Budget Proposal – 2017

10 November 2016

To Clients of PricewaterhouseCoopers

Dear Client

We are pleased to forward you a summary and Analysis of the budget proposal for 2017, presented in the Parliament on 10th November 2016, by Hon Ravi Karunanayake, Minister of Finance.

We are also forwarding -

- “Tax calender” & “Tax facts at a glance”
- 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,

Hiranthi Ratnayake
Director- Tax Services
For and on behalf of PricewaterhouseCoopers (Private) Ltd
Who we are
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Channa Manoharan  Advisory Leader
Yudhistiran Kanagasinghe  Partner - Assurance
Lasanga Abeyasurya  Partner - Assurance
Nishan Ravidu Gunasekera  Partner - Assurance
Shanmuganathan Gajendran  Partner - Assurance
Shamara Hadjie  Partner - Assurance
Nishan Mendis  Partner - Assurance
Hiranthi C Ratnayake  Partner - Assurance
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Tharanga Amarasena  Associate Director - Tax Services
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Nishan Mendis  Senior Manager - Assurance
Hiranthi C Ratnayake  Senior Manager - Assurance
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Yazir Ziyyard  Senior Manager - Internal Audit Services
Kavinda Weerakoon  Senior Manager - Mergers & Acquisition
Ashini Perera  Senior Manager - Software Development
Maheshi Gamage  Senior Manager - Human Capital
Lalith Peiris  Senior Manager - Finance
Thivinka Jayasinghe  Senior Manager - Mergers & Acquisition
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Nishan Mendis  Manager - Mergers & Acquisition
Shanmuganathan Gajendran  Manager - Mergers & Acquisition
Sujeewa Mudalige  Manager - Mergers & Acquisition

Audit and Assurance

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Financial Accounting
Non-Financial Performance and Reporting
Regulatory Compliance
Risk Assurance
Internal Audit
IFRS Readiness and Conversions
Controls Assurance
Assurance on Capital Market Transactions
Finance and Accounting Outsourcing Services

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Deals

Mergers & Acquisitions
Lead Advisory for Acquisitions, Mergers and Joint Ventures
Buy-side Due Diligence
Sell-side (vendor) Due Diligence
Vendor Assistance/ Divestment Support
Advice on Fundraising
Bid Support Services
Investment Structuring Services
Sale and Purchase Agreement (SPA) Services
Commercial and Market Due Diligence
IPO Readiness Assessments
Post Deal Integrations Services/ Delivering Deal Value

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Corporate Finance & Strategy Consulting

Business and Intangible Asset (brands, agreements etc) Value Assessment
Financial Feasibility Assessment
Business Plan Development and Review
Financial Modeling and Decision Support Services Including Option Evaluation
Strategy Formulation and Review
Corporate Operational and Financial Performance Reviews
Corporate Restructuring
Capital Raising
Capital Projects & Infrastructure Advisory
Market and Economic Studies

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Workforce Planning
HR Effectiveness
Performance and Development
Remuneration and Reward Consulting
Executive Recruitment and Background Verification

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Consulting

Finance

Finance Strategy and Planning
Post-Merger Financial Integration
Budgetting and Forecasting
Enterprise Performance Optimization
Robotic Process Automation
Data Analytics
Finance Process Improvements
Treasury Optimization
Cost Reduction Strategies
Shared Services and Outsourcing Advisory
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Finance Policy and Procedure Manuals
Standard Operating Procedures

Governance Risk and Compliance

Building a Risk-Aware Strategy
Creating Agile Decision Making from Strategy Through Execution
Build Performance and Earning Predictability by Managing Risk
Increase Enterprise Resilience
Manage Financial Risk
Optimize Governance, Risk and Compliance
Deliver Business Insight

Governance and Public Sector

Government Process Re-Engineering
Change Management
Capability Building
Public Enterprise Reform
Public Finance Management
Project Management
Sustainability and Climate Change
Regulatory Advisory
SME Advisory
Monitoring and Evaluation
Fiduciary Assessments

Operations

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Enterprise-Wide Operations Excellence
Lean/Process Improvement

Tax

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International Tax Structuring
Mergers and Acquisitions
Transfer Pricing
Compliance Services
Indirect Tax
Employment Taxes
International Assignment Solutions

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- Application Controls / Functionality Reviews
- Post Implementation Reviews
- IT Security Audits and Assessments
- Vulnerability Assessment and Penetration Testing
- Network Architecture Reviews
- Information Security Diagnostic Reviews
- IT Incident Investigation Reviews
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- Information Security Policies & Procedures
- ISO 27001 implementations / Readiness reviews
- Information Security Risk Management
- IT Governance and Strategy
- Privacy and Data Protection
- HIPAA Attestation
- CMMi and ITIL Consultation
- PCI-DSS Compliance Review
- Forensic Review
- Disaster Recovery Review
- Mobile and Web Applications Review
- Managed Services

Enterprise Consultancy

△ Systems
- Post Implementation Review (PIR)
- ERP Implementation
- ERP Maintenance

△ Business
- Cost Optimisation with ERP and Processes
- Business Integration with ERP
- IT strategy
- Business Cases for Change

△ Process
- Process Re-engineering
- Standard Operating Procedure
- Business Cases for Automation

△ People
- People Integration with ERP
- Re-structure and Re-organisation
- Recruiting, Re-skilling, Re-training and Re-structure (4Rs)

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Actuarial services

- Appointed Actuary Certification for Solvency
- Support for Actuarial valuation Other Than Appointed Actuary Certification
- Liability Adequacy Test
- Product Development
- Gratuity Valuation, Pension Plan Valuation and Plan Design
- Asset Liability Management
- Earnings at Risk, Capital at Risk
- Development of ERM Framework
- Validation of Liability Provision and Regulatory Compliance
- Model Validation
- Due Diligence on Life and General Insurance Operations and Existing Blocks of Business
- Review Current Pricing and Evaluate Expected Profitability
- Risk Analysis on Existing Products, Portfolio and Contract with External Parties (e.g., Reinsurance)
- Embedded Value (Traditional and Market Consistent) Calculations
- Actuarial Input for Business Projections
- IFRS 4 Phase II
- Strategic Reinsurance
- Product Portfolio Management

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△ Software Services
- Bespoke Software Design, Development and Implementation
- Apps and Website Design, Development and Implementation
- eServices Development

△ Software Products
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- HC Gateway - Human Resource Information Solution to Transform the HR Organization

△ Digital Strategy
- IT Project Management
- Business Process Re-engineering
- Organisational Change Management
- IT Procurement Process Management

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Budget Proposals 2017

Sri Lanka Budget Focus – 2017 ........................................................................................................ 3
Overview of Key Taxation Proposals ............................................................................................ 5
Chapter 1 – Income Taxation ........................................................................................................ 15
Chapter 2 – Value Added Tax (VAT) ............................................................................................ 21
Chapter 3 – Nations Building Tax (NBT) ...................................................................................... 29
Chapter 4 – Economic Service Charge (ESC) ............................................................................. 33
Chapter 5 – Customs Excise and Cess .......................................................................................... 35
Chapter 6 – Miscellaneous Taxes and Levies .............................................................................. 39
Chapter 7 – Tax Administration .................................................................................................... 45
Chapter 8 – Economic Overview .................................................................................................. 47
Sri Lanka Economy at a Glance ..................................................................................................... 57
Budget Estimates .......................................................................................................................... 59
Sri Lanka Budget Focus – 2017

The Minister of Finance stated that the broader theme of the Budget 2017 is “accelerating growth with social inclusion”. A key focus is, therefore, equitable and inclusive level of social development in Sri Lanka. In order to achieve this goal, emphasis will be placed on eradication of the remaining poverty clusters in the country, which necessarily require that an appreciable level of economic growth be aimed at. Therefore, every endeavour will be made to establish a strong economic foundation in the country.

Investment incentives by way of enhanced capital allowances, conditional on increased employment as well as tax credits and rebates are, accordingly, offered. Special concessions are also to be announced for high level investments, with minimum employment criteria. These incentives, credit and concessions are aimed at facilitating sustainable economic growth.

Measures to simplify the tax system will be also undertaken. The multiplicity of rates that applied to corporate income tax will reduced to a three tier rate schedule. The tax base will be broadened by the removal of a number of tax exemptions and reliefs. It is noteworthy that so-called “Simplified Value Added Tax” (SVAT) scheme will be removed, as part of the tax simplification process.
Overview of Key Taxation Proposals

1. **Corporate Income Tax**
   (Effective from April 1, 2017)

   ![3 tier rate structure - 14%, 28% & 40%]

1.1 **New Concessions/Exemptions**

**Income tax concessions**

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Proposed for 2017</th>
</tr>
</thead>
</table>
| • Any trade or business;  
  • investment > USD100Mn; and  
  • employment > 500 | To be announced |
| • Any trade or business;  
  • investment > USD500Mn | To be announced |
| Profit from exports in foreign currency increased 15% or more compared to 2015/16. | Rebate of 75% of the income tax on the profit of 2016/17 attributable to the 15% increase in profit from export |
| Relocation of headquarters of international organizations and businesses | Exempt |

- Tax free threshold on employment will be increased from LKR750,000 to LKR1.2Mn per annum. The deduction for qualifying payments will be adjusted accordingly.

- If an investment not less than USD5Mn with minimum 300 employees is made, 5% of the investment will be granted as a tax credit, up to a maximum of tax payable for the second year of commercial operation.

1.2 **Removal/revision of existing exemptions**

- Certain dividends and interest or profits from investment on listed securities (corporate debt securities etc.) and other instruments
• Dividends received by Corporate Unit Holders of Unit Trusts and Mutual Funds

• Interest up to LKR5,000 per month on savings accounts

• Present exemption on interest on deposits applicable to senior citizens will be restricted to LKR1.5Mn per annum.

