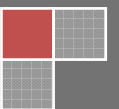


2012

# SRI LANKA BUDGET

Highlights - Taxation



*Table of Contents – Proposed Amendments to Tax Statutes*

1. *Income Tax- Amendments to Inland Revenue Act No 10 of 2006*
2. *Textile and Apparel Industry*
3. *Value Added Tax –Amendments to Value Added Tax Act No 14 of 2002*
4. *Nation Building Tax- Amendments to Nation Building Tax Act No 09 of 2009*
5. *Economic Service Charge- Amendments to Economic Service Charge Act No 13 of 2006*
6. *Registrations and Licensing of Motor Vehicles*
7. *Cess*
8. *Excise Duty*
9. *Excise (Special Provision) Duty*
10. *Customs Duty*
11. *Ports and Airports Development Levy - Amendments to Ports and Airports Development Levy Act No 18 of 2011*
12. *Special Commodity Levy*
13. *Telecommunication Levy*
14. *Tax exemptions for Sri Lankan Air Lines Limited, Sri Lankan Catering Limited, Mihin Lanka (Pvt.) Limited*
15. *Levy on Rooms of Five Star Hotels under the Finance Act*
16. *Visa Fee*
17. *Time bar Provisions for Taxes at the point of Customs*
18. *Technical Rectifications*
19. *International Financial Reporting Standards*
20. *Hub Service (Special Provisions) Act*
21. *Effective Dates*

## 1 *Income Tax (Amendments to the Inland Revenue Act No 10 of 2006)*

### 1.1 *Exemptions/Taxation at concessionary rates*

#### 1.1.1 *Exemption under Section 16 C*

The present tax holiday regime stipulated in Section 16C of the Inland Revenue Act applicable in relation to manufacture of any product will be extended to new enterprises engaged in any of the following activities as well, provided that the investment is made on or before 31<sup>st</sup> March 2015.

- i. *Agriculture and/or Agro processing*
- ii. *Animal Husbandry and/or processing*
- iii. *Fisheries and/or Fish processing*
- iv. *Information Technology*
- v. *Business/Knowledge Process Outsourcing*
- vi. *Health Care*
- vii. *Education*
- viii. *Beauty care*
- ix. *Cold room and storage*
- x. *Tourism*
- xi. *Sports and fitness centers*
- xii. *Creative work including art work*

#### 1.1.2 *Investment Limits (for New Enterprises)*

1.1.2.1 *Small scale enterprises engaged in Agriculture and/or Agro processing, Animal Husbandry and/or processing, Fisheries and/or Fish processing or Creative work including art work will be eligible for 4 year tax holiday if a minimum sum of Rs. 25 mn is invested.*

1.1.2.2. *Medium scale enterprises engaged in any specified activity will be eligible to a tax holiday as follows:*

<i>Investment</i>		<i>Tax Holiday</i>
<i>Rs. 50 mn – Rs. 100 mn</i>	-	<i>4 years</i>
<i>Rs. 100 mn – Rs. 200 mn</i>	-	<i>5 years</i>
<i>Over Rs. 200 mn</i>	-	<i>6 years</i>

1.1.2.3 *Large scale enterprises engaged in specified activities including any processing and solid waste management will be eligible for tax holiday as*

specified in section 17A. The period of tax holiday depending on the size of investment is as follows:

<b>Investment</b>	<b>Period of Tax Holiday</b>
Rs. 300 mn - Rs. 500 mn	6 years
Rs. 500 mn - Rs. 700 mn	7 years
Rs. 700 mn - Rs. 1000 mn	8 years
Rs.1,000 mn - Rs. 1,500 mn	9 years
Rs 1,500 mn - Rs. 2,500 mn	10 years
Rs. 2500 mn and above	12 years

The qualifying activities will be expanded and included under the respective section of the Act.

### 1.1.3 Expansion of existing Enterprises

If an existing enterprise is investing in such enterprise itself (an expansion) a minimum of Rs 50mn prior to 31<sup>st</sup> March 2015, such investment will be treated as a qualifying payment deductible from the assessable income of the enterprise subject to a maximum of 25% of the investment for each year of assessment falling within the period of 4 years commencing from the year of investment.

### 1.1.4 Strategic Import Replacement Enterprises

Having recognized that Sri Lanka is a net importer, the production of the following items to replace imports either by a new enterprise or by way on an expansion of an existing enterprise with the corresponding investment will be eligible for following concessions:

- **New enterprises:** a 5 year tax holiday followed by the concessionary income tax rate;
- **Existing enterprises :** the concessionary income tax rate for a period of 5 years couple with qualifying payment relief ( described in item 1.1.3)

<b>Product</b>	<b>Investment limit</b>	<b>Concessionary Tax rate</b>
Cement	US\$ 50 mn	12%
Steel	US\$ 30 mn	12%
Pharmaceuticals	US\$ 10 mn	12%
Fabric	US\$ 5 mn	12%
Milk Powder	US\$ 30 mn	12%

- 1.1.5 VAT, Customs Duty, Cess, and PAL on the importation of plant, machinery or equipment by enterprises referred to in above will be deferred during the project implementation period, and such deferment will be treated as an exemption on the fulfillment of the conditions specified by the Board of Investment of Sri Lanka with the concurrence of Commissioner General of Inland Revenue.

