%

5.1 Customs duty

New exemptions	Revisions
Importation of Go-Kart and Go-Kart tyres	Custom Duty on Undenatured Ethyl Alcohol will be increased by LKR200 to LKR1,000 per Ltr
	Unit rate of the Custom Import Duty to be increased by 10% on importation of selected goods
	Custom duty applicable on imported fruit drinks (with effect from 01 June 2019)
	Rate of the Custom Import Duty on selected goods

5.2 CESS

New exemptions	Revisions
25 items in respect of food items, freezing equipment etc.	19 items in respect of house hold items, parts and accessories of motor vehicles etc.
Importation of Go-Kart and Go-Kart tyres	CESS on Beedi leaves to be increased up to LKR3,500 per Kg
Large scale project related items (investment above USD50Mn) during project construction period until commencement of commercial operations	

5.3 Ports and Airports Development Levy

New exemptions	Revisions
Lapidary sector (specified HS codes)	Tourism sector and local manufacturing industry (specified HS codes) reduced to 2.5%
Importation of Lucerne (alfalfa) meal and pellets	High tech machinery and equipment items (specified HS codes) reduced to 2.5%
Sale of pleasure or excursion vessels and yachts manufactured by any BOI company to another BOI company which charters such vessels and yachts for its business	
Large scale projects (investment above USD50Mn) during project construction period until commencement of commercial operations	

5.4 Excise duty

Item	Proposed rate
Arrack (other than special arrack)	LKR3,550 per Ltr
Country made foreign liquor	LKR3,550 per Ltr
Beer less than 5%	LKR2,700 per Ltr
Beer more than 5%	LKR2,700 per Ltr
Wine - local plant materials	LKR600 per Ltr
Wine - other	LKR2,700 per Ltr
Imported malt liquor (Beer)	LKR55 per bulk Ltr
Imported wine	LKR110 per bulk Ltr
Imported other liquor	LKR215 per bulk Ltr

5.5 Excise (Special Provisions) duty

Item	Proposed rate
Cigarettes	Increased by 12%
Sweetened beverages	40 cents per gram of sugar in excess of the exempt quantity
Palm oil fatty acids and tallow fatty acids	20%
Refrigerators	25%
Vehicles imported as Chassis fitted with engines	To be reduced
Hearses, hybrid and electric vans and single cabs	To be revised
Buddy Trucks with cargo carrying capacity less than 2,000 Kg	To be reduced
Passenger vehicles (Fuel, hybrid, electric, three wheelers & motor cycles	Revised

6. Amendments to the Finance Act

(Effective from 01 June 2019)

International Telecommunication Operators Levy to be removed

Removal of levies	Revisions
International Telecommunication Operators Levy	Maximum carbon tax payable on commercial vehicles will be capped
	Luxury tax on motor vehicles
	Embarkation Levy to be increased by USD10 to USD60 per passenger

7. Betting and Gaming Levy

(Effective date to be announced)

Rate to be increased to 15%

Revisions

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

Annual levy for carrying on the business of playing Rudjino to be revised to LKR1Mn

Annual levy for carrying on the business of gaming other than playing Rudjino to be revised to LKR400Mn

Casino entrance levy to be revised to USD50 per person

8. Miscellaneous

(Effective date to be announced)

Passport fee to be revised

- Special Commodity Levy to be adjusted on the import of palm oil in lieu of the NBT applicable on local value addition.
- The rates of fees and charges of government agencies, which have not been revised in last 03 years to be increased by 15%.
- Passport fee to be revised
- Fee for the reservation of a vehicle registration number in advance from the current registration number to be revised
- A lifetime personal vehicle registration numbers to be issued on a fee of LKR1Mn
- The negative list shall not apply and USD100Mn projects may import project related items or purchase locally at their discretion.

Chapter 1 – Income Taxation

1. Tax rates of Companies

The concessional tax rate of 14% will be applicable only on the income from an activity eligible for:

- Small and Medium Enterprises (SMEs)
- Predominantly (80% or more calculated based on gross income) conducting a business of
 - Exporting goods and services
 - Agriculture
 - Educational services
 - Provision of tourism and
 - Information technology services

The investment income will be taxed at 28%.

(Effective from the year of assessment commencing from 01 April 2019)

2. Withholding Tax (WHT)

2.1 Royalty payments made to resident individuals

14% of WHT will be applicable on amounts exceeding LKR50,000 per month subject to LKR500,000 for each year of assessment.