• Profits and income from employment
  – providing transport
  – certain special allowances provided for special categories of public services

### 1.3 Revision to rate structure

#### Corporates

<table>
<thead>
<tr>
<th>Industry</th>
<th>Proposed for 2017</th>
<th>Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>• SMEs</td>
<td>14%</td>
<td>12%</td>
</tr>
<tr>
<td>• Export of goods or services</td>
<td>14%</td>
<td>12%</td>
</tr>
<tr>
<td>• Agriculture</td>
<td>14%</td>
<td>10%</td>
</tr>
<tr>
<td>• Education</td>
<td>14%</td>
<td>10%</td>
</tr>
<tr>
<td>• Betting &amp; Gaming</td>
<td>40%</td>
<td>28%</td>
</tr>
<tr>
<td>• Liquor</td>
<td>40%</td>
<td>40%</td>
</tr>
<tr>
<td>• Tobacco</td>
<td>40%</td>
<td>40%</td>
</tr>
<tr>
<td>Others</td>
<td>28%</td>
<td>28%</td>
</tr>
</tbody>
</table>

#### Other

<table>
<thead>
<tr>
<th>Person/Source</th>
<th>Proposed for 2017</th>
<th>Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Funds</td>
<td>14%</td>
<td>10%</td>
</tr>
<tr>
<td>• Charitable institutions</td>
<td>14%</td>
<td>10%</td>
</tr>
<tr>
<td>• Any other sector which is currently liable at 10%</td>
<td>14%</td>
<td>10%</td>
</tr>
<tr>
<td>Income from second employment &lt; LKR50,000</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Income from second employment &gt; LKR50,000</td>
<td>20%</td>
<td>16%</td>
</tr>
<tr>
<td>Profits from employment</td>
<td>4% - 24% having equal tax slabs of LKR600,000</td>
<td>4% - 16% having equal tax slabs of LKR500,000</td>
</tr>
</tbody>
</table>
1.4 Capital allowance

Rate revisions

<table>
<thead>
<tr>
<th>Criteria/Asset category</th>
<th>Proposed for 2017</th>
<th>Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Any trade or business;</td>
<td>100%</td>
<td>Standard rate based on the asset category</td>
</tr>
<tr>
<td>- Investment in fixed assets &gt; USD3Mn; and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Employees &gt; 250</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Any trade or business;</td>
<td>200%</td>
<td>Standard rate based on the asset category</td>
</tr>
<tr>
<td>- Investment in fixed assets &gt; USD3Mn; and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Employees &gt; 250</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Investment in Northern Province</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Any trade or business;</td>
<td>100%</td>
<td>Standard rate based on the asset category</td>
</tr>
<tr>
<td>- Investment &gt; USD5Mn; and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Employees &gt; 300</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plant, machinery or equipment</td>
<td>20%</td>
<td>33 1/3%/50%/100%</td>
</tr>
<tr>
<td>Building</td>
<td>5%</td>
<td>10%</td>
</tr>
</tbody>
</table>

1.5 Withholding tax and Notional tax credit

Rate revisions

<table>
<thead>
<tr>
<th>Source</th>
<th>Proposed for 2017</th>
<th>Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income – Individuals</td>
<td>5%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Specified fees &gt; LKR50,000 per month</td>
<td>5%</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Dividends, Treasury Bonds and Treasury Bills</td>
<td>14%</td>
<td>10%</td>
</tr>
<tr>
<td>Notional tax credit on Treasury Bills, Bonds or Corporate Debt Securities</td>
<td>Abolished, net interest will be taxed</td>
<td>10%</td>
</tr>
</tbody>
</table>
1.6 Revision to time bar

Time bar provisions

<table>
<thead>
<tr>
<th>Type</th>
<th>Proposed for 2017</th>
<th>Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assessments</td>
<td>9 months</td>
<td>18 months</td>
</tr>
<tr>
<td>Hearing of Appeals - CGIR</td>
<td>6 months</td>
<td>24 months</td>
</tr>
<tr>
<td>Hearing of Appeals - TAC</td>
<td>6 months</td>
<td>24 months</td>
</tr>
</tbody>
</table>

1.7 2016 budget proposals

The proposed changes in Budget 2016 (subject to subsequent modifications with relevant dates) will be implemented together with the proposals listed above (other than the rate revisions referred to above).

2. Value Added Tax

(Effective from January 1, 2017)

SVAT scheme to be abolished

2.1 Exemptions

Revisions to exemptions

<table>
<thead>
<tr>
<th>New exemptions</th>
<th>Removal of existing exemptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plant, machinery and accessories for renewable energy generation identified under the specific H.S Codes</td>
<td>Gold coins, precious metals and precious stones identified under specific HS Codes</td>
</tr>
<tr>
<td>International telecommunication services provided to local operators by External Gateway Operators</td>
<td>Import or supply of jewellery</td>
</tr>
<tr>
<td>Supply of geriatric care services and child care services</td>
<td>Locally manufactured milk powder</td>
</tr>
<tr>
<td>Electrical goods identified under specific HS Codes</td>
<td>-</td>
</tr>
</tbody>
</table>
### New exemptions

<table>
<thead>
<tr>
<th>New exemptions</th>
<th>Removal of existing exemptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Magazines, journals or periodicals other than newspapers, identified under specific HS Codes</td>
<td>-</td>
</tr>
<tr>
<td>Medical Machinery and medical equipment identified under specific HS Codes</td>
<td>-</td>
</tr>
</tbody>
</table>

### 2.2 Other

- SVAT scheme will be abolished
- VAT refund mechanism will be introduced at the point of departure of foreigners who stay not more than 30 days in Sri Lanka on goods purchased by such foreigners

### 3. Nation Building Tax

(Effective from January 1, 2017)

**Exemption on sale of residential apartments removed**

### 3.1 Exemptions

#### Revisions to exemptions

<table>
<thead>
<tr>
<th>New exemptions</th>
<th>Removal of existing exemptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>International telecommunication services provided to local operators by External Gateway Operators</td>
<td>Goods consigned to Sri Lankan Air Lines Ltd, Mihin Lanka (Pvt) Ltd or Air Lanka Catering Services Ltd for the purpose of providing services of international transportation</td>
</tr>
<tr>
<td>Printed books, magazines, journals or periodicals other than newspapers, identified under specific HS Codes</td>
<td>Article imported/sold or services provided by;</td>
</tr>
<tr>
<td></td>
<td>- society registered under Co-operative Societies Act or Provincial Council Statutes</td>
</tr>
<tr>
<td></td>
<td>- Lak Sathosa Limited</td>
</tr>
<tr>
<td>Solar panel modules and accessories under specific HS Codes</td>
<td>Inbound tour services provided by a travel agent registered with the Ceylon Tourist Board</td>
</tr>
</tbody>
</table>
4. Duties and Fiscal levies on imports  
(with immediate effect)

4.1 Customs Duty

Revisions to duty

<table>
<thead>
<tr>
<th>Reductions</th>
<th>Increases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Milk powder by LKR35 per kg</td>
<td>Potable ethanol increased to LKR800 per litre</td>
</tr>
<tr>
<td>Duty on industrial raw materials</td>
<td>–</td>
</tr>
</tbody>
</table>

Duty rates of 96 tariff lines have been adjusted according to the Sri Lanka’s bound rate commitments to the World Trade Organization.

4.2 Special Commodity Levy

Revisions to duties

<table>
<thead>
<tr>
<th>Reductions</th>
<th>Increases</th>
</tr>
</thead>
<tbody>
<tr>
<td>–</td>
<td>White sugar increased to LKR7 per kg</td>
</tr>
</tbody>
</table>

4.3 Ports and Airport Development Levy

Revisions to duty

<table>
<thead>
<tr>
<th>Reductions</th>
<th>Removals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pharmaceutical items under specific HS Codes</td>
<td>Books, magazines, journals and periodicals</td>
</tr>
</tbody>
</table>
4.4  Excise Duty under Excise Ordinance

Revisions to duty

<table>
<thead>
<tr>
<th>New fee/duty</th>
<th>Reductions/Revisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>An annual License Fee on importers of Beedi leaves at LKR5Mn</td>
<td></td>
</tr>
<tr>
<td>Excise Duty on imported non-potable alcohol at LKR25 per litre</td>
<td></td>
</tr>
<tr>
<td>Excise Duty on raw materials used for manufacture of ethanol</td>
<td></td>
</tr>
</tbody>
</table>

4.5  Excise (Special Provisions) Duty

Revisions to duty

<table>
<thead>
<tr>
<th>New fee/duty</th>
<th>Reductions/Revisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>On beer cans</td>
<td>50% on import of motor car with CIF value not exceeding USD50,000 to a person who exports minimum of 20 vehicles with a total value not less than USD200,000</td>
</tr>
<tr>
<td>On lottery ticket</td>
<td>Revision to duty on motor vehicles</td>
</tr>
<tr>
<td>Excise Duty on raw materials used for manufacture of ethanol</td>
<td>-</td>
</tr>
</tbody>
</table>

4.6  Cess

Revisions to duty

<table>
<thead>
<tr>
<th>Increases</th>
<th>Removals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rubber to LKR15 per kg</td>
<td>Cess on 100 items to be removed</td>
</tr>
<tr>
<td>Printing ink identified under H.S. Code LKR30 per kg</td>
<td>-</td>
</tr>
</tbody>
</table>

5.  Revisions to Finance Act

Revisions

<table>
<thead>
<tr>
<th>New levy</th>
<th>Revisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Financial Transaction Levy at 0.05% on the basis of the total transaction value by banks or financial institutions</td>
<td>Luxury &amp; Semi- Luxury Motor Vehicle Tax</td>
</tr>
<tr>
<td>Annual License fee and fee on voluntary liquidation on companies</td>
<td>Tele Drama Levy applicable on the foreign tele dramas to be increased</td>
</tr>
</tbody>
</table>
### New levy | Revisions
---|---
Vehicle Entitlement Levy | Embarkation Levy to be increased to USD 50
Court Case filing fee | –
License fee on import of lubricants, bitumen or gold | –
Annual License Fee of LKR20,000 on firearms | –

### 6. Miscellaneous Taxes and Levies

**Capital Gain Tax to be imposed at the rate of 10%**

### 6.1 Economic Service Charge

- Liable threshold to be reduced from LKR50Mn per quarter to LKR12.5Mn per quarter
- Advance WHT of ESC will be introduced on import of vehicles
- The proposed changes in Budget 2016 (subject to subsequent modifications) will be implemented together with the proposals listed above

### 6.2 Betting and Gaming Levy

#### Revisions to levy

<table>
<thead>
<tr>
<th>Increases</th>
<th>Removals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Gaming Levy to be increased to LKR250Mn per year</td>
<td>-</td>
</tr>
<tr>
<td>The proposed changes in Budget 2016 will be implemented with the revision of the annual levy referred to above</td>
<td></td>
</tr>
</tbody>
</table>
6.3 Telecommunication Levy

Revisions to levy

<table>
<thead>
<tr>
<th>Increases</th>
<th>New levy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Levy on Internet services to be increased to 25%</td>
<td>SIM Activation Levy of LKR200 per SIM</td>
</tr>
<tr>
<td>Annual Spectrum Charge to be increased by 25%</td>
<td>Surcharge on mobile operator at LKR100Mn per district for failure to provide 3G facilities within a stipulated time</td>
</tr>
</tbody>
</table>

6.4 Capital Gains Tax

New tax

<table>
<thead>
<tr>
<th>Source</th>
<th>Proposed tax rate for 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gain realized from disposal of immovable properties</td>
<td>10%</td>
</tr>
</tbody>
</table>

6.5 Carbon Tax

- Carbon Tax, including existing emission test fee to be imposed on vehicles other than electric cars and tractors

6.6 Transfer of Land and Land Lease Tax

- Public Limited Companies to be entitled to freehold right of land

- Private companies with majority foreign holdings would be, allowed to lease land on long term basis, if such companies;
  - invest at least LKR250Mn (excluding the value of land);
  - providing employment to at least 150 people; and
  - maintain the above status quo for at least 3 years

If the aforesaid conditions are not fulfilled, a tax equal to 100% of the lease value will be payable up front based on the market value of the land as determined by the government valuer.
Chapter 1 – Income Taxation

1. Tax Rates

1.1 Companies

There will be a 3 tax rate structure.