1.1.6 *Enterprises exporting more than 75% of their output will continue to get the same privileges that are prevalent today for such enterprises in relation to the above taxes.*

1.1.7 *The BOI will be authorized through an amendment under the Inland Revenue Act to extend these concessions together with the other relevant concessions to qualified enterprises referred to in above.*

*For the purpose of the above provisions, the investment means as 'investment in fixed assets' such as land, plant, machinery or equipment.*

1.1.8 *Advance ruling mechanism will be introduced for investors eligible for tax exemptions, to ensure consistency in the application of respective provisions of relevant tax laws.*

#### 1.1.9 **Other tax exemptions**

##### (a) **Institutions**

*Profits and income ( other than dividends and interest ) of the following will be exempt from income tax :*

- (i) *The Institute of Certified Management Accountants of Sri Lanka;*
- (ii) *The Child Protection Authority*

*(Section 7 of the Inland Revenue Act will be amended)*

##### (b) **Source specific exemptions:**

- (i) *Royalty received from outside Sri Lanka will be exempt, if remitted to Sri Lanka through a bank;*
- (ii) *Profits and income from the redemption of a Unit of a Unit Trust or a Mutual Fund ;*
- (iii) *Interest accruing to any person or partnership outside Sri Lanka on a loan granted to any person or partnership in Sri Lanka ;*
- (iv) *Profits and income from the administration of any sport ground , stadium or sport complex ;*
- (v) *Profits and income of a trainer of any sport, being a non citizen individual who is brought to Sri Lanka for that purpose*

*(Section 13 of the Inland Revenue Act will be amended)*

## 1.2 **Concessionary rates**

### (a) **Development activities carried out by specified bank branches**

*The profits and income of newly set up branch of a commercial bank dedicated to development banking will be taxed at a lower rate of 24%.*

**(b) Research and development**

*The profits and income from the activities carried out as research and development by a person other than a company will be reduced to a maximum rate of 16% and in the case of a company the rate will be reduced to 20%.*

**(c) Value Added Tea**

*A grower cum manufacturer or a manufacturer of tea, who establishes a joint venture with a tea exporter for the purposes of exporting pure Sri Lankan tea (Ceylon Tea), in value added form, with a Sri Lankan brand name, will be eligible to be taxed at the rate of 12% on the manufacturing income attributable to the quantum of tea purchased for that purposes by the joint venture.*

**(d) Handloom Industry**

*The rate of tax applicable on the profits and income of a person or partnership from the locally manufacture of handlooms products will be reduced to 12% (maximum)*

**(e) Health Care Services**

*The rate of tax applicable on the profits and income from the health care services will be reduced to a maximum of 12%.*

*(f) Consequent to rate changes introduced, low rates will be accommodated in Third and Fifth Schedules to the Inland Revenue Act.*

**1.3 Ascertainment of profits and income*****Deductions ( allowable under section 25 of the Act )******- Capital Expenditure***

*Cost of any high tech plant, machinery or equipment acquired on or after April 1, 2012 for energy efficiency purposes ,will be allowed at the rate of 50% on the cost of acquisition;*

***- Travelling expenses***

*(a) Consequential amendments will be made with effect from April 1, 2011, to allow expenses incurred by an employer on any motor vehicle used by an employee irrespective of whether such vehicle benefit is taxable on such employee.*

*(b) Companies exclusively providing the services of design development, product*

*development or product innovation will be permitted to deduct in full, any travel expenditure ( whether local or foreign) incurred in relation to such services.*

- *Maintenance and management expenses incurred by any person in respect of any Sports ground , Stadium or Sports Complex will be deductible without any restriction*

*(Section 25 of the Inland Revenue Act will be amended)*

#### **1.4 Pre – commencement expenses of Small and Medium Scale Enterprises**

*In order to help new Small and Medium Scale Enterprises with expected turnover not exceeding Rs 500mn, the pre- commencement expenses incurred on any such enterprises in the year of assessment immediately preceding the year in which the enterprise commences commercial operations will be allowed for deduction from the total statutory income of year of commercial operation*

*(Section 32 of the Inland Revenue Act will be amended)*

#### **1.5 Qualifying payments**

*Expenditure incurred by any person under any community development project carried out in most difficult villages as identified and published in the Gazette by the Commissioner General of Inland Revenue, will be a qualifying payment deductible subject to a upper limit of Rupees one million in the case on an individual and Rupees ten million in the case of a company.*