2.2 Rent payments made to resident individuals

10% of WHT will be applicable on amounts exceeding LKR50,000 per month subject to LKR500,000 for each year of assessment.

(Effective from the year of assessment commencing from 01 April 2019)

3. Tax exemptions

Following interest income will be exempt:

- up to LKR5,000 per month earned by children of less than 18 years of age in relation to any deposit account maintained in a financial institution.
- earned by any person on NRFC and RFC accounts for 5 years.

- earned by any non-resident person on any sovereign bond denominated in local or foreign currency.
- earned by any resident person on sovereign bonds denominated in foreign currency including Sri Lanka Development Bonds.
- paid to any person outside Sri Lanka on loans granted by such person to any person in Sri Lanka if such person is not a holding company or a subsidiary company in Sri Lanka.

(Effective from the year of assessment commencing from 01 April 2019)

4. Tax Incentives

4.1 Information Technology

A company is entitled to deduct additional 35% of the total salary cost of its employees (other than directors) when calculating the companies income from business which predominantly consists of providing information technology services and company withholds PAYE tax from such employees.

The requirement of minimum 50 employees will be removed.

4.2 Existing Business

Following enhanced capital allowances will be granted for three years, instead of regular depreciation for the new investment made by existing business for expense incurred up to USD3Mn in depreciate assets (other than intangible assets).

- 100% if such assets are used in any part of Sri Lanka other than Northern Province.
- 200% if such assets are used in the Northern Province.

4.3 Large scale projects

A person invests a total sum of USD100Mn or more in depreciable assets excluding intangible assets in a project approved by BOI shall be eligible for a deduction of 150% of such actual expenditure incurred in each of such years on such assets for a period of 10 years.

If such investment is over USD1Bn the period for deduction of unrelieved losses shall be 25 years and the rate of dividend tax paid to a non-resident shall be zero, during the period that such dividends are paid out of profit sheltered by enhanced capital allowances.

Further, during such period, expatriate employees shall be exempt from PAYE tax.
Where the investment is less than USD100Mn but more than USD50Mn additional deduction on depreciable assets would be 100%

(Effective from the year of assessment commencing from 01 April 2019)

Chapter 2 – Value Added Tax (VAT)

- The following change has been made in the piece based VAT rate applicable on domestic sale of certain garments by the export oriented BOI companies.

Description	Piece rate as per the VAT Act	Piece rate as per the budget proposal
The supply of panties, socks, briefs and boxer shorts	LKR75 for six pieces of any such item	LKR100 for six pieces of any such item
The supply of each garment other than panties, socks, briefs and boxer shorts	LKR75 per one piece of any such item	LKR100 per one piece of any such item

- Due to the absence of a clear definition for “locally produced rice products” and “pharmaceuticals machineries” in the VAT Act, the above terms will be redefined to have clarity and certainty for the purpose of the VAT Act.
- As per the Amendment Act No. 25 of 2018 with effect from 01 April 2019, VAT has been imposed on the supply of a condominium housing unit of a condominium project where the price of a unit is more than LKR15Mn. Now it has been proposed to effect such chargeability only where the deed of agreement, which relates to such supply is not executed prior to 01 April 2019.
- With a view to protect the revenue, provisions will be incorporated in the VAT Act for enabling the Minister to prescribe the basis for chargeability of VAT on certain goods.

Chapter 3 – Nation Building Tax (NBT)

1. Impositions

- Nation Building Tax will be introduced on manufacturers of Cigarettes effective from 01 June 2019.
- The current stamp duty applicable on foreign payments made using Electronic Fund Transfer Cards (both debit and credit cards) to purchase goods or services including offshore digital services would be replaced by NBT at the rate of 3.5% effective from 01 June 2019.

2. Exemptions

- The current exemption from NBT on the importation of rough unprocessed gem stones for re-export after cutting and polishing would be restricted to the lapidary service providers registered under the National Gem & Jewellery Authority.
- Sri Lanka Tourism Development Authority (SLTDA) registered tourist hotels would be exempt from NBT on foreign currency receipts.
- Main construction contractor for infrastructure projects would be exempt from NBT.
- The importation of Lucerne (alfalfa) meal and pellets would be exempt from NBT.
- There is a special incentive regime for large scale projects (please refer pages 33 and 34).