1.1.1 Higher rate – 40%

The rate of 40% will be applicable on the profits and income of:

Year of assessment 2016/2017

- Liquor;
- Tobacco.

1.1.2 Lower rate

Year of assessment 2016/2017

Lower rates:

10% and 12% on specified business

- Betting and gaming;
- Liquor;
- Tobacco.

Year of assessment 2017/2018 – 14%

Rate of 14% applicable on profits and income of

- small and medium enterprises (SMEs) having a turnover up to LKR50Mn per annum.
- export of goods or services.
- agriculture.
- education.
1.1.3 Standard rate – 28%

Year of assessment - 2016/2017
Applicable on profits and income of trade and business other than mentioned under higher rate and lower rate.

1.2 Employees’ Provident Fund (EPF), Employees’ Trust Fund (ETF), Pension Fund and Charitable Institution

Year of assessment 2016/2017
Applicable rate 10%

1.3 Individuals

1.3.1 Employment income

Year of assessment 2016/2017
Tax free threshold - LKR500,000
Qualifying payment allowance - LKR250,000
Progressive rate structure
First LKR500,000 - 4%
Next LKR500,000 - 8%
Next LKR500,000 - 12%
Balance - 16%
**Example:**

On employment income

**Year of assessment 2016/2017**

(i) LKR100,000 per month

PAYE tax

\[ \text{LKR}(100,000 \times 12 - 750,000) \times 4\% = \text{KR}18,000 \]

(ii) LKR200,000 per month

PAYE tax

\[ = \text{LKR}144,000 \]

(iii) LKR500,000 per month

PAYE tax LKR720,000

---

### 1.3.2 Removal of exemption on employment income

Following employment benefits will be taxed

- providing a transport facility i.e. providing a vehicle or on lieu of such vehicle, payment of LKR50,000 for a calendar month.
- Any special payment made to special categories of public services.

*Effective from 1 April 2017*

Currently, above benefits are not taxable as employment benefits.

**Rate applicable on the second employment**

**Year of assessment 2016/2017**

Payment or benefit -

<table>
<thead>
<tr>
<th>2017/2018</th>
<th>Tax Saving</th>
</tr>
</thead>
<tbody>
<tr>
<td>LKR1 - LKR25,000, other than public sector</td>
<td>10%</td>
</tr>
<tr>
<td>LKR1 - LKR50,000 - public sector</td>
<td>10%</td>
</tr>
<tr>
<td>Exceeds LKR25,000, other than public sector</td>
<td>16%</td>
</tr>
<tr>
<td>Exceeds LKR50,000 - public sector</td>
<td>20%</td>
</tr>
</tbody>
</table>
1.3.3 Other than Employment income

Year of assessment 2016/2017

Progressive rate structure -

Taxable income

| First LKR500,000 | 4% |
| Next LKR500,000 | 8% |
| Next LKR500,000 | 12% |
| Next LKR500,000 | 16% |
| Next LKR1,000,000 | 20% |
| Balance | 24% |

1.4 Withholding Tax

1.4.1 On interest

(i) Individuals and Charitable Institutions on deposits made

Year of assessment 2016/2017

Withholding tax rate 2.5%

(ii) Companies 10%

(iii) Bodies of persons 8%

1.4.2 On specified fees

WHT of 5% will be reintroduced for specified fees exceeding LKR50,000 effective from 1 April 2017.

1.4.3 On Dividend and Treasury Bonds and bills interest income

Year of assessment 2016/2017

WHT rate 10%

Notional tax credit on interest income on treasury bills, bonds and corporate debt securities will be removed and interest income net of WHT will be liable, effective from 1 April 2017.
1.5  Rates of Depreciation Allowances

Year of assessment 2016/2017

<table>
<thead>
<tr>
<th>Plant, machinery or equipment</th>
<th>2017/2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>33 1/3%</td>
</tr>
<tr>
<td></td>
<td>50%</td>
</tr>
<tr>
<td></td>
<td>100%</td>
</tr>
</tbody>
</table>

| Building                      | 10%       |
| Furniture / Vehicle           | 20%       |
| Information technology equipment | 25%     |
| Locally produced software     | 100%      |

1.6  Tax Incentives on Investments

1.6.1  Rate of capital allowances

Investment on fixed assets, not less than USD 3 Mn with
not less than 250 employment in any Province, other than
Northern Province

In Northern Province

1.6.2  Tax credit on Investment

In addition to the 100% capital allowances a tax credit of 5% of the investment will be allowed
up to the maximum of tax payable, if the investment is not less than USD5Mn in any trade or
business.

1.6.3  Specific concessions

Specific concessions will be announced in regard to any investment:
(i) not less than USD100Mn with minimum employment for 500, or
(ii) not less than USD500Mn,
in any trade or business.
1.6.4 Concession to exporters

Where the export profits earned in foreign currency are increased by 15% or more in 2016/2017 compared to 2015/2016, a rebate of 75% of the income tax attributable to the excess profit of 2016/2017 will be granted to exporters.

1.6.5 Removal of certain exemptions

Following exemptions will be removed with effect from 1 April 2017 -

(i) Dividends to be identified;
(ii) Interest income to be identified;
(iii) Profits from investment on listed securities and other instruments;
(iv) Exemption up to LKR5,000 per month on interest on savings accounts;
(v) Exemption on interest on deposits made by the senior citizens will be limited to LKR1.5Mn per annum.

1.7 Capital Gains Tax

Capital Gains Tax will be introduced, charging a flat rate of 10% on the gains derived on disposal of immovable properties, at the time of realisation of such gains.

PwC comments

Capital gains by definition arise upon the sale, exchange or other disposition of a capital asset for more than its purchase price or value of acquisition, less any costs of buying and selling and of improving such asset. Capital assets include land and building, machinery and equipment and stocks and shares. In addition, transactions such as the surrender or relinquishment of any right to any property and redemption of any shares, debentures or other obligations were also, when capital gains were previously taxed, deemed to give rise to capital gains. Such gains were taxed like other income, forming part of the statutory income.

The present proposal is to introduce a separate capital gains tax, charging a tax at 10% on the realisation of gains on the disposal of only immovable properties. Capital gains on disposal of property represent appreciation in value of property over a number of years. When capital gains were previously taxed in Sri Lanka, this issue was addressed by way of a differential rate, distinguishing short term gains and long term gains. It is not stated whether any relief would be granted in relation to the period of ownership of the immovable property, by having a “base date” for ascertaining the value of appreciation to compute capital gains.
Chapter 2 – Value Added Tax (VAT)

1. Simplified VAT (SVAT) Scheme

- The prevailing SVAT scheme will be terminated.

PwC comments

SVAT scheme was introduced to avoid the requirement to make refunds to exporters and to those who supply goods and services to exporters. The scheme accordingly provided for suspension of VAT payable by VAT registered taxpayer entitled to register under this scheme, so that their liquidity position was not adversely affected. However, the procedural arrangement in carrying out this scheme gave rise to difficulties and this appears to be the reason that this scheme is now terminated.

2. Exemptions

2.1 New Exemptions

- Import and supply of plants, machinery and accessories for renewable energy generation under following HS Code Nos.