*(Section 34 of the Inland Revenue Act will be amended)*

#### **1.6 Requirement of furnishing Audit Certificate:**

*Where a Quoted Public Company is a member of a group of companies, the requirement of furnishing compulsory audit certificate will be extended to all the member companies and associate companies of that group.*

*(Section 107 of the Inland Revenue Act will be amended)*

#### **1.7 Definition of Dividends**

*Definition of dividends will be amended to cover scrip dividends  
(Section 217 of the Inland Revenue Act will be amended)*

## **2 Textile and Apparel Industry**

*All yarn except sewing thread and vegetable fibre based yarn will be free from all taxes to facilitate handloom manufacturing or fabric manufacturing with a value addition and import replacement.*

## 2.1 **Fabric**

*Imported fabric for domestic consumption will be subject to an all-inclusive tax of Rs.75 per kg. Sale of excess fabric of export oriented apparel manufacturers will also be subject to the above all inclusive rate. However, in order to assist small industrialist engaged in the manufacture of various items ( soft toys, hand bags etc) such cut pieces of fabric not more than two meters can be sold subject to a tax of Rs 25/- per kg.*

*Fabric sold in the local market by export oriented textile millers, will be permitted to sell 25% of their production in the local market on the payment of all inclusive tax of Rs. 40 per kg in the domestic market if they do not opt to be under the import replacement programme. Domestic manufacturers of fabric who are not enjoying BOI concessions will be exempted from Value Added Tax.*

## 2.2 **Apparel**

*All imports of branded apparel products including sportswear will be subject to a maximum of 35% of all inclusive tax at the point of Customs.*

*Export oriented apparel manufacturers who are exporting a minimum of 75% of their production will be permitted to sell the balance in the local market on the payment of all inclusive tax of Rs. 25 per piece and Rs. 25 for a bundle of 6 pieces of selected categories.*

## 3. **Value Added Tax (VAT) [Amendments to VAT Act No 14 of 2002]**

### 3.1 **Exemptions**

#### (a) **The import of:**

- *Speakers & amplifiers, Digital Stereo Processors & accessories, Cinema Media players and Digital readers under HS Code 8518.29, 8518.40, 8519.81, 8519.89 for the improvement of Film Theatres with digital technology ( the present exemption applicable to the import of equipment for the cinema industry will be extended by addition of the above items)*
- *Pharmaceutical machinery and spare parts under HS Code Nos 8479.89.90, 8424.20, 8413.81 and 8481.80, by manufacturer of pharmaceuticals (w.e.f. June 1, 2011)*
- *Machinery for the manufacture of bio mass briquettes and pallets by the manufacturer of such products under HS Code 8479.30 (w.e.f. June 1, 2011)*



- *Green Houses , Poly Tunnels and materials for the construction of green houses and poly tunnels by the growers*

**(b) The supply of:**

**(i) locally manufactured:**

- *hydropower machinery and equipment*
- *Products using locally procured raw materials for the required specification of the tourist hotels and airlines which promote local value added products*
- *Canned fish*
- *Turbines*
- *Specified products to identified State Institution replacing imports*
- *Pottery product by the manufacturer*

**(ii) -Research and development services**

- *Services by the Department of Commerce*
- *Paintings by the creator of such painting*

**(c) The import or the supply of:**

- *Lorries and Trucks under the HS Code Nos 8704.10 8704.21.11, 8704.21.20, 8704.22.10 , 8704.23 10 and 8704.23.30*
- *Buses under HS Code No 8702.10.59*
- *Sport equipments under HS Heading No 95.06*
- *Machinery use for the production of rubber and plastic prodcuts under HS Heading 84.77*
- *Wood sawn under HS Heading Nos 44.07, 44.08 and 44.09*
- *Sunglasses under H S Code Nos 9004.10 and 9004.90*
- *Perfumes under H S Code No 3303.00 .10*
- *Mammoties under H S Code No 8201.30.10 and fork under H S Code No 8201.20*

- *Artemia eggs under HS Code No. 0511.91.20 and Peat moss - under HS Code No 2703.00*
- *Moulding (steel, glass, rubber and plastic) under H S Heading 84.80*
- *Items and spares needed in the poultry industry under HS Code Nos. 3926.90.30, 3926.90.50, 8418.61.30, 8418.61.40 and 8418.69.30*
- *Photo sensitive semi – conductor devices under H S Code No 8541.40*
- *In order to protect local industries the raw materials exclusively used for the manufacture of following articles:*
  - ***for the manufacture of spectacles** under HS Codes 3824.90.90, 2916.14.00, 2916.32, 3919.10, 3405.40.90, 5901.90, 6805.20, 6805.30, 8302.10 and 8466.92*
  - ***for the manufacture of spectacle frames** under H.S. Code Nos. 2825.90, 7505.22, 8479.90, 7506.20*