Chapter 4 – Economic Service Charge (ESC)

Revisions

- Definition of the term “distributor” in the ESC Act, No.13 of 2006 will be amended 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.
- ESC applicable for export sectors, which are subjected to Corporate Income Tax of 14%, will be reduced to 0.25% from 0.5%.
- Revision of ESC applicable on the importation of certain articles or goods are as follows:
 - 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.
 - 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.

Chapter 5 – Customs, Excise and Cess

1. Excise Duty under Excise Ordinance

- Excise duty on small trucks will be reduced.
- The Excise Duty on locally manufactured liquor, based on the alcohol volume will be revised as follows:

Type of Alcohol	Existing Duty	Proposed Duty
Special Arrack	LKR3,300 / Ltr	No Change
Other Arrack	LKR3,300 / Ltr	LKR3,550 / Ltr
Country made foreign liquor	LKR3,300 / Ltr	LKR3,550 / Ltr
Beer less than 5%	LKR2,400 / Ltr	LKR2,700 / Ltr
Beer more than 5%	LKR2,400 / Ltr	LKR2,700 / Ltr
Wine – Local plant materials	LKR100 / Bulk Ltr	LKR600 / Absolute Ltr
Wine – Other	LKR2,400 / Ltr	LKR2,700 / Ltr

(Effective from 06 March 2019)

- Accordingly, Excise Duty on hard liquor manufactured locally will increase by 8% and malt liquor manufactured locally will increase by 12%.
- Effective from 06 March 2019, revision of Excise Duty on liquor manufactured locally will be based on indexation where the minimum annual duty increase will be according to an index capturing annual inflation and GDP growth.
- The Excise Duty rate of imported liquor will be revised as follows

Type of Alcohol	Revised Duty (per bulk Ltr)
Malt Liquor (Beer)	LKR55
Wine	LKR110
Other liquor	LKR215

(Effective from 06 March 2019)

2. Excise (Special Provisions) Duty

- Cigarettes

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

Length of Cigarettes	Proposed Duty (Per 1000 Sticks)
60 – 67 mm	LKR19,500
67 – 72 mm	LKR23,000
72 – 84 mm	LKR37,580
>84 mm	LKR42,200

(Effective from 06 March 2019)

- This will result in an increase of LKR5 per stick on average.
- Excise Duty on cigarettes will now be based on indexation with a minimum annual duty increase capturing annual inflation and GDP growth to ensure revenue protection and control affordability.

- Sweetened Beverages

The exempt quantum of sugar contained in beverages will be revised as follows:

Type of Beverage	Quantum of Sugar
Carbonated Beverages	4 grams per 100 ml
Fruit based beverages	8 grams per 100 ml

(Effective from 06 March 2019)

- Duty rate will also be revised to 40 cents per gram of sugar in excess of the exempt quantity as given above.

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

Type	Proposed Duty
Palm oil fatty acids	20%
Tallow fatty acids	20%

(Effective from 06 March 2019)

- Excise Duty on refrigerators will be revised to 25%
- Motor Vehicle
 - Excise Duty on vehicles imported as Chassis fitted with engines will be reduced.
 - Excise Duty on hearses will be revised.
 - Excise Duty on hybrid and electric vans will be revised to reflect the energy efficiency benefits.
 - Excise Duty on the Single cabs will be revised.
 - Excise Duty on Buddy Trucks with cargo carrying capacity less than 2,000 kg will be reduced.
 - Excise Duty on passenger vehicles will be revised as follows;

(a) Fuel

Engine Capacity	Petrol Fuel (LKR per cm ³)	Diesel Fuel (LKR per cm ³)
$x \leq 1000\text{cm}^3$	2,000 or 1,650,000 Duty per Unit	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

(b) Hybrid

Engine Capacity	Petrol Fuel (LKR per cm ³)	Diesel Fuel (LKR per cm ³)
$x \leq 1000\text{cm}^3$	1,500,000 Duty per Unit	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

(c) Electric

Motor Power of the Engine	Less than one year	More than one year and less than three years
50kW < x ≤ 100kW	10,000	20,000

(d) Three Wheelers

Type	LKR (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	LKR per cm ³
x ≤ 50cm ³	575
50cm ³ < x ≤ 150cm ³	1,150
150cm ³ < x ≤ 200cm ³	1,150
200cm ³ < x ≤ 250cm ³	1,725
250cm ³ < x ≤ 350cm ³	1,725
350cm ³ < x ≤ 450cm ³	2,300
450cm ³ < x ≤ 500cm ³	2,300
500cm ³ < x ≤ 800cm ³	2,875
800cm ³ < x ≤ 1000cm ³	2,875
1000cm ³ < x	3,450