<table>
<thead>
<tr>
<th>HS Hdg.</th>
<th>HS Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>84.54</td>
<td>8454.10</td>
<td>Converters, ladles, ingot molds and casting machines, of a kind used in metallurgy or in metal foundries.</td>
</tr>
<tr>
<td>85.01</td>
<td>8501.31.10</td>
<td>Solar cells assembled in modules or made up into panels equipped with elements mounted to facilitate output</td>
</tr>
<tr>
<td>85.03</td>
<td>8503.00.10</td>
<td>Wound stators for electric motors of single phase</td>
</tr>
<tr>
<td></td>
<td>8503.00.20</td>
<td>Parts suitable for use solely or principally with Electric motors and generators</td>
</tr>
<tr>
<td></td>
<td>8503.00.90</td>
<td>Other Parts suitable for use solely or principally with the machines of Electric motors and generators and Electric generating sets and rotary converters</td>
</tr>
<tr>
<td>85.04</td>
<td></td>
<td>Electrical transformers, static converters (for example, rectifiers) and inductors.</td>
</tr>
<tr>
<td>HS Hdg.</td>
<td>HS Code</td>
<td>Description</td>
</tr>
<tr>
<td>---------</td>
<td>---------</td>
<td>-------------</td>
</tr>
<tr>
<td>8504.10.10</td>
<td>Contaminated with or containing Polychlorinated biphenyls (PCB)</td>
<td></td>
</tr>
<tr>
<td>8504.10.90</td>
<td>Other ballasts for discharge lamps or tubes (for example, rectifiers) and inductors</td>
<td></td>
</tr>
<tr>
<td>8504.21.10</td>
<td>Contaminated with or containing Polychlorinated biphenyls (PCB)</td>
<td></td>
</tr>
<tr>
<td>8504.21.90</td>
<td>Other Electrical transformers, static converters (for example, rectifiers) and inductors Having a power handling capacity not exceeding 650 kVA</td>
<td></td>
</tr>
<tr>
<td>8504.22.10</td>
<td>Contaminated with or containing Polychlorinated biphenyls (PCB), not exceeding 2000 KVA</td>
<td></td>
</tr>
<tr>
<td>8504.22.20</td>
<td>Other Electrical transformers, static converters (for example, rectifiers) and inductors not exceeding 2000 KVA</td>
<td></td>
</tr>
<tr>
<td>8504.22.30</td>
<td>Other Electrical transformers, static converters (for example, rectifiers) and inductors having a power handling capacity exceeding 650 kVA but not exceeding 10,000 kVA, contaminated with or containing Polychlorinated biphenyls (PCB)</td>
<td></td>
</tr>
<tr>
<td>8504.22.90</td>
<td>Other Electrical transformers, static converters Electrical transformers, static converters (for example, rectifiers) and inductors having a power handling capacity exceeding 650 kVA but not exceeding 10,000 kVA</td>
<td></td>
</tr>
<tr>
<td>8504.23.90</td>
<td>Other Electrical transformers, static converters Electrical transformers, static converters (for example, rectifiers) and inductors having a power handling capacity exceeding 10,000 kVA</td>
<td></td>
</tr>
<tr>
<td>8504.31.10</td>
<td>Contaminated with or containing Polychlorinated biphenyls (PCB)</td>
<td></td>
</tr>
<tr>
<td>8504.31.90</td>
<td>Other Electrical transformers, static converters (for example, rectifiers) and inductors having a power handling capacity not exceeding 1 kVA</td>
<td></td>
</tr>
<tr>
<td>8504.32.10</td>
<td>Contaminated with or containing Polychlorinated biphenyls (PCB)</td>
<td></td>
</tr>
<tr>
<td>HS Hdg.</td>
<td>HS Code</td>
<td>Description</td>
</tr>
<tr>
<td>--------</td>
<td>---------</td>
<td>-------------</td>
</tr>
<tr>
<td>8504.32.90</td>
<td>Other Electrical transformers, static converters (for example, rectifiers) and inductors having a power handling capacity exceeding 1 kVA but not exceeding 16kVA</td>
<td></td>
</tr>
<tr>
<td>8504.33.10</td>
<td>Contaminated with or containing Polychlorinated biphenyls (PCB)</td>
<td></td>
</tr>
<tr>
<td>8504.33.90</td>
<td>Other Electrical transformers, static converters (for example, rectifiers) and inductors having a power handling capacity exceeding 16 kVA but not exceeding 500kVA</td>
<td></td>
</tr>
<tr>
<td>8504.34.90</td>
<td>Other Electrical transformers, static converters (for example, rectifiers) and inductors having a power having a power handling capacity exceeding 500 kVA</td>
<td></td>
</tr>
<tr>
<td>8504.40.10</td>
<td>Uninterruptible power supplies, contaminated with or containing polychlorinated biphenyls (PCB)</td>
<td></td>
</tr>
<tr>
<td>8504.40.20</td>
<td>Other, uninterruptible power supplies</td>
<td></td>
</tr>
<tr>
<td>8504.40.30</td>
<td>Other static converters contaminated with or containing polychlorinated biphenyls (PCB)</td>
<td></td>
</tr>
<tr>
<td>8504.40.90</td>
<td>Other static converters</td>
<td></td>
</tr>
<tr>
<td>8504.50.10</td>
<td>Contaminated with or containing polychlorinated biphenyls (PCB)</td>
<td></td>
</tr>
<tr>
<td>8504.50.90</td>
<td>Other Electrical transformers, static converters (for example, rectifiers) and inductors</td>
<td></td>
</tr>
<tr>
<td>8504.90.10</td>
<td>Contaminated with or containing polychlorinated biphenyls (PCB)</td>
<td></td>
</tr>
<tr>
<td>8504.90.90</td>
<td>Other electrical transformers, static converters (for example, rectifiers), inductors and other parts</td>
<td></td>
</tr>
<tr>
<td><strong>85.13</strong></td>
<td><strong>Portable electric lamps designed to function by their own source of energy (for example, dry batteries, accumulators, magnetos), other than lighting equipment of heading 85.12.</strong></td>
<td></td>
</tr>
<tr>
<td>8513.10.10</td>
<td>12V, DC portable solar lanterns</td>
<td></td>
</tr>
<tr>
<td><strong>85.39</strong></td>
<td><strong>Electric filament or discharge lamps, including sealed beam lamp units and ultra-violet or infra-red lamps; arc lamps.</strong></td>
<td></td>
</tr>
<tr>
<td>8539.31.20</td>
<td>12v, DC fluorescent lamps (straight tubes as well as compact types)</td>
<td></td>
</tr>
</tbody>
</table>
## Budget Proposals 2017

<table>
<thead>
<tr>
<th>HS Hdg.</th>
<th>HS Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>85.41</td>
<td>8541.4</td>
<td>Photosensitive semiconductor devices, including photovoltaic cells whether or not assembled in modules or made up into panels; light emitting diodes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>HS Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>90.32</td>
<td><strong>Automatic regulating or controlling instruments and apparatus.</strong></td>
</tr>
<tr>
<td>9032.89.10</td>
<td>Apparatus for regulating the charging of accumulators using direct current generated from solar energy, and for distributing direct current [&quot;Charge Controllers&quot; and the like]</td>
</tr>
<tr>
<td>94.05</td>
<td><strong>Lamps and lighting fittings including searchlights and spotlights and parts thereof, not elsewhere specified or included; illuminated signs, illuminated name-plates and the like, having a permanently fixed light source, and parts thereof not elsewhere specified or included.</strong></td>
</tr>
<tr>
<td>9405.10.10</td>
<td>Mounted with LEDs (Light Emitting Diodes)</td>
</tr>
<tr>
<td>9405.10.20</td>
<td>12v, DC solar lamps</td>
</tr>
<tr>
<td>9405.20.10</td>
<td>Mounted with LEDs (Light Emitting Diodes)</td>
</tr>
<tr>
<td>9405.20.20</td>
<td>12v, DC solar lamps</td>
</tr>
<tr>
<td>9405.40.30</td>
<td>Mounted with LEDs (Light Emitting Diodes)</td>
</tr>
<tr>
<td>9405.40.40</td>
<td>12v, DC solar lamps</td>
</tr>
</tbody>
</table>

- Import and supply of certain electrical goods identified under following HS Code Nos.

<table>
<thead>
<tr>
<th>HS Hdg.</th>
<th>HS Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>85.16</td>
<td>8516.40</td>
<td>Electric instantaneous or storage water heaters and immersion heaters; electric space heating apparatus and soil heating apparatus; electro-thermic hair-dressing apparatus (for example, hair dryers, hair curlers, curling tong heaters) and hand dryers; electric smoothing irons; other electro-thermic appliances of a kind used for domestic purposes; electric heating resistors</td>
</tr>
<tr>
<td>8516.72</td>
<td>Toasters</td>
<td></td>
</tr>
</tbody>
</table>

- Electric smoothing irons
- Toasters
<table>
<thead>
<tr>
<th>HS Hdg.</th>
<th>HS Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>85.27</td>
<td>8527.21</td>
<td>Combined with sound recording or reproducing apparatus</td>
</tr>
<tr>
<td></td>
<td>8527.29</td>
<td>Other</td>
</tr>
<tr>
<td></td>
<td>8527.91</td>
<td>Combined with sound recording or reproducing apparatus but combined with a clock</td>
</tr>
<tr>
<td></td>
<td>8527.92</td>
<td>Not combined with sound recording or reproducing apparatus but combined with a clock</td>
</tr>
<tr>
<td>85.28</td>
<td>8528.72.41</td>
<td>Having a screen of not exceeding 32 inches</td>
</tr>
<tr>
<td></td>
<td>8528.72.91</td>
<td>Having a screen of not exceeding 32 inches</td>
</tr>
<tr>
<td>91.01</td>
<td>9101.11</td>
<td>With mechanical display only</td>
</tr>
<tr>
<td></td>
<td>9101.19</td>
<td>Other</td>
</tr>
<tr>
<td></td>
<td>9101.19.10</td>
<td>With optoelectronic display only</td>
</tr>
<tr>
<td></td>
<td>9101.19.90</td>
<td>Other</td>
</tr>
<tr>
<td></td>
<td>9101.21</td>
<td>With automatic winding</td>
</tr>
<tr>
<td></td>
<td>9101.29</td>
<td>Other</td>
</tr>
<tr>
<td></td>
<td>9101.91</td>
<td>Electrically operated</td>
</tr>
<tr>
<td></td>
<td>9101.99</td>
<td>Other</td>
</tr>
<tr>
<td>91.02</td>
<td>9102.11</td>
<td>With mechanical display only</td>
</tr>
<tr>
<td></td>
<td>9102.12</td>
<td>With opto-electronic display only</td>
</tr>
<tr>
<td></td>
<td>9102.19</td>
<td>Other</td>
</tr>
<tr>
<td></td>
<td>9102.21</td>
<td>With automatic winding</td>
</tr>
<tr>
<td></td>
<td>9102.29</td>
<td>Other</td>
</tr>
<tr>
<td>HS Hdg.</td>
<td>HS Code</td>
<td>Description</td>
</tr>
<tr>
<td>---------</td>
<td>---------</td>
<td>--------------------------------------</td>
</tr>
<tr>
<td></td>
<td>9102.91</td>
<td>Electrically operated</td>
</tr>
<tr>
<td></td>
<td>9102.99</td>
<td>Other</td>
</tr>
<tr>
<td>91.05</td>
<td>9105.11</td>
<td>Electrically operated</td>
</tr>
<tr>
<td></td>
<td>9105.19</td>
<td>Other</td>
</tr>
<tr>
<td></td>
<td>9105.21</td>
<td>Electrically operated</td>
</tr>
<tr>
<td></td>
<td>9105.29</td>
<td>Other</td>
</tr>
<tr>
<td></td>
<td>9105.91</td>
<td>Electrically operated</td>
</tr>
<tr>
<td></td>
<td>9105.99</td>
<td>Other</td>
</tr>
</tbody>
</table>

- Import and supply of magazines, journals or periodicals other than newspapers, identified under following HS Code Nos.