(d) **VAT on Financial Services:** *The value addition attributable to a Unit Trust or a Mutual Fund from interest, dividend or dealing in debt instruments*

**(Part II of the First Schedule to the VAT Act will be amended)**

### 3.2 **Input tax restriction**

*The mechanism introduced in 2011 to deduct unabsorbed input tax as at 31<sup>st</sup> December 2010, will be further extended to facilitate claiming the balance (if any) in the following manner:*

- *effective from July 13, 2011, up to December 31, 2011 the set off is permitted against taxes payable at the point of Customs subject to the limit of 5% specified in the VAT Act, if no liability to VAT;*
- *effective from January 1, 2012, the 5% restriction will be removed and the tax payers will be permitted to claim the balance against any tax administered by the Commissioner General of Inland Revenue, or the Director General of Telecommunication Regulatory Commission subject to the limit of 10% of the unabsorbed balance as at December 31, 2010, until the residue of the unabsorbed balance as at December 31, 2010, ( after deducting the amount already set off up to December 31, 2011) is fully absorbed;*
- *In addition, in the case where there is no liability to VAT, the set off is extended against to cover up the taxes payable at the point of Customs, subject to the same restriction.*

*(Section 22 of the VAT Act will be amended)*

### 3.3 VAT Suspension Scheme

Certain changes will be incorporated to the VAT Act, which are already been administratively carried out and communicated to tax payers through Guidelines etc for the proper implementation of the SVAT system.

## 4 Nation Building Tax (NBT) [Amendments to NBT Act No 9 of 2009]

### 4.1 Exemptions :

- (a) *Importation of air craft or ships under HS Code Nos 8802.11, 8802.12, 8802.20, 8802.30 ,8802.40, 89.01, 89.02, 89.05, 89.06, 89.07 and 89.08*
- (b) *Importation of artificial limbs, crutches, wheel chairs, hearing aids, accessories for such aids, white canes for the blind, Braille typewriters and parts , Braille writing papers and boards under HS Code Nos relevant HS Codes : 87.13, 90.21 ,6602.00. 10 , 8473.10.10 and 8469.00.10*
- (c) *Importation of timber logs under HS Heading No 44.03*
- (d) *Importation of yarn except sewing thread and vegetable fiber based yarn under HS Heading Nos 50.01, 50.02, 50.03, 50.04, 50.06, 51.01, 51.02, 51.03, 51.04, 51.05, 51.06, 51.07, 51.08, 51.09, 51.10, 52.01, 52.03, 52.05, 52.06, 53.01, 53.02, 53.03, 53.06, 53.07, 54.02, 54.03, 54.04, 54.06, 55.01, 55.02, 55.03, 55.04, 55.06, 55.07, 55.09, 55.10, 55.11, 56.04, 56.05 and 56.06*
- (e) *Importation of fabric under H S Code Nos 5007.10,,5007.20,,5007.90, 51.11, 51.12, 51.13, 52.08, 52.09, 52.10, 52.11, 52.12, 53.09, 53.10, 54.07, 54.08, 55.12, 55.13, 55.14, 55.15, 55.16, 58.01, 58.02, 58.04, 58.06, 58.09, 58.11, 60.01, 60.02, 60.03, 60.04, 60.05 and 60.06*  
(Part I of the first schedule of the NBT Act will be amended.)
- (f) *Wholesale or retail sale of :*
  - *printed books with effect from 1/7/2011*
  - *goods to exporters*
  - *Fresh milk, green leaf, cinnamon, rubber( latex , crape or sheet rubber) by collectors*
  - *Petrol, diesel or kerosene in a filling station*  
( Section 3 of the NBT Act will be amended )

(g) *Sale of locally manufactured clay roof tiles and pottery product by the manufacturer*

*(Part I of the First Schedule of the NBT Act will be amended)*

(h) *Sale of paintings by the creator of such painting*

*(Part II of the First Schedule of the NBT Act will be amended)*

4.2 *The definition of the exporter for the purpose of the NBT Act will be adjusted to cover a manufacturer of goods who is exporting his produce through a Trading House established for export purposes as well effective from 2009.*

## 5. **Economic Service Charge (ESC) [Amendments to ESC Act No 13 of 2006]**

### 5.1 **Exemptions**

- *The chargeability to ESC will be further simplified by removing the liability to ESC on the turnover of any business of which the profits are subject to Income Tax. Accordingly, ESC is payable only on the turnover of any business, the profits for any year of assessment of which are not liable to income tax due to the application of any tax exemption or incurring losses during that period.*
- *Sale of locally manufactured clay roof tiles and pottery product by the manufacturer*