(Effective from 06 March 2019)

3. Cess

- As a measure to bring down cost of living and improve economic competitiveness, in the previous budget, it was proposed to phase out all para tariffs, starting with 1200 para tariffs that were removed in November 2017.
- This process will continue in 2019, where all HS Codes with an import cess will be subject to a phasing out. In order to allow more time for industry adjustment, it has been proposed that para tariff phase out takes place over a period of 5 years.
- Cess on 25 items classified under the following HS codes will be removed.

(Effective from 06 March 2019)

HS Hdg	HS Code	Description
04.08		Birds' eggs, not in shell, and egg yolks, fresh, dried, cooked by steaming or by boiling in water, moulded, frozen or otherwise preserved, whether or not containing added sugar or other sweetening matter.
		Egg yolks :
	0408.11.00	Dried
		Other :
	0408.91.00	Dried
08.02		Other nuts, fresh or dried, whether or not shelled or peeled.
		Hazelnuts or filberts :
	0802.21.10	Fresh
	0802.22.00	Shelled
		Walnuts :
	0802.31.10	Fresh
	0802.32.00	Shelled
		Chestnuts :
	0802.41.00	In shell
	0802.42.00	Shelled
		Pistachios :
	0802.51.00	In shell
	0802.52.00	Shelled
		Macadamia nuts:
	0802.62.00	Shelled
	0802.70.00	Kola nuts
	0802.90. 10	Fresh (not shelled or peeled)
	0802.90.90	Other
08.08		Apples, pears and quinces, fresh.
	0808.40.00	Quinces
08.10		Other fruit, fresh.
	0810.20.00	Raspberries, blackberries, mulberries and loganberries
	0810.30.00	Black, white or red currants and gooseberries
	0810.40.00	Cranberries, bilberries and other fruits of the genus Vaccinium
	0810.70.00	Persimmons

HS Hdg	HS Code	Description
08.12		Fruit and nuts, provisionally preserved (for example, by sulphur dioxide gas, in brine, in sulphur water or in other preservative solutions), but unsuitable in that state for immediate consumption.
	0812.10.00	Cherries
08.13		Fruit, dried, other than that of headings 08.01 to 08.06; mixtures of nuts or dried fruits of this Chapter.
	0813.10.00	Apricots
	0813.20.00	Prunes
	0813.30.00	Apples
84.18		Refrigerators, freezers and other refrigerating or freezing equipment, electric or other; heat pumps other than air conditioning machines of heading 84.15.
	8418.21.10	Used / reconditioned
	8418.21.90	other

- Cess on 19 items classified under the following HS codes will be adjusted.

(Effective from 06 March 2019)

HS Hdg	HS Code	Description
21.06		Food preparations not elsewhere specified or included.
		Preparations of a kind used as raw materials in food or beverage industry :
	2106.90.50	
22.02		Waters, including mineral waters and aerated waters, containing added sugar or other sweetening matter or flavoured, and other nonalcoholic beverages, not including fruit or vegetable juices of heading 20.09.
		Other:
	2202.99.91	Sugar contents of which is more than 6g per 100ml
	2202.99.99	Other
34.01		Soap; organic surface-active products and preparations for use as soap, in the form of bars, cakes, moulded pieces or shapes, whether or not containing soap; organic surface- active products and preparations for washing the skin, in the form of liquid or cream and put up for retail sale, whether or not containing soap; paper, wadding, felt and nonwovens, impregnated, coated or covered with soap or detergent.