<table>
<thead>
<tr>
<th>HS Hdg.</th>
<th>HS Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>49.01</td>
<td>4901.10</td>
<td>In single sheets, whether or not folded</td>
</tr>
<tr>
<td></td>
<td>4901.91</td>
<td>Dictionaries and encyclopedias, and serial instalments thereof</td>
</tr>
<tr>
<td></td>
<td>4901.99</td>
<td>Other Dictionaries and encyclopedias, and serial instalments thereof</td>
</tr>
<tr>
<td></td>
<td>4901.99.10</td>
<td>Printed books</td>
</tr>
<tr>
<td></td>
<td>4902.10.10</td>
<td>Magazines and Journals Appearing at least four times a week</td>
</tr>
<tr>
<td></td>
<td>4902.90.10</td>
<td>Other Magazines and Journals</td>
</tr>
</tbody>
</table>

- Import and supply of medical machinery and medical equipment identified under the HS Code No. 8421.29.10 - Other Centrifuges, including centrifugal dryers; filtering or purifying machinery and apparatus, for liquids or gases.

- Imports on Machines such as Transplanters, Hand Weeders, etc. which are used by farmers and farmer cooperatives.

- International telecommunication services provided to local operators by External Gateway Operators.

- Supply of geriatric care services and child care services
2.2 Withdrawal of Exemptions

- Import and supply of gold coins, precious metal and precious stones identified under following HS Code Nos.

<table>
<thead>
<tr>
<th>HS Hdg.</th>
<th>HS Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>71.01</td>
<td></td>
<td>Pearls, natural or cultured, whether or not worked or graded but not strung, mounted or set; pearls, natural or cultured, temporarily strung for convenience of transport.</td>
</tr>
<tr>
<td>71.02</td>
<td></td>
<td>Diamonds, whether or not worked, but not mounted or set (+).</td>
</tr>
<tr>
<td>71.03</td>
<td></td>
<td>Precious stones (other than diamonds) and semi-precious stones, whether or not worked or graded but not strung, mounted or set; ungraded precious stones (other than diamonds) and semiprecious stones, temporarily strung for convenience of transport (+).</td>
</tr>
<tr>
<td>71.04</td>
<td></td>
<td>Synthetic or reconstructed precious or semi-precious stones, whether or not worked or graded but not strung, mounted or set; ungraded synthetic or reconstructed precious or semi-precious stones, temporarily strung for convenience of transport (+).</td>
</tr>
<tr>
<td>71.05</td>
<td></td>
<td>Dust and powder of natural or synthetic precious or semi-precious stones.</td>
</tr>
<tr>
<td>71.06</td>
<td></td>
<td>Silver (including silver plated with gold or platinum), unwrought or in semi-manufactured forms, or in powder form.</td>
</tr>
<tr>
<td>71.07</td>
<td></td>
<td>Base metals clad with silver, not further worked than semi-manufactured.</td>
</tr>
<tr>
<td>71.08</td>
<td></td>
<td>Gold (including gold plated with platinum) unwrought or in semi-manufactured forms, or in powder form (+).</td>
</tr>
<tr>
<td>71.09</td>
<td></td>
<td>Base metals or silver, clad with gold, not further worked than semi-manufactured.</td>
</tr>
<tr>
<td>71.10</td>
<td></td>
<td>Platinum, unwrought or in semi-manufactured forms, or in powder form.</td>
</tr>
<tr>
<td>71.11</td>
<td></td>
<td>Base metals, silver or gold, clad with platinum, not further worked than semi-manufactured.</td>
</tr>
<tr>
<td>71.13</td>
<td></td>
<td>Articles of jewelry and parts thereof, of precious metal or of metal clad with precious metal.</td>
</tr>
</tbody>
</table>
### 3. **VAT refund mechanism**

- VAT refund mechanism to be introduced at the point of departure for foreigners who stay less than 30 days in Sri Lanka on goods purchased by such foreigners.
- To enhance the efficiency of VAT refund process post refunds audits, upon obtaining bank guarantees, to be undertaken.

### 4. **Digitalization of VAT**

- Smart e-invoice devices will be introduced to be used at the point of sale by the VAT registered persons in order to simplify and strengthen. This will make the VAT collection process more simple and efficiency.
Chapter 3 – Nations Building Tax (NBT)

1. Removal of Exemptions

- Any goods required for the purpose of providing services connected to international transportation, being goods consigned to Sri Lankan Air Lines Ltd, Mihin Lanka (Pvt) Ltd or Air Lanka Catering Services Ltd. (NBT Excepted Articles Schedule - Item No. xvii)

- Any article imported or sold by any society registered under Co-operative Societies Law, No. 5 of 1972 or under the respective statutes enacted by the Provisional Councils providing of such registration or Lak Sathosa Ltd registered under the Companies Act, No. 7 of 2007. (NBT Excepted Services Schedule - Item No. xxxiv)

- Services of a travel agent in respect of inbound tours, if such person is registered with the Ceylon Tourist Board. (NBT Excepted Services Schedule - Item No xiv)

- Services of a construction or 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; (NBT Excepted Services Schedule – Item No vii (b))

- The business of real estate and improvements thereon, being construction and sale of residential accommodation, insofar as the value of the construction project relating to the supply of such residential accommodation is less than 10Mn United States dollars or its equivalent in any other currency. (NBT Excepted Services Schedule - Item No. xxxviii)

- Services provided by any society registered under the Co-operative Societies Law No 5 of 1972 or under any statutes enacted by the Provincial Council, or Lak Sathosa Ltd, registered under the Companies Act, No 7 of 2007. (NBT Excepted Articles Schedule - Item No. xix)

Effective from 01 January 2017

2. New Exemptions

- International telecommunication services provided to local operators by External Gateway Operators.

- Printed books, magazines, journals or periodicals other than newspapers identified under the following HS Code Numbers.
### Budget Proposals 2017

#### HS Hdg. | HS Code | Description
--- | --- | ---
**49.01** | 4901.10 | Printed Books, brochures, leaflets and similar printed matter whether or not in single sheets.
 | 4901.91 | Dictionaries an encyclopedias, and serial instalments thereof
 | 4901.99 | Other:
 | 4901.99.10 | Printed Books

#### 49.02
Newspapers, journals and periodicals, whether or not illustrated or containing advertising material.

<table>
<thead>
<tr>
<th>HS Hdg.</th>
<th>HS Code</th>
<th>Description</th>
</tr>
</thead>
</table>
**49.02** | 4902.10.10 | Magazines and Journals
 | 4902.90.10 | Magazines and Journals

- Solar Panel modules and accessories under the following HS Code Numbers.

#### HS Hdg. | HS Code | Description
--- | --- | ---
**84.54** | 8454.10 | Converters, ladles, ingot moulds casting machines, of a kind used in metallurgy or in metal foundries.

**85.01** | 8501.31.10 | Solar cells assembled in modules or made up into panels equipped with elements mounted to facilitate output.

**85.13** | 8513.10.10 | Portable electric lamps designed to function by their own source of energy (for example, dry batteries, accumulators, magnetos), other than lighting equipment of heading 85.12.

**85.39** | 8539.31.20 | 12v, DC fluorescent lamps (straight tubes as well as compact types)

**85.41** | 8539.31.20 | Diodes, transistors and similar semiconductor devices; photosensitive semiconductor devices, including photovoltaic cells whether or not assembled in modules or made up into panels; light emitting diodes; mounted piezo-electric crystals(+).
<table>
<thead>
<tr>
<th>HS Hdg.</th>
<th>HS Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>8541.40</td>
<td>Photosensitive semiconductor devices including photovoltaic sales whether or not assembled in modules or made up into panels, light emitting diodes:</td>
</tr>
<tr>
<td>90.32</td>
<td></td>
<td><strong>Automatic regulating or controlling instrument and apparatus.</strong></td>
</tr>
<tr>
<td></td>
<td>9032.89.10</td>
<td>Apparatus for regulating the charging of accumulators using direct current generated from solar energy, and for distributing direct current [“Charge controllers” and the like]</td>
</tr>
<tr>
<td>94.05</td>
<td></td>
<td><strong>Lamps and lighting fittings including searchlights and spotlights and parts thereof, not elsewhere specified or included; illuminated signs, illuminated name-plates and the like, having a permanently fixed like source, and parts thereof not elsewhere specified or included.</strong></td>
</tr>
<tr>
<td></td>
<td>9405.10.10</td>
<td>Mounted with LEDs (Light Emitting Diodes)</td>
</tr>
<tr>
<td></td>
<td>9405.10.20</td>
<td>12v, DC solar lamps</td>
</tr>
<tr>
<td></td>
<td>9405.20.10</td>
<td>Mounted with LEDs (Light Emitting Diodes)</td>
</tr>
<tr>
<td></td>
<td>9405.20.20</td>
<td>12v, DC solar lamps</td>
</tr>
<tr>
<td></td>
<td>9405.40.30</td>
<td>Mounted with LEDs (Light Emitting Diodes)</td>
</tr>
<tr>
<td></td>
<td>9405.40.40</td>
<td>12v, DC solar lamps</td>
</tr>
</tbody>
</table>

*With immediate effect*
Chapter 4 – Economic Service Charge (ESC)

1. Revision of Quarterly Threshold

<table>
<thead>
<tr>
<th>Description</th>
<th>Proposed threshold</th>
<th>Current threshold</th>
<th>Reduction of the threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>ESC threshold</td>
<td>LKR12.5Mn</td>
<td>LKR50Mn</td>
<td>LKR37.5Mn</td>
</tr>
</tbody>
</table>

Effective from 01 April 2017

2. On Importation of Motor Vehicles

Government has proposed the introduction of Withholding Tax (“WHT”) of ESC, at the point of Customs, on importation of motor vehicles.

PwC comments
The value on which the WHT is chargeable has not been stated.