5.2 *The threshold of ESC will be expanded from Rs 25mn to Rs 50mn per quarter.*

## 6 **New Registrations and licensing of Motor Vehicles**

### (a) **New Registration Charges for Motor Vehicles**

*In order to simplify the charges payable on registration of vehicle, the presently applicable relevant withholding tax would be amalgamated with vehicle registration charges. The applicable new vehicle registration charges will be as follow*

	Rs.	
<b>Vehicle Category</b>	<b>Existing</b>	<b>Proposed</b>
<i>Hand Tractor</i>	1,500	1,500
<i>Motor coach ( Bus)</i>	3,000	3,000
<i>Motor Lorry</i>	3,000	3,000
<i>Tractor Trailer</i>	6,000	6,000
<i>Four Wheel Tractor</i>	7,000	7,000
<i>Land Vehicle</i>	7,000	7,000
<i>Lorry Trailer</i>	7,500	7,500
<i>Hearse</i>	10,000	10,000
<i>Motor Ambulance</i>	10,000	10,000
<i>Motor Cycle</i>	1,500	2,000

Motor Tricycle	2,000	2,500
Motor Tricycle Van	2,500	3,000
Motor Car ( not exceeding 1600 cc)	10,000	15,000
Motor Car ( exceeding 1600 cc)	10,000	20,000
Prime Mover	10,000	15,000
Fork lift	15,000	20,000
Dual Purpose Vehicle	10,000	15,000

(b) **Revenue Licensing Annual Fee for Motor Vehicle**

Vehicle Category	Changing revenue license fee
Lorries, Tractors, Busses and Trailers ( for tractors or trailers)	No change
Motor Bicycles, Three-wheelers	Existing fee increased by Rs 150
Other vehicle categories	Existing fee increased by Rs 500

(c) **Luxury, Semi Luxury and Dual Purpose Motor Vehicle Taxes**

Rs.

Year	Vehicle Category and cylinder capacity					
	<b>Luxury</b> Diesel - cars over 2,500 and Petrol - cars over 2,000		<b>Semi Luxury</b> Diesel - cars 2,201 to 2,500, Jeeps over 2,201, Petrol - cars over 1801 to 2,000 and jeeps over 1801		<b>Dual Purpose</b> Diesel - cabs over 2,200, Petrol - cabs over 1,800	
	Existing Rate	New Rate	Existing Rate	New Rate	Existing Rate	New Rate
Year 1	100,000	150,000	50,000	60,000	20,000	40,000
Year 2	78,000	100,000	39,375	50,000	15,750	25,000
Year 3	68,000	75,000	34,000	40,000	13,600	20,000
Year 4	57,000	60,000	28,875	30,000	11,550	12,000
Year 5	48,000	50,000	24,000	25,000	9,600	10,000
Year 6	38,750	40,000	19,375	20,000	7,750	8,000
Year 7	30,000	30,000	15,000	15,000	6,000	6,000

## 7 Cess

### 7.1 To reduce the upfront cost of local manufactures, cess on import of following raw materials have been removed/reduced:

Item	H S Headings / H S Code
Starch	11.08
Polymers of ethylene in primary forms	39.02 3903.11, 3903.19, 3903.20, 3903.30,3903.90.90,3904, 3905.19,3905.29, 3905.30, 3905.91, 3905.99, 3907.10, 3907.20, 3907.30, 3907.40, 3907.60, 39.08 and 39.15
Pipes for mini hydropower project	3917.29.10 and 3917.40.10
Butyle rubber and rubber threads	4005.10.19 , 4005.10.29 and 40.07
Scrap Iron	7204.10
Sanitary wear of plastics, steel sink and baths	3922.10 3922.20, 3922.90 and 73.24
Buckles	83.08
Easy open ends for metal cans	8309.90.30

### 7.2 To enhance the availability of branded products, cess on import of following items has been reduced/ removed:

Item	H S Headings / H S Code
Beauty or make -up preparations	33.04, 33.05, 33.06 and 33.07
luggage, travel bags, hand bags and belts	42.02, 42.03 and 42.05
Apparel	61.01 through 61.17,62.01 through 62.16, 63.02 through 63.04
Footwear	64.01 through 64.05,
Hats	65.01 through 65.05
Ornamental porcelain and ceramic products	69.10 through 69.14
Glass wear	70.09, 70.13, 70.16
Cutlery and razors	82.11,82.12, 82.14 ,82.15
Toys	95.03