HS Hdg	HS Code	Description
		Soap and organic surface-active products and preparations, in the form of bars, cakes, moulded pieces or shapes, and paper, wadding, felt and nonwovens, impregnated, coated or covered with soap or detergent :
	3401.11.20	
	3401.19.20	
39.20		Other plates, sheets, film, foil and strip, of plastics, non-cellular and not reinforced, laminated, supported or similarly combined with other materials (+).
		Of polymers of vinyl chloride :
	3920.51.91	Of which thickness not less than 100mm
	3920.51.99	Other
		Unprinted and un-laminated whether or not metallised :
	3920.63.11	Of bio- degradable and compostable plastic approved by the Central Environment Authority and the SLSI
	3920.63.99	Other
	3920.69.91	Of bio- degradable and compostable plastic approved by the Central Environment Authority and the SLSI
	3920.69.99	Other
39.24		Tableware, kitchenware, other household articles and hygienic or toilet articles, of plastics.
	3924.10.10	Of bio- degradable and compostable plastic approved by the Central Environment Authority and the SLSI
	3924.10.90	Of other plastic
40.11		New pneumatic tyres, of rubber (+).
	4011.10.90	
65.05		Hats and other headgear, knitted or crocheted, or made up from lace, felt or other textile fabric, in the piece (but not in strips), whether or not lined or trimmed; hair-nets of any material, whether or not lined or trimmed.
	6505.00.10	Hair- nets of any material, whether or not lined or trimmed
	6505.00.90	Other
72.17		Wire of iron or non-alloy steel.
	7217.90.10	
87.08		Parts and accessories of the motor vehicles of headings 87.01 to 87.05.
		Other parts and accessories :

HS Hdg	HS Code	Description
	8708.91.20	Parts
	8708.91.90	

- An accelerated Cess reduction programme has been proposed for intermediate goods that increases costs in sectors such as Construction, Tourism and Manufacturing. These items will have Cess phased out over a 3-year period.

(Effective from 06 March 2019)

- To support domestic industries, 10% of HS Codes, considered to be sensitive items will not be subject to a complete para – tariff phase out.
- Cess to be increased on importation of Tendu Leaves (Beedie Leaves) from LKR2,500 to LKR3,500 per Kg.
- To support the refurbishment of hotels, the applicable Cess rates will be reduced on selected items.

(Effective from 06 March 2019)

- Cess on imported constructed material will be reduced by 30%.

(Effective from 06 March 2019)

- CESS will be removed on importation of Go-Karts which is an off road sports vehicle and Go-Kart Tyres to facilitate promotion of international sport tourism.

(Effective from 06 March 2019)

- Refer pages 33 and 34 for Cess exemption provided as an incentive for specified large scale investments.

4. Ports and Airports Development Levy (PAL)

- With the view of promoting tourism sector and to reduce the upfront cost of local manufacturing industry, PAL on following items will be reduced to 2.5%.

HS Code	Description	New Rate
0712.20.00	Onions	2.5%
0712.90.10	Garlic	2.5%
7801.10.00	Refined lead	2.5%

(Effective from 06 March 2019)

- To encourage the lapidary sector PAL will be removed on the following items:

HS Code	Description
8464.10.00	Sawing machines
8464.20.00	Grinding or polishing machines
8464.90.00	Other

(Effective from 06 March 2019)

- The Gem and Jewellery Industry will be supported with the reduction of PAL on the importation of machinery used in lapidaries and the PAL on the un-cut gems from 7.5% to 2.5%.
- PAL on the high tech machinery and equipment items classified under HS Codes specified below will be reduced to 2.5% in order to reduce the upfront costs for business and investment:

Part I:

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	

(Effective from 01 June 2019)

Part II:

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

(Effective from 01 September 2019)

- 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 is engaged in chartering such vessels and yachts for its business, will be removed.

(Effective from 06 March 2019)

- With the view of promoting livestock industry, PAL will be removed on the importation of Lucerne (alfalfa) meal and pellets.

(Effective from 06 March 2019)

- Refer pages 33 and 34 for PAL exemption provided as an incentive for specified large scale investments.

5. Customs Import Duty

- New Exemption
 - Importation of Go-Kart which is an off road sports vehicle and Go-Kart Tyres to facilitate promotion of international sport tourism.

(Effective from 06 March 2019)

- Revision of Customs Import Duty
 - Unit rate based Custom Import Duty on selected goods including liquor and tobacco will be revised.
 - Rate of the Custom Import Duty revised on selected goods.
 - Unit rate of the Custom Import Duty will be increased by 10% on importation of selected goods.
 - Custom Duty on Undenatured Ethyl Alcohol will be increased by LKR200 to LKR1,000 per Ltr.

(Effective from 06 March 2019)

- Custom duty applicable on imported fruit drinks will be adjusted.

(Effective from 01 June 2019)

- Refer pages 33 and 34 for Custom Duty exemption provided as an incentive for specified large scale investments.