Effective from 01 April 2017

3. Other Revisions of ESC

Proposals in the Budget 2016, subject to modifications, will be given effect together with the Budget Proposals 2017. Proposals in Budget 2016, read in conjunction with the notice issued in April 2016 by the Commissioner General of Inland Revenue (“CGIR”) are given below:

(a) ESC rate

<table>
<thead>
<tr>
<th>Description</th>
<th>Proposed rate</th>
<th>Current rate</th>
<th>Increase in the rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>ESC rate</td>
<td>0.5%</td>
<td>0.25%</td>
<td>0.25%</td>
</tr>
</tbody>
</table>

Effective from 01 April 2017

(b) Removal of Maximum ESC Liability

<table>
<thead>
<tr>
<th>Description</th>
<th>Proposed</th>
<th>Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum ESC liability</td>
<td>Nil</td>
<td>LKR120Mn per Y/A</td>
</tr>
</tbody>
</table>

Effective from 01 April 2017
(c) Period for carry forward of ESC

<table>
<thead>
<tr>
<th>Description</th>
<th>Proposed</th>
<th>Current</th>
<th>Reduction in period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Period for carry forward of ESC to set off against income tax liability</td>
<td>03 Years *</td>
<td>05 Years *</td>
<td>02 Years</td>
</tr>
</tbody>
</table>

*Including the Y/A in which the payment is made.*

Effective from 01 April 2017

(d) Removal of exclusion of ESC chargeability

Present exclusion of profit making business from chargeability to ESC will be removed. Accordingly, ESC will be payable by every person or partnership in respect of the relevant turnover of any trade, business, profession or vocation and not limited, as at present, to a person or partnership, who or which is tax exempt or incurs a loss.

Effective from 01 April 2017

(e) Liability on Retail trade of Petrol, Diesel and Kerosene

Retail trade in petrol, diesel and kerosene will be charged ESC, provided the aggregate turnover for a quarter is LKR50Mn or more. Tax shall be calculated on 10% of the liable turnover of such trade.

Effective from 01 April 2017

(f) Chargeability on Imports of goods subject to Special Commodity Levy (SCL)

ESC will be charged, in advance, by the CGIR from the importers of goods subject to SCL, on the CIF value of such imported goods, upon clearance of such goods from the Sri Lanka Customs, irrespective of the ESC threshold.

The advance payment of ESC could be set off against the actual liability of ESC for the same year of assessment but no refund will be made.

Effective from 01 April 2017
Chapter 5 – Customs Excise and Cess

1. Customs/Import duty

- Duty reduction on:
  - milk powder by LKR 35 per kg to be LKR 100 per kg;
  - industrial raw materials (not specified) to facilitate the industries and trading.
- Duty increase on:
  - portable ethanol by LKR 300 per litre to be LKR 800 per litre;
- Duty waiver on:
  - water sports equipment such as surf boards; quad bikes; leisure boats and jet skis;
  - importation of machines such as Transplanter, Hand Weeders.
- 96 tariff lines have been revised to be in line with the Sri Lanka’s bound rate commitments to the World Trade Organization;
- National sub division of H.S codes have been created at the request of the business community directive given by the World Customs Organization and gazette notification to be issued.

2. Excise Duty

- Wastage and Evaporation allowances on liquor production to be revised by 0.10% and 0.05% respectively;
- An annual license fee of LKR 0.05Mn to be imposed on importers of Beedi leaves;
- An excise duty of LKR 25 per litre to be imposed on non-potable alcohol which are imported;
- Excise Duty will be imposed on raw materials used for manufacturing of ethanol as follows:
### Budget Proposals 2017

<table>
<thead>
<tr>
<th>Type of raw material</th>
<th>Duty LKR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Molasses</td>
<td>20 per lt</td>
</tr>
<tr>
<td>Coconut toddy</td>
<td>10 per lt</td>
</tr>
<tr>
<td>Maize</td>
<td>20 per kg</td>
</tr>
<tr>
<td>Rice</td>
<td>20 per kg</td>
</tr>
<tr>
<td>Any other</td>
<td>20 per kg</td>
</tr>
</tbody>
</table>

- Excise duty on motor vehicles to be revised;
- Excise duty to be introduced to motor cycles based on engine capacity based unit rate method;
- Excise duty will be reduced on electric cars with motor power less than 100 KW.

*Relevant gazette to be issued*

### 3. Excise (Special Provision) Duty

- Excise (Special Provisions) Duty to be imposed on following:
  - LKR 10 per beer can not more than 350ml;
  - LKR 15 per beer can more than 350ml and
  - LKR 5 per lottery ticket.
- A 50% excise duty waiver on motor car import duty with CIF value not exceeding USD 50,000 to be granted to a person who exports minimum of 20 vehicles with a minimum value of USD 200,000.

*Relevant gazette to be issued*

### 4. Cess

- Cess to be imposed on:
  - imported sugar at 2%
  - ethanol at 5%
- Cess waiver on:
  - pre-fabricated structures (25%);
- 100 items in order to simplify the multiple tax structure.

- **Cess increase on:**
  - rubber to be LKR 15 per kg;
  - on printing ink to be LKR 30 per kg as follows:

<table>
<thead>
<tr>
<th>HS Code</th>
<th>Proposed for 2017</th>
<th>Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>3215.11 – black ink</td>
<td>LKR 30 per kg</td>
<td>LKR 15 per kg</td>
</tr>
<tr>
<td>3215.19 – other printing ink</td>
<td>LKR 30 per kg</td>
<td>LKR 15 per kg</td>
</tr>
</tbody>
</table>

- Cess on importation of maize to be reimbursed as an export rebate at the time of export of chicken;

*Cess, Custom Duty, Excise (Special Provisions) Duty and Excise Duty on importation of certain items will take effect immediately.*
Chapter 6 – Miscellaneous Taxes and Levies

1. Betting and Gaming Levy

- The present annual levy on the business of Gaming will be increased to LKR250Mn per year.

- The following proposed changes in Budget 2016 will be implemented with the revision of the annual levy referred to above.
  - USD100 imposed per person at the entrance to premises for casino entertainment activities to be removed.
  - Annual levy for carrying on the business of casino to be increased from LKR200Mn to LKR400Mn per year.
  - Annual levy for carrying on the business of playing rudjino to be reduced from LKR200Mn to LKR5Mn per year.

  With effect from 1 January 2017

2. Special Commodity Levy

- The tax rate applicable for White Sugar will be revised to LKR7/Kg. from LKR2/Kg. (The Gazette Notification is to be issued.)

  With immediate effect

3. Ports and Airports Development Levy (PAL)

- PAL removed on;
  - printed books, magazines, journals and periodicals
  - import of machineries for farmers such as transplanters and hand weeders

- PAL reduced on;
  - Pharmaceutical products under HS Code Nos 3926.90.80 (Hardened gelatine capsules), 9602.00.10 (Capsules used in the manufacture of pharmaceutical products) to 2.5% from 7.5%.
• PAL waived on;
  – Import of High Tech, automated machinery and equipment by 75 percent with the
    approval of the Ministry of Industry and Commerce, to improve capacity of business.

    With immediate effect

4. **Telecommunication Levies**

• Telecommunication Levy on Internet services will be increased to 25%.
• SIM Activation Levy of LKR200 will be imposed for a SIM.
• Digitalization of the country -
  – All mobile operators will be given a 6 months period to convert their infrastructure
    enabling to provide 3G facility and a surcharge at LKR100Mn per district will be
    imposed for failing to provide such facility,
  – All metro areas have to be converted to 4G by 30th June 2018.
• The present Annual Spectrum Charge will be increased by 25%.

    With immediate effect

5. **Financial Transactions Levy**

• There will be an introduction of a new levy called FTL as a contribution for social
  development at the rate of LKR5 per LKR10,000 (0.05%) on the total cash transactions
  including easy cash by banks and other financial institutions. FTL will be treated as
  expenditure for income tax purpose.

6. **Amendments to Finance Act**

• Finance Act, No. 10 of 2015 will be amended to streamline the one-off taxes introduced.
• An Annual License fee and a fee on voluntary liquidation will be imposed on companies.
• Luxury & Semi- Luxury Motor Vehicle Tax
  – Luxury & Semi- Luxury Motor Vehicle Tax [Amendment to PART II of the Finance Act,
    No. 16 of 1995] will be revised.
• Vehicle Entitlement Levy
  – This Levy is applicable from 01.01.2016 and will be collected by the Director General of Customs at the point of Customs with effect from 01.01.2017.

• Tele Drama Levy
  – This will applicable on the foreign tele dramas flowing in to the country and dubbed in Sinhala, Tamil or any other language will be increased.

• Embarkation Levy
  – This levy will be increased to USD50.

• Charges for Court Cases/ Case Filing fee
  – A filing fee will be imposed when filing a Court case by any person in any Court.

• Annual License Fee on firearms
  – Annual License Fee on firearms of LKR20,000 will be imposed, other than firearms used for agricultural purposes. A penalty of LKR5mn will be charged for using firearms without paying the License fee.

• Import License fee
  – License fee will be charged to import lubricants, bitumen or gold.

  With immediate effect

7. Other fees and Levies

• Revision of fines charged on traffic offences.
  – Traffic offences will be re-classified in order to be subject to spot fines and the minimum fine will be increased to LKR2,000.

• A Carbon Tax will be imposed on vehicles other than electric cars and tractors. This fee will include existing emission test fee as well.

• It is proposed to impose a 0.5 percent Tourism Development Levy on travel businesses such as Online Travel Agents (OTA) which has a revenue of less than LKR12Mn per annum.

• It is proposed to exempt the spare parts of flying training industry from all taxes with the recommendation of the Civil Aviation Authority.