**7.3 To encourage the local value added industries, Cess has been increased or imposed on import of following items**

Item	H S Headings / H S Code
Dried Vegetables/Dried Fruit	07.12, 0803.00.90, 0804.20.20, 0804.30.20, 0804.40.20, 0804.50.20, 0804.50.40, 0804.50.60, 0805.10.20, 0805.20.20, 0805.40.20, 0805.50.20, 0805.90.20, 0806.20 and 08.13
Wheat flour	1101.00.10
Thripasha	1901.90.91, 1901.90.92 and 1901.90.93
Gauze and bandage	30.05
Joss- stick	33.07.41
Vinyl chloride	3917.23
Refrigerators	84.18.10.10, 8418.10.90, 8418.21.90, 8418.21.30, 8418.29.10, 8418.29.20, 8418.29.30 and 8418.29.30
Bicycle rim	8714.92.10

**7.4 To boost the sport economy and to build a healthy nation Cess on import of following items has been reduced/ removed**

Item	H S Headings / H S Code
T- shirts and shorts	61.09 , 6103.42 and 6104.62
Track- suits and swim wear	61.12 and 62.11
Shoes	64.01 through 64.05

**7.5 To encourage local value addition, Cess has been increased / imposed on export of following items**

Item	H S Headings / H S Code
Raw rubber	4001.10 and 4001.21
Natural graphite	2504.90.90
Clay	25.07,
Sand	2505.90
Phosphate	2510.10
Stones	2513.20
Granite, sand stones	2516.20, 2516.90
Mica	2525.10
Ilmanite	2614.00.10
Rutile	2614.00.20
Titanium	2614.00.90
Zirconium	2615.10
Timber logs	4403.99, 44.07, 44.08 and 44.09

## 8 Excise Duty

Liquor produced from local plant material or plant product will be subject to a lower excise duty of Rs 100/- per proof liter.

## 9 Excise (Special Provisions) Duty

Electric motor bicycles ( H S Code 8711.90.10 ) and Polymers of ethylene in primary forms ( H S Heading 39.01) are exempted from Excise (Special Provisions ) Duty.

## 10 Customs Duty

Considering requests received from industries and importers concerning reduction or increase of customs duty on imports were studied and duty revisions are proposed in order to protect the local industries adequately. Locally produced commodities are protected from imported goods by customs duties at levels of 30% (highest), 15% (intermediate) and 5% (low). The protection levels were reviewed and Customs duties are proposed to reduce on the products that have been protected for a long period of time. The local value addition, potential for exports and effect on the consumer were also considered to determine the level of protection. The protection levels are suggested to allow the local industry to compete with the imported products and promote to be competitive in the international market. The policy on Customs Duty structure remained unchanged except for the revisions proposed.

<b>Hs Code</b>	<b>Prevailing Customs Duty</b>	<b>Proposed Customs Duty (%)</b>
<b>1. To strengthening caring society</b>		
<i>Braille typewriters</i>		
8469.00.10	5%	Free
<i>Parts for Braille type writers</i>		
8473.10.10	5%	Free
<b>2. To reduce upfront cost of raw materials</b>		
<i>Prepared glues &amp; other prepared adhesives</i>		
3506.10.10	15%	Free
3506.91.10	15%	Free
3506.99.10	15%	Free
<i>Saturated other polyesters</i>		
3907.99.10	5%	Free



<i>Polymers of vinyl acetate</i>		
3905.12	15%	5%
<i>Hardened gelatin capsules</i>		
3926.90.80	15% or Rs. 20/kg	Free
<i>Compounded rubber, unvulcanised</i>		
4005.10.19	15%	Free
4005.10.29	15%	Free
<i>Vulcanised rubber thread</i>		
4007.00	15%	5%
<i>Raw materials for spectacle</i>		
9003.90.10	15%	Free
9003.90.90	15%	Free
9001.90	5%	Free
9001.50.10	5%	Free
<b>3. To encourage local value addition industries</b>		
<i>Food preparations based on maize, soya bean and green gram</i>		
1901.90.91	Free	15%
1901.90.92	Free	15%
1901.90.93	Free	15%
<i>Pneumatic tyres of rubber</i>		
4011.10	30% or Rs.90/kg	30% or Rs.100/Kg
<i>Steel &amp; parts of structures</i>		
7308.90.90	30%	5%
<i>Razor blades</i>		
8212.20.10	15%	Free
8212.20.90	30%	5%
<i>Easy open lids</i>		
8309.90.30	15%	Free
<i>Refrigerators</i>		
8418.10.10	30%	15%
8418.10.90	30%	15%
8418.21.10	30%	15%
8418.21.20	30%	15%
8418.21.30	30%	15%
8418.29.10	30%	15%
8418.29.20	30%	15%
8418.29.30	30%	15%
8418.29.90	30%	15%
<i>Moulds for rubber &amp; plastics</i>		
8480.71	15%	5%
8480.79	15%	5%
<i>Prefabricated buildings</i>		
9406.00	30%	5%