Other Provisions

- The Gem and Jewellery Industry will be supported with the Customs Duty on the importation of machinery used in lapidaries being revised.
- A new Customs Act will be introduced.
- A Revenue Intelligence Unit will be established at Ministry of Finance, to take steps to assist the main Revenue Collection Departments such as, Customs, Inland Revenue and Excise.

6. Special Commodity Levy (SCL)

SCL will be adjusted on the import of palm oil in lieu of the NBT applicable on local value addition.

(Effective from 06 March 2019)

Chapter 6 – Miscellaneous Taxes and Levies

1. Betting and Gaming Levy

- Revision of Annual Levy

Type of Business	Revision of Annual Levy
Business of gaming other than playing Rudjino	LKR400Mn
Business of playing Rudjino	LKR1Mn

(Effective from 1 April 2019)

- Casino Turnover Levy will be revised to 15%.

(Effective from 1 April 2019)

- Revision of Casino Entrance Levy will be revised to USD50 per person.

(Effective from 1 June 2019)

2. Carbon Tax

- Maximum carbon tax liability on commercial vehicles based on the age and fuel type of the vehicle is listed as follows;

Type of Vehicle	Less than 5 years	5 to 10 years	Over 10 years
Hybrid (Petrol/Diesel)	LKR0.25 per cm ³ or LKR 3,500 whichever is lower	LKR0.50 per cm ³ or LKR 5,500 whichever is lower	LKR1.00 per cm ³ or LKR 7,500 whichever is lower
Fuel (Petrol/Diesel)	LKR0.50 per cm ³ or LKR 3,500 whichever is lower	LKR1 per cm ³ or LKR 5,500 whichever is lower	LKR1.50 per cm ³ or LKR 7,500 whichever is lower

(Effective from 1 June 2019)

3. Luxury Tax on Motor Vehicles

- Luxury tax on motor vehicles will be imposed on the CIF value or the manufacturer's price. The tax free threshold and the applicable tax rates are as follows:

Type of Vehicle	Luxury Tax Free Threshold	Applicable rate on the amount exceeding the Luxury Tax Free Threshold
Diesel	LKR3.5Mn	120%
Petrol	LKR3.5Mn	100%
Hybrid Diesel	LKR4.0Mn	90%
Hybrid Petrol	LKR4.0Mn	80%
Electric	LKR6.0Mn	60%

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

(Effective from 1 June 2019)

4. International Telecommunication Operators Levy

- This levy will be removed with effective from 01 June 2019.

5. Embarkation Levy

- The above levy will be increased by USD10 to USD60 per passenger.

(Effective from 1 April 2019)

6. Other Fees and Charges

- The rates of fees and charges of government agencies, which have not been revised in the last 3 years (i.e. from 2016), will be increased by 15%.
- Increase of toll on expressways by LKR100 during peak hours.

(Effective from 1 April 2019)

- Revision of Fee on Passport Alterations and Issuance

Type of services	Existing Fee/Unit	Proposed Fee/Unit
Alteration of Passport	LKR500 per passport	LKR1,000 per passport
Issuance - One Day Service	LKR10,000 per passport	LKR15,000 per passport
Issuance - Normal Service	LKR3,000 per passport	LKR3,500 per passport

(Effective from 1 April 2019)

- Revision of the price of special number plates for motor vehicles.
 - Price of special number plates for motor vehicles issued by the Department of Motor Traffic are revised as follows:

Types of Number Plates	Available Number Limit	Existing Fee/Unit	Proposed Fee/Unit
Special Number Plate;			
Category 1	10,000	LKR50,000	LKR70,000
Category 2	20,000	LKR60,000	LKR90,000
Category 3	30,000	LKR70,000	LKR100,000
Lifetime personal Vehicle Registration Plate Number with Name		N/A	LKR1,000,000

(Effective from 1 June 2019)

Chapter 7 – Tax Administration

Revenue Intelligent Unit will be established at the Ministry of Finance to assist main Revenue Collection Departments.

Customs Department will launch the Authorized Economic Operators (AEO) programme in order to provide speedy clearance to low risk traders and clearing agents.

Chapter 8 – High Value Investment Incentives

Proposed Incentives to Accelerate High Value Domestic and Foreign Direct Investments.