• A 2 percent fee has been proposed on cash transactions above LKR5Mn except any transaction carried out through the banking channels including through cheques, telegraphic transfers, Bank drafts, etc.
It is proposed, the Loan to Value ratio (LTV) to be limited for vehicle categories as follows:

<table>
<thead>
<tr>
<th>Vehicle type</th>
<th>Loan to value ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Three Wheelers</td>
<td>25 percent</td>
</tr>
<tr>
<td>Motor Cars and Vans</td>
<td>50 percent</td>
</tr>
<tr>
<td>Commercial Vehicles (Lorries and Heavy Vehicles)</td>
<td>90 percent</td>
</tr>
</tbody>
</table>

- Tolls on the expressways will be reduced by LKR50, between 9 pm to 5 am every day.
- Evaporation allowance of ethanol for the production of liquor will be reduced from 1.5 percent to 0.15 percent.
- It is proposed to increase the Embarkation Levy (EL) to USD50 per passenger from which USD35 will be remitted to the Consolidated Fund.
- Visa fees will be revised.
- An annual license fee of LKR5Mn has been proposed when issuing licenses to import beedi leaves.
- It is proposed to remove the Import and Export Control Fee of 1 percent on CIF price of Tea, the fee on the packing of tea, and the fee on the Logo Registration.
- It is proposed to simplify the annual renewal of licenses, with the Sri Lanka Tea Board which had six categories to two, where large companies will be subjected to a fee of LKR 500,000 per annum and smaller companies a fee of for LKR50,000 per annum.
- Bi-annual registration fee payable on lubricant agreements by the lubricant businesses will be revised to LKR2.5Mn or 0.75 percent of total invoiced sales whichever is higher with effect from 1st January 2017.
- It is also proposed that, private companies with majority foreign holdings, be allowed to lease land on long term basis where such companies should have invested at least LKR250Mn excluding the value of land, providing employment to at least 150 people and have maintained this status quo for at least 3 years. If the conditions are not fulfilled after 3 years, a tax equal to 100 percent of the lease value will have to be paid up front. Such tax will be based on the market value of the land as determined by the government valuer.
- The bulk chartered cargo charges to be at 15 percent of Freight on Board (FOB) or applied freight charge whichever is lower, with immediate effect.
8. **Specific Regulations**

- A new Securities and Exchange Act will be introduced during the 1st quarter of 2017.
- It is proposed to introduce laws which give Public Limited Companies freehold right of land.
- ICTA will create a common platform to facilitate online firms such as amazon, ebay, etc to be able to collect taxes on behalf of the government for transactions carried out within Sri Lanka. This common platform will be monitored by the General Treasury.
- Establishment of the Agency for development which will enable an enhanced facilitation of investments into Sri Lanka.
- Ministry of Development Strategies and International Trade will recommend to the General Treasury any incentives that should be provided to any landmark investments to the country.
- 5 years multi entry visa to specified investors and their skilled expatriate labour.
- Apparel design and manufacturers to be permitted to invest in similar overseas ventures up to 5% of their average export turnover of the preceding 3 years provided the profits are remitted back to the investing company.
- A person resident in Sri Lanka, who has made investments outside Sri Lanka through the Outward Investment Account (OIA) and has received capital gains on such investments, will be permitted to reinvest through the same OIA up to 50% of the value of such capital gains received, without being subjected to limitations on the maximum value of investments that can be made by such person outside Sri Lanka.
- Multi Country Consolidated (MCC) containers with zero domestic cargo will be considered a transshipment container and the relevant Terminal Handling Charges (THC) will not be liable on such containers. It is proposed to liberalize the de-stuffing of the MCC cargo by facilitating the de-stuffing in all terminals as well as by any operator who falls within the logistics hub regulations.
- Exports and imports related to Entrepot Trade will be allowed on No Foreign Exchange (NFP) terms, on establishment that logistic handling charges have been paid.
- Increase the minimum capital of Licensed Commercial Banks to LKR20,000Mn, Licensed Specialized Banks to LKR7,500Mn and Primary Dealers to LKR1, 500Mn.
- Banks to ensure that at least 10% of their lending portfolio is for Agriculture, 1% for SME, 10% for Exports, 10% for Tourism, 5% for Youth and 5 percent for Women. In addition banks to lend at least 15% of the deposits within the same area for business development.
- Exchange Control Act will be repealed and a Foreign Exchange Act will be introduced to protect foreign reserves from irregular transactions.
Chapter 7 – Tax Administration

1. Time-bar provisions - Issuing assessments

Where the income return has been filed on or before the due date (30 November of the following year of assessment), no assessment to be issued after the 9 months from such due date of return of income.

*Effective from year of assessment 2017/2018*

*PwC comments*

Currently, such duration is 18 months from the due date of filling the return of income.

Further, no mention has been made in regard to late filers. As of now, no assessment could be issued on them after the lapse of 4 years from the due date of filing return.

2. Time bar provision - Settling appeals

(i) **By the Commissioner General of Inland Revenue**
Where an appeal is lodged with the Commissioner General, he should determine such appeal within 6 months effective from 1 April 2017.

*PwC comments*

Currently, such period is 24 months.

(ii) **By the Tax Appeal Commission**
Tax Appeal Commission is required to determine the appeal within 6 months of date of receipt of the appeal.

*PwC comments*

Current time bar period is 24 months.

*Effective from 1 April 2017*
3. Redrafting of Inland Revenue Act to be completed

4. Mechanism will be developed to tax e-commerce transactions.

5. IRD administration to be decentralised to allow the tax authorities to be closer to the taxpayer.

6. RAMIS to be fully implemented and a virtual office set up to be formed.

7. National Tax Council and office of Ombudsman to be established.

8. Three types of privilege cards, Platinum, Gold and Silver to be issued to recognise privileged taxpayers.
Chapter 8 – Economic Overview

The much awaited budget speech for 2017 delivered on many fronts particularly revenue measures, tax administrative reforms with an aim to improve overall business sentiment.

The shift that we saw with most new revenue proposals was that it is targeted at improving the direct tax contribution towards revenue. Unlike last year, some of the key revenue proposals have a greater chance of being implemented, such as the corporate tax revisions and the revisions of withholding tax.

We did see some repetition from the 2016 budget, in particular on proposals that were not implemented. For example, the proposal on creating a new SME board on the CSE, development of REITs, establishment of an EXIM bank and the listing of non-strategic stakes owned by the Government were repetitions from last year’s budget. Though they were repetitions, there was a message of consistency in terms of taking it forward into 2017.

This budget should not dent overall business sentiment on a macro level basis though certain industries will be affected. While that may be the case in budget 2017, there are many factors to drive investment forward such as the 100% capital allowance granted on fixed investment in fixed assets (not less than USD3Mn with not less than 250 in employment) in the Uva and Eastern provinces with it going up towards 200% if the above investment was done in the Northern Province. There were other concessions provided to exporters while landmark investments of over USD100Mn would be provided with special incentive packages and specific tax concessions.

The budget is a step in the right direction in terms of the Prime Minister’s statement on the medium term vision for the economy. There were several steps taken to improve Sri Lanka’s ranking in the Doing Business Indicators such as the proposal to keep open the Registrar of Companies for operations on all 7 days of the week and working towards reducing the time it takes to register a business from 10 days to 4 days. There was also a proposal to establish a national Business Registry and the office of the Trade Prosecutor to improve the rankings.

The deficit targets are very much in line with the IMF programme and that will be key in terms of meeting their expectations as part of the program. Tax revenue is expected to grow 27.2% in 2017 when compared with expected revenue in 2016. This will be realistic if most of the revenue proposals are implemented and we see the positive impact from the full implementation of RAMIS (Revenue Administration Management Information System).

Public Investment is also expected to rise to 5.2% of GDP from an expected figure of 4.1% of GDP in 2016. Expenditure on health and education is expected to rise while there is a key focus on developing many industries such as commercial agriculture (such as providing a 50% interest subsidy loan to farmers, farmer organisations and agro processing establishments), irrigation and Mahaweli Development (such as LKR1Bn for the Yan Oya project) and the plantation sector (LKR75Mn allocated to develop an Automated Commodity Exchange) to highlight a few. The budget has also looked to give more prominence for Public-Private Partnerships (PPPs) to take
place as well (such as establishing a Bio Technology Innovation Park and Dairy Development Zone).

Overall, the budget is business friendly compared to more recent ones. However, implementation of proposals will be key.

1. **Tourism**

**Key policies**

- A 0.5% tourism development levy is to be imposed on businesses with a revenue of less than LKR12Mn per annum
- Introduce a common technology platform for lodge booking
- Government has proposed to provide an interest subsidy to encourage hotels that have been in operation for over 10 years to refurbish their premises
- Proposed custom duty waivers on Surf Boards, Quad Bikes, Leisure Boats, and Jet Skis

A tourism development levy of 0.5% is proposed to be imposed on relatively smaller hotel chains which contrasts with the prior year’s proposal to remove this levy. However, this proposal together with the proposal to create a common technology platform for lodge bookings may be motivated by a desire to create a more level playing field between the formal hotel establishments and the informal establishments which currently enjoy a tax advantage. However, the extent of the impact of this policy depends on the success of the implementation of this online system which could prove to be counterproductive if not implemented in a systematic manner.

The government has identified the Eastern province as well as the Central Province as growth areas for tourism, with a particular focus on improving connectivity to these regions via domestic air travel and highways. This would be a welcome development for tourist establishments that operate in these areas whose performance has been impacted by the lack of connectivity, which has resulted in lower occupancy levels and activity.

In addition to the private tourist establishments, the budget proposals reiterated the government’s commitment to list strategic enterprises such as Hyatt, Grand Oriental Hotel, and Water’s Edge where an equity infusion and management expertise from the private sector may improve the competitive environment. This is however not a new development as it was also stated in Budget 2016.
2. Construction

Key policies

- Landmark construction projects that are above USD 100 mn will receive special incentive packages and specific tax concessions
- 75% waiver on the PAL for the importation of high tech, automated machinery and equipment
- The removal of the Cess of 25% which is applicable on pre-fabricated structures
- The removal of the exemption from NBT on the sale of apartments
- Government will provide a stipend of Rs. 10,000 per month for three months to assist the private sector to set up vocational training programmes.

The construction industry has been identified by the government as a key growth area with a significant capacity for job creation. It is further aligned with the government’s ambitious Megapolis project which is geared towards changing the skyline of Colombo for which the Hon. Finance Minister revealed that LKR7,500Mn has been allocated. As such, the proposals brought forth in the budget are in line with encouraging further construction activities as well as in reducing the cost inflation of such projects by removal of cess on imports of construction material, which is in line with the policy that was followed in the previous budget.

The construction industry has been identified as a sector which has a need for skilled workers with a workforce requirement of approximately 60,000. This has been a key inhibitor for the future growth of the sector and has resulted in higher wage increases for construction workers both in the formal and informal sector. As such the budget proposed initiatives such as scholarship schemes and incentives for the private sector to set up training programmes for their respective industries.

3. Motor Sector

Key policies

- Proposal to restrict the Loan To Value (LTV) ratio for three wheelers to 25%, 50% for motor cars and vans and 90% for commercial vehicles
- Proposal to reduce excise duty on electric cars with motor power of less than 100kw
- Proposal to extend the engine based on capacity
- Proposal to introduce a carbon tax for all carbon fuel run motor vehicles
• An Incentive is proposed to encourage the export of motor vehicles which are more than 5 years old.