<b>4. To boost the sport economy and to build the healthy society</b>		
<i>Sports footwear</i>		
6402.12	30% or Rs. 100/pair	Free
6402.19	15%	Free
6403.12	30% or Rs. 100/pair	Free
6403.19	15%	Free
6403.12	30% or Rs. 100/pair	Free
<b>5. To support transport ( passengers and goods )</b>		
<i>Buses / Lorries</i>		
4011.20	30% or Rs 90 /kg	15% or Rs 50 /kg
<i>Diesel engines (New)</i>		
8408.20.90	15%	Free
<i>Motor vehicles for the transport of goods/Lorries</i>		
8704.21.61	15%	5%
8704.22.10	5%	Free
8704.22.20	5%	Free
8704.23.10	5%	Free
8704.23.20	5%	Free
8704.23.30	5%	Free
8704.23.40	5%	Free
<b>6. To promote use of energy serving lamp</b>		
<i>Lamps/LED mounted in one housing &amp; Solar lanterns &amp; Sets for decorative lightening</i>		
9405.10.10	15%	Free
9405.20.10	15%	Free
9405.10.20	15%	Free
9405.20.20	15%	Free
9405.30	30%	Free
9405.40.30	15%	Free
9405.40.40	15%	Free
<b>7. To promote ICT and BPO Sector</b>		
<i>Automated data processing machines/ computers</i>		
8471.30.10	5%	Free
8471.30.90	5%	Free
8471.41.10	5%	Free
8471.41.90	5%	Free
8471.49.10	5%	Free
8471.49.90	5%	Free

8471.50.10	5%	Free
8471.50.90	5%	Free
8471.90	5%	Free
<b>8. Branded and other goods of Tourists interest</b>		
<i>Footwear</i>		
6401.10	30% or Rs. 100/pair	Rs. 100/pair
6401.92	30% or Rs. 100/pair	Rs. 100/pair
6401.99	30% or Rs. 100/pair	Rs. 100/pair
6402.20	30% or Rs. 100/pair	Rs. 100/pair
6402.91	30% or Rs. 100/pair	Rs. 100/pair
6402.99	30% or Rs. 100/pair	Rs. 100/pair
6403.20	30% or Rs. 100/pair	Rs. 100/pair
6403.40	30% or Rs. 100/pair	Rs. 100/pair
6403.51	30% or Rs. 100/pair	Rs. 100/pair
6403.59	30% or Rs. 100/pair	Rs. 100/pair
6403.91	30% or Rs. 100/pair	Rs. 100/pair
6403.99	30% or Rs. 100/pair	Rs. 100/pair
6404.19	30%	Rs. 100/pair
6404.20	30%	Rs. 100/pair
6405.10	30% or Rs. 100/pair	Rs. 100/pair
6405.20	30% or Rs. 100/pair	Rs. 100/pair
6405.90	30% or Rs. 100/pair	Rs. 100/pair
<i>Ornamental porcelain &amp; ceramic products</i>		
6913.10	30% or Rs 25/kg	Free
6913.90.10	30% or Rs. 20/kg	Free
6913.90.90	30% or Rs. 20/kg	Free
<i>Glassware</i>		
7013.10	30%	5%
7013.22	30%	5%
7013.33	30%	5%
7013.41	30%	5%
7013.91	30%	5
<i>Cutleries</i>		
8211.10	15%	Free
8215.10	30%	Free
8215.20	30%	Free
8215.91	30%	Free
8215.99	30%	Free
<i>Sunglasses</i>		
9004.10	30%	Free
9004.90	15%	Free
<i>Hair accessories</i>		
9615.11	30%	Free
9615.19	30%	Free
9615.90	30%	Free

## 11 Ports and Airports Development Levy (PAL)[Amendments to PAL Act No 18 of 2011]

### 11.1 Exemption on importation of:

Items	H S Heading/ Code
Artificial limbs, crutches, wheel chairs, hearing aids, accessories for such aids, white canes for the blind, Braille typewriters and parts , Braille writing papers and boards	87.13, 90.21 ,6602.00.10 , 8473.10.10 and 8469.00.10
Timber logs	44.03
Yarn except sewing thread and vegetable fibre based yarn	50.01, 50.02, 50.03, 50.04, 50.06, 51.01, 51.02, 51.03, 51.04, 51.05, 51.06, 51.07, 51.08, 51.09, 51.10, 52.01, 52.03, 52.05, 52.06, 53.01, 53.02, 53.03, 53.06, 53.07, 54.02, 54.03, 54.04, 54.06, 55.01, 55.02, 55.03, 55.04, 55.06, 55.07, 55.09, 55.10, 55.11, 56.04, 56.05 and 56.06
Fabric	5007.10,,5007.20,,5007.90, 51.11, 51.12, 51.13, 52.08, 52.09, 52.10, 52.11, 52.12, 53.09, 53.10, 54.07, 54.08, 55.12, 55.13, 55.14, 55.15, 55.16, 58.01, 58.02, 58.04, 58.06, 58.09, 58.11, 60.01, 60.02, 60.03, 60.04, 60.05 and 60.06

## 12 Special Commodity Levy

To simplify the taxation at the point of Customs in lieu of all the applicable taxes one single tax will be imposed for the following items.