Large Scale Projects (Investment above USD100Mn)

Large scale projects will be incentivised as follows:

A) Income tax computation for Investments over USD100Mn:

A person that invests a total sum of USD100Mn or more in depreciable assets, excluding intangible assets, in a BOI approved project will be eligible for a deduction of 150% of such actual expenditure for a period of 10 years from commercial operations.

B) Concessions on up-front taxes:

Only during project implementation or construction period until commencement of commercial operations, the following exemptions will apply for investment projects above USD100Mn:

- NBT and PAL will be exempted
- Cess will be exempt on all project related items.
- The negative list will not apply for USD100Mn projects and therefore, such project may import project related items or purchase locally at their discretion.

The necessary guidelines for claiming exemptions will be published.

Mixed development projects: Since it is difficult to separate project related items that are intended for use in residential components, upfront tax exemptions referred to above will be applicable for residential components as well provided the investment (depreciable assets excluding intangible assets, land, and residential units for sale) criteria is met.

C) Investments over USD1Bn:

For investments over USD1Bn, in addition to the benefits stated above the following will apply:

- The unrelieved losses can be carried forward for 25 years.
- Dividend WHT is not applicable, if it is paid to a non-resident, during the period that such dividends are paid out of profits sheltered by enhanced capital allowances.

- Expatriate employees in a company investing more than USD1Bn must be exempt from withholding tax on employment income during the period that profits are sheltered by enhanced capital allowances.

Note: This provision is already stated in the second schedule of the current Inland Revenue Act (IRA).

D) Mid-size Investments over USD50Mn:

For investments over USD50Mn but less than USD100Mn, the additional deduction would be 100% on actual expenditure as per section A for a period of 10 years from commercial operations and the exemptions stated in section B will be applied for such investments during the period of construction, prior to commencement of commercial operations.

E) Enshrining the Incentives

It is proposed to Amend the BOI Law (and any other legislation as may be necessary) to permit the investors who sign an agreement under the BOI law to enjoy the above concessions under the current IRA and other statutes, prevailing at the time of signing the agreement.

Therefore, at the time of signing of the BOI Agreement, it will mirror the relevant provision in the IRA and other statutes.

BOI is not conferred with the right to waive, modify or exempt the application of the IRA as permissible under Schedule B to BOI Law.

Sri Lanka Economy at a Glance

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Budget deficit (% of GDP)	(5.5)	(5.4)	(7.6)	(5.7)	(5.4)	(5.6)	(6.2)	(7.0)	(9.9)	(7.0)	(6.9)	(7.0)	(7.0)	(7.5)	(7.3)	(8.5)
Current account (deficit) (USD Mn)	(2,309)	(1,742)	(1,883)	(1,988)	(2,541)	(3,982)	(4,615)	(1,075)	(214)	(3,885)	(1,401)	(1,498)	(650)	(648)	(71)	(236)
Balance of payments (deficit)/surplus (USD Mn)	2,068	(500)	(1,489)	1,369	985	151	(1,059)	921	2,725	(1,384)	530	203	501	(205)	502	338
Total international reserves (USD Mn)	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	3,439	3,218	2,495
Total Foreign Assets (USD Mn) (Month of same year imports)	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	5.2	5.8	4.9
Unemployment %	4.2	4.4	4.7	4.3	4.4	4.0	4.2	4.9	5.8	5.4	6.0	6.5	7.7	8.3	8.4	8.8
GDP at market prices (LKR Bn)	13,289	11,907	10,951	10,361	9,592	8,732	7,219	6,414	4,835	4,410	3,578	2,938	2,452	2,090	1,822	1,581
GDP at market prices (USD Bn)	87.2	81.8	80.6	79.4	74.3	68.4	65.3	56.7	42.0	40.7	32.4	28.3	24.4	20.7	18.9	16.5
Mid-year population (Mn persons)	21.4	21.2	21.0	20.7	20.5	20.4	20.8	20.6	20.5	20.2	20.0	19.9	19.6	19.4	19.1	19.0
Per capita GDP at market price (LKR)	619,729	561,560	522,304	498,828	465,976	427,538	345,544	310,214	236,144	217,855	178,586	147,985	124,862	107,581	95,054	83,605
Per capita GDP at market price (USD)	4,065	3,857	3,842	3,821	3,609	3,351	3,125	2,744	2,054	2,011	1,614	1,423	1,242	1,063	985	874
Real GDP growth rate	3.1	4.5	5.0	5.0	3.4	9.1	8.4	8.0	3.5	6.0	6.8	7.7	6.2	5.4	5.9	4.0
- (Colombo Consumer Price Index 2006/07 = 100)	-	3.7	0.9	3.3	6.9	7.6	6.7	6.2	3.5	-	-	-	-	-	-	-
- (Colombo Consumer Price Index 2002 = 100)	-	-	-	-	-	-	6.9	5.9	3.4	22.6	15.8	10.0	11.0	9.0	-	-
Interest rate:																
- AWDR(Average Weighted Deposit Rate) - Monthly	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	5.30	5.30	7.50
- AWPR (Average Weighted Prime Lending Rate) - Monthly	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	10.20	8.95	12.20
Exchange rate LKR/ USD (Annual Average)	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	101.19	96.52	95.66
Capital Market Index:																
- All Share Price Index	6,369	6,228	6,895	7,299	5,913	5,643	6,074	6,635	3,385	1,503	2,541	2,722	1,922	1,506	1,062	815
- Milanka Price Index	-	-	-	-	-	5,119	5,229	7,061	3,849	1,631	3,291	3,711	2,451	2,073	1,897	1,374
- S&P Index	3,672	3,496	3,626	4,089	3,264	3,085	-	-	-	-	-	-	-	-	-	-