The worsening traffic congestion in the suburbs has been an area of concern for the government. As such a general increase in vehicle duties was implemented in the previous budget. The proposed policies are consistent with the previous year’s budget plan to reduce the number of motor vehicles on the road in order to ease congestion and the side effects associated with it such as vehicle emissions. There is also a general attempt to make the vehicle population greener through proposals such as an attempt to encourage the replacement of three wheelers with safer and more eco-friendly electric cars via concessionary loan schemes. Further, the policy to encourage school vans to upgrade to 32 seater buses is an attempt to encourage a more efficient transport system.

4. **Plantations**

**Key policies**

- Proposal to abolish the import and export control fee of 1 percent on the CIF price of tea
- Encourage the importation of CTC tea for the purpose of re-exportation after value addition
- The maximum acreage that can be held by any stand-alone company, without being allowed to consolidate will be restricted to 5,000 acres
- The cess on the import of Rubber will be increased to LKR15 per kilogram in order to encourage the export of locally value added products

As would be expected, the tea industry was the subject with the most focus of the plantations segment given the significant challenges that are currently plaguing the industry. While the industry has been divided with regard to how best to proceed with getting out of this quagmire of falling volumes and increasing costs, the proposed policies seem to indicate that the Government’s stance is to promote value addition and move up the value chain. In addition, there is a lack of clarity with regard to the proposal to limit the size of the cultivatable land of a standalone company to 5,000 acres and if this is applicable to large plantations that are held by conglomerates.

Apart from tea, this general policy of encouraging greater value addition for plantation crops has been followed with respect to the other traditional crops such as rubber and coconut.

While the proposals itself are positive, the impact it may have on improving the prospects of the industry may be limited if the proposals are not generally acceptable to the industry, as well as due the fact that external pressures may have a more significant impact.
5. Telecommunication

Key policies

- Telecommunication Levy on internet services will be increased to 25%, par with the other Telecommunication services.

- All mobile telephone operators will be given a 6 months period to convert their infrastructure to provide at least 3G coverage. Any operator who failed to implement within this period will be liable for a surcharge of LKR100Mn per district. All metro areas are required to be converted to 4G by 30 June 2018.

- SIM activation levy of LKR200 will be imposed per SIM.

- The present Annual Spectrum Charge will be increased by 25% with effect from 01 January 2017.

- The services provided by the external gateway operators to local operators will be exempted from VAT and NBT.

- Proposal to form a Company on PPP which will own the telecommunication towers to reduce cost of operations through synergies that will arise from sharing the assets.

The telecommunication sector is expected to play an important role in the country’s digitalization process. Their services would be especially important in transforming the education industry in the country.

However, following from the previous budget, the government has increased levies and charges on the sector including those for internet and mobile services. The pressure on mobile telephone operators is further heightened, with the mandatory requirement of infrastructure improvement to provide advanced connectivity.

6. Tobacco and Alcohol

Key policies

- Income tax rate applicable on liquor and tobacco to continue at the rate of 40%.

- Excise Duty will be introduced on imported non-potable alcohol at LKR25 per litre.

- Excise Duty will be imposed on raw materials used for manufacturing of ethanol as follows: Molasses LKR20 per Litre, Coconut toddy LKR10 per Litre, Maize LKR20 per Kg, Rice LKR20 per Kg and any other LKR20 per Kg.

- An annual license fee will be imposed on importers of Beedi leaves at LKR5Mn.
The fool proof sticker system announced in the last Budget will be introduced with the view of controlling the illicit liquor circulation in the country and to control the leakages.

Excise (Special Provisions) Duty will be introduced on the importation of beer can at the rate of LKR10 per can of not more than 325 ml and LKR15 per can of more than 325 ml.

The present wastage and evaporation allowances on liquor production will be revised down as follows: wastage 0.10% and evaporation 0.05%.

Following the example of most previous budgets, a multitude of duties and fees have been imposed on the tobacco and alcohol industry, as well as tighter quality standards such as the fool proof sticker system tightening their bottom-line further. A specific note should be made of the request made by the government to the Ceylon Tobacco Company to donate LKR500Mn to the Presidential Fund to be utilized by the Presidential Task Force for the anti-smoking campaign.

7. Banking, Finance and Insurance

Key policies

- Suggests voluntary consolidation especially for smaller private banks in line with meeting the requirements of Basel III by 2019.
- Guidance provided on the lending portfolio composition.
- Increase the minimum capital of Licensed Commercial Banks (LCBs) to LKR20,000Mn, Licensed Specialized Banks (LSBs) to LKR7,500Mn in line with the proposed consolidation.
- Introduce necessary amendments to the Banking Act to be in line with the modern day requirements.
- Change in the Loan To Value (LTV) ratios for motor vehicles.
- Proposal to introduce amendments, expanding the applicability of the Debt Recovery (Special) Provisions Act No. 2 of 1990 to all LSBs and Licensed Finance Companies to improve the debt recovery processes.
- Proposed the setting up of an agency, the Financial Asset Management Agency (FAMA), to restructure the distressed finance companies.

As the consolidation of banks is voluntary in nature, it would be positive for the sector in terms of balancing the high competition seen in the sector and also enable smaller banks to meet the regulatory capital requirements.

Providing specific directions on the composition of the lending portfolio of banks is consistent with the policy followed in the prior budget while the specific allocations have been revised.
increase for SME sector from 5% as directed last year to 10% is seen and new directions mentioned to lend at least 10% for exports and tourism. Agriculture lending to be at 10% is the same as last year directions.

LTV ratio currently is 70% for the purpose of purchase or utilization of motor vehicles by banks and financial institutions supervised by the CBSL. The proposal in the current budget specifies rates per motor vehicle category as Three Wheelers 25%, Motor Cars and Vans 50% and Commercial Vehicles (Lorries and Heavy Vehicles) 90%. The volume of leasing facilities granted to the first two categories will be negatively affected if this proposal comes into action as they account to major portion of the leasing in financial institutions.

Focus seems to be on restructuring and strengthening the sector by providing specific directions.

There are no major proposals that affect the insurance industry. However, the proposal to provide insurance cover for every school age child in Sri Lanka would be quite significant given the quantum of individuals who would be covered by the scheme.

8. Logistics

Key policies

- Encouraging entrepot operations
- Multi Country Consolidated (MCC) containers with zero domestic cargo will be considered a transhipment container and the relevant Terminal Handling Charges (THC) will not be liable on such containers.
- Conducting a feasibility study on setting up a domestic airport in the Badulla district and simultaneously exploring the process of linking Badulla district to the Southern Expressway.
- Installing a Container Scanning system at the Ports and the airport to ensure, effectiveness and efficiency of the container and baggage clearing process.

The logistics sector was highlighted as one with lacklustre performance despite the many deliberations on Sri Lanka being a Commercial Hub. However, the proposals of the 2017 budget are consistent with the previous budget’s attempts to liberalize the sector. This budget attempts to open up more opportunities for companies within the sector and to establish further operations within the country and cut down on the clearance times for containers, which could possibly convert to a positive monetary effect.
9. Education

Key policies

- LKR2Bn in additional allocation to provide basic facilities in schools
- It has been proposed to setup a regulatory body for International schools in order to ensure quality standards
- LKR5Bn allocated to provide Wi-Fi and Tabs for 100,000 graduates entering state Universities
- The private sector has been encouraged to take part in developing the digital infrastructure of schools
- Proposal to introduce a loan scheme up to a maximum of LKR800,000 per student who miss out on entry to a university for the entire course of studies
- Vocational training students to be channelled to private sector

The policy direction is in general encouraging and has been directed towards improving both the quantity of education in terms of giving a wider group of students’ access to higher education as well as the quality of education through better regulatory oversight of secondary and tertiary institutes.

10. Agriculture

Key policies

- Relaxing the maximum retail price on whole chicken while maintaining it at LKR420 per kilogram where 40% of the supply to market should be whole chicken.
- Encourage local and foreign investments in the sugar industry in the Moneragala and Batticaloa districts with capital allowances.
- Policies to encourage the local dairy industry and assist farmers.
- Proposed to continue the policy of selling 400g of milk powder at the same controlled price of LKR295.
- Proposal to allocate LKR500Mn to promote aquaculture industry zones in Hambantota, Mannar and Batticaloa.

The government’s policies towards agriculture have been one of encouraging export oriented segments and promoting domestic industries. As such policies for encouraging greater levels of investment have been directed towards sectors such as the sugar and the dairy segment.
It is also encouraging to note that there is an attempt to be less restrictive with respect to the poultry segment which has in the past been inhibited by restrictions on its maximum retail price in the face of escalating costs. The more relaxed stance that has been proposed in this budget is encouraging as it indicates that the government is flexible in terms of balancing the needs of different stakeholders.

Given the abundance of aquatic resources Sri Lanka is privy to as well as given the export potential of sub segments such as ornamental fish, the budget 2017 proposals were primarily aimed at creating an enabling environment for the sector to flourish. As such the budget has allocated significant monies towards building capacity such as cold storage facilities, fisheries harbours and anchorages.
## Sri Lanka Economy at a Glance

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(a) Data covers the entire island  
(b) Data excluding Northern Province  
(c) Based on CPI (1952=100)

57  
PwC
Budget Estimates

The budget 2017 estimates total revenue and grants of LKR2,098Bn (2016- LKR1,658Bn) consisting of tax revenue from income tax LKR335Bn (2016- LKR236Bn), taxes on goods and services LKR1,086Bn (2016 – LKR854Bn), taxes on external trade LKR400Bn (2016 – LKR342Bn) non-tax revenue LKR189Bn (2016 – LKR144Bn), provincial councils tax sharing and devolved revenue LKR78Bn (2016 – LKR72Bn) and grants of LKR10Bn (2016 – LKR10Bn) against a total estimated expenditure of LKR2,723Bn (2016 – LKR2,328Bn). The estimated expenditure consists of recurring expenditure LKR2,024Bn (2016- LKR1,842Bn) and public investment of LKR708Bn (2016 – LKR500Bn).

The resulting budget deficit of LKR625Bn (2016 – LKR670Bn) is expected to be financed by foreign financing of LKR272Bn (2016 – LKR395Bn) and domestic financing of LKR353Bn (2016 – LKR275Bn).

The pie charts below depict the revenue and expenditure estimates of 2016 and 2017 respectively.
Let’s Talk

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