Item	HS Code
Maldivian fish	0305.59.10
Dried fish	0305.59.90
Oranges	0805.10.10
Mandarin	0805.20.20
Grapes	0806.10
Apples	0808.10
Coriander	0909.20.10 and 0909.20.90
Saffron	09.10.30.10 and 09.10.30.90

**13 Telecommunication Charges**

13.1 Levy on outgoing international calls to be increased from Rs 2 per minute to Rs 3 per minute;

13.2 Rate of incoming international calls to be increased from US \$ 7 cents per minute to US\$ 9 cents per minute

**14** Importation of goods by Sri Lankan Air Lines Limited, Air Lanka Catering Services Ltd and Mihin Lanka (Pot) Ltd will be exempted from all applicable taxes on the importation of any goods at the point of Customs ( including transactions through BOI Customs).

**15 Levy on rooms of Five Star Hotels under the Finance Act**

The application of levy will be subject to the concessionary rate specified for Airline crews in the Gazette Order under section 53 of the Tourism Act No 38 of 2005.

**16 Visa Fee**

Visa fees will be revised as follows

SAARC countries- US \$ 10

Other countries - US \$ 20

**17 Time Bar Provisions for taxes at the point of Customs**

Presently there is no time bar provision applicable to taxes collected by the Director General of Customs. A two year time bar provision will be introduced in relation to such taxes.

**18 Technical Rectifications**

Relevant amendment will be made to the Inland Revenue Act No 10 of 2006, Value Added Tax Act No 14 of 2002, Nation Building Tax Act No 9 of 2009, Economic service Charge Act No 13 of 2006, Finance ( Amendment ) Act No 15 of 2011, Telecommunication Levy Act No 21 of 2011, Tax Appeals Commission Act No 23 of 2011 to rectify certain ambiguities (including differences in translations)

**19 International Financial Reporting Standards (IFRS)**

Accounting Standard setters in several countries in the world including Sri Lanka have committed to converge from their existing domestic accounting framework to International Financial Reporting Standards (IFRS) promulgated by the International Accountancy Standards Board.

Necessary adjustments to the respective tax laws would be made after studying the tax implications of financial statements prepared under IFRS.

**20 Hub Service (Special Provisions) Act**

20.1 A new Finance Act will be introduced to exempt the application of Customs Ordinance, Import Export Control Act (including regulations thereunder) and the Exchange Control Act to enterprises recognized by the Board of Investment as companies engaged in:

- Entrepot trade in apparel involving import, simple processing and re-export

- *Transshipment business in apparel clothing where goods can be procured from one country or manufactured in one country and shipped to another country without bringing into Sri Lanka maritime operation*
- *Providing front end services to the apparel manufacturers in the region*
- *Promoting leading buyers to establish headquarters operations in Sri Lanka for management of finance, supply chain and billing operations*
- *Promoting logistics services such as multi country consolidation in Sri Lanka*

20.2 Provisions will be made in that to ensure the following:

- i) *Where an enterprise is engaged in an activity involving physical import of goods for re-export under any of the activities referred to above, such operations shall be carried out either in a free port operated under the supervision of the Sri Lanka Ports Authority of Sri Lanka or a bonded area declared under the BOI law or Customs ordinance.*
- ii) *Any movement of goods from and to the identified free port or to a bonded area from or to the domestic territory will be considered either as an export or import as the case may be.*
- iii) *In case of enterprises which are not involved in such physical movement of goods, but engaged in regionalheadquarter operations, supply chain management, etc., can be located outside such demarcated area.*

## **21 Effective dates of proposed amendments**

*Unless stated otherwise, the proposed amendments in relation to*

- (i) *Income Tax and Economic Service Charge will be implemented with effect from April 1, 2012.*
- (ii) *Value Added Tax, Nation Building Tax, Telecommunication charges and Visa Fee will be implemented with effect from January 1, 2012.*
- (iii) *New Registration of Motor Vehicles will be implemented with immediate effect from November 24, 2011.*
- (iv) *Luxury Motor Vehicle Tax, Cess, Ports and Airports Development Levy, Excise (Special) Duty, Excise Duty, Customs Duty and Special Commodity Levy will be implemented with immediate effect.*

*Rs.500/- per month). 50% of this increase will be paid in January 2012 and the balance 50% will be paid in July 2012.*

*Circulars on all the above revisions will be issued by the Secretary of the respective line Ministry with the recommendation of the Salaries and Cadre Commission and the concurrence of the Ministry of Finance and Planning.*