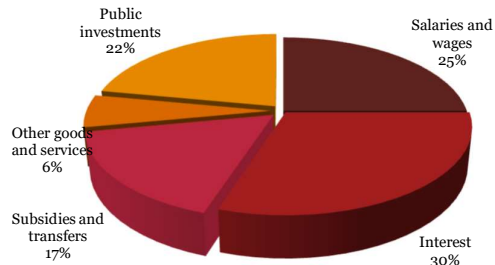
Budget Estimates

The budget 2019 estimates total revenue and grants of LKR2,464Bn (2018- LKR2,025Bn) consisting of tax revenue from income tax LKR385Bn (2018- LKR310Bn), taxes on goods and services LKR1,293Bn (2018 – LKR1062Bn), taxes on external trade LKR399Bn (2018 – LKR340Bn) non-tax revenue LKR267Bn (2018 – LKR208Bn), provincial councils tax sharing and devolved revenue LKR107Bn (2018 – LKR93Bn) and grants of LKR13Bn (2018 – LKR12Bn) against a total estimated expenditure of LKR3,149Bn (2018 – LKR2,786Bn). The estimated expenditure consists of recurring expenditure LKR2415Bn (2018- LKR2182Bn) and public investment of LKR756Bn (2018 – LKR625Bn).

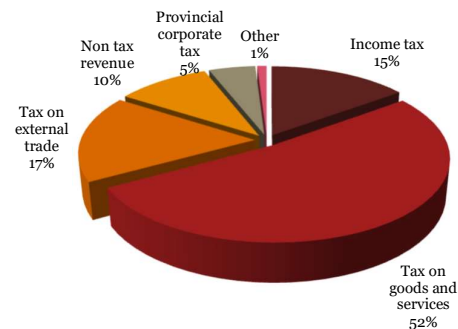
The resulting budget deficit of LKR685Bn (2018 – LKR761Bn) is expected to be financed by foreign financing of LKR55Bn (2018 – LKR465Bn) and domestic financing of LKR630Bn (2018 – LKR296Bn).

The pie charts below depict the revenue and expenditure estimates of 2018 and 2019 respectively

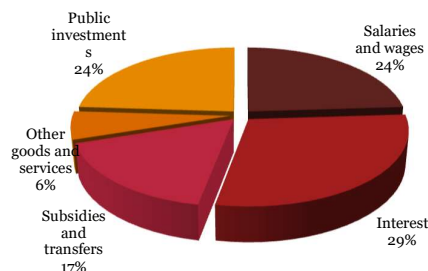
Total Expenditure 2018



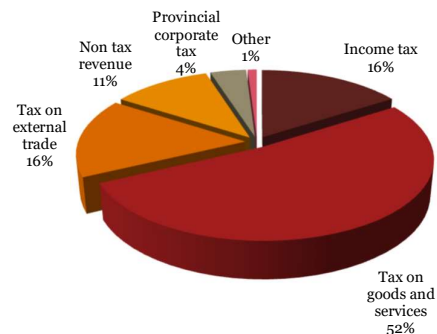
Total Revenue 2018



Total Expenditure 2019



Total Revenue 2019



Let's Talk

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