

Sri Lanka Budget 2019

Tax Proposals Summary



 **SBN Associates**
Chartered Accountants

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Income Tax

- The Earnings by any non-resident person on any sovereign bond denominated in local or foreign currency will be exempted.
- Interest income earned by any resident person on sovereign bonds denominated in foreign currency, including Sri Lanka Development Bonds (SLDB) will be exempted.
- Interest income earned by any person on NRFC and RFC accounts will be exempted for 5 years
- Interest income, up to Rs.5,000/- per month, earned by children of less than 18 years of age, in relation to any deposit account maintained in a financial institution, will be exempted.
- Interest paid to any person outside Sri Lanka on loans granted by such person to any person in Sri Lanka will be exempted. This exemption will not be applicable to loans granted by a Non-resident company to its Holding company or a Subsidiary Company in Sri Lanka

Withholding Tax (WHT)

- Royalty payments not exceeding Rs.50,000 per month, subject to Rs.500,000/- for each year of assessment, made to any resident individual will be exempted from WHT.
- Rent payments not exceeding Rs.50,000 per month, subject to Rs.500,000/- for each year of assessment, made to any resident individual will be exempted from WHT.
- **Incentives for Information Technology**
The requirement of minimum 50 employees in order to qualify for the additional deduction equal to 35% of the salary cost when calculating the income from the business of IT will be removed.
- **Investment Incentives for Existing Businesses**
Tax concessions by way of accelerated depreciation will be granted instead of regular depreciation for the new investments made by existing businesses.
- **Definition of Gross Income**
The “gross income” referred to in item (iii) of the subparagraph (3) of paragraph 4 of First Schedule will be the total income excluding the investment income. The concessional tax rate of 14% will be applied only on the income from an activity eligible for the concessional tax rate. The investment income will be liable for tax at 28%.

Value Added Tax (VAT)

- The piece based VAT rate applicable on domestic sale of certain garments by the export oriented BOI companies will be revised from Rs.75/- to Rs.100/-
- The term “locally produced rice products” will be re-defined for the purpose of clarity and certainty.
- VAT imposed on the supply of condominium housing units will be implemented with effect from April 1, 2019 where deed of agreement relating to such supply is not executed prior to April 1, 2019.
- Provisions will be incorporated in the VAT Act, enabling the Minister to prescribe the basis for chargeability of VAT on certain goods as may be determined by the Minister, with the view of revenue protection.
- Pharmaceutical machineries will be re-defined for the purpose of VAT Act.

Nation Building Tax (NBT)

- The exemption on the importation of rough unprocessed gem stones for re-export after cutting and polishing will be granted for the lapidary service providers registered under the National Gem & Jewellery Authority.
- Exemption on manufacturing cigarettes will be removed
- The cost of the infrastructure projects will be reduced by the removal of NBT on main construction contractor.
- NBT at the rate of 3.5% will be imposed on foreign payments made using Electronic Fund Transfer Cards (both Debit and Credit cards) to purchase goods or services including offshore digital services.
- In order to remove the NBT anomaly among tour operators, DMC Agencies and hoteliers who are receiving foreign currency will be adjusted.

Economic Service Charge (ESC)

- Amendment to the definition of the term “distributor” Definition of the term “distributor” will be clarified to include any person or partnership, appointed by an importer of any goods to Sri Lanka, for the sale in the wholesale market, of such goods.
- **Revision of rate of ESC applicable on exports**
The rate of ESC applicable on the turnover arising from the export of goods or services will be 0.25 per centum.
- **Revision of ESC applicable on the importation of certain articles or goods**
ESC will be charged at the rate of 0.5% on the importation of any article or good other than any capital goods as prescribed by the Minister of Finance taking in to consideration the economic benefit to the country
- ESC base on the importation of any article or good will be the aggregate of the CIF as approved by the Director General of Customs and the amount of any Custom import Duty, CESS PAL and SCL payable in respect of such articles or goods.

Excise Duty under Excise Ordinance

- **Revision of Excise Duty Rates**
The Excise Duty based on the Alcohol volume will be revised as follows:

Type	Rate (Rs. Per litre of alcohol)
Special Arrack	No change
Other Arrack	3,550/-
Country made foreign liquor	3,550/-
Beer less than 5%	2,700/-
Beer more than 5%	2,700/-
Wine - Local plant materials	600/-
Wine - other	2,700/-

- The Excise Duty rate of imported liquor will be revised as follows;
 - i. Malt Liquor (Beer) - Rs.55/- per bulk litre
 - ii. Wine - Rs.110/- per bulk litre
 - iii. Other liquor - Rs.215/- per bulk litre
- Cigarettes
Excise Duty on cigarettes will be increased by 12% as follows;
 - i. 60 – 67 mm - Rs.19,500/- per 1000 sticks
 - ii. 67 – 72 mm - Rs.23,000/- per 1000 sticks
 - iii. 72 – 84 mm - Rs.37,580/- per 1000 sticks
 - iv. >84 mm - Rs.42,200/- per 1000 sticks

- Excise Duty on sweetened beverages
The exempt quantum of sugar contained in beverages will be revised as follows;
 - Carbonated beverages - 4 grams per 100 ml
 - Fruit based beverages - 8 grams per 100 ml

Duty rate will be revised to 40 cents per gram of sugar in excess of the exempt quantity.

Motor Vehicles

- Excise Duty on hearses will be revised.
- Excise Duty on the hybrid and electric vans will be revised to reflect the energy efficiency benefits.
- Excise Duty on the Single cabs will be revised.
- Excise Duty on Buddy Trucks with cargo carrying capacity less than 2,000 kg will be reduced.
- Excise Duty revision on passenger vehicles

(a) Fuel

Engine Capacity	Petrol Fuel (Rs. per cm ³)	Diesel Fuel (Rs. per cm ³)
$x \leq 1000\text{cm}^3$	2,000 or	4,600
$1000\text{cm}^3 < x \leq 1300\text{cm}^3$	3,200	4,600
$1300\text{cm}^3 < x \leq 1500\text{cm}^3$	3,700	4,600
$1500\text{cm}^3 < x \leq 1600\text{cm}^3$	4,250	5,750
$1600\text{cm}^3 < x \leq 1800\text{cm}^3$	5,300	6,900
$1800\text{cm}^3 < x \leq 2000\text{cm}^3$	6,350	8,000

* Duty per unit

(b) Hybrid

Engine Capacity	Petrol Fuel (Rs. per cm ³)	Diesel Fuel (Rs. per cm ³)
$x \leq 1000\text{cm}^3$	1,500,000*	3,400
$1000\text{cm}^3 < x \leq 1300\text{cm}^3$	2,300	3,400
$1300\text{cm}^3 < x \leq 1500\text{cm}^3$	2,850	3,400
$1500\text{cm}^3 < x \leq 1600\text{cm}^3$	4,000	4,600
$1600\text{cm}^3 < x \leq 1800\text{cm}^3$	5,200	5,700
$1800\text{cm}^3 < x \leq 2000\text{cm}^3$	5,700	6,900

* Duty per unit

(c) Electric

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

(d) Three Wheelers

Type	Rs. (per cm ³ /Per kW)
Petrol (cm ³)	2,400
Diesel (cm ³)	1,450
Electric (kW)	7,500
Cargo - Petrol (cm ³)	500
Cargo - Diesel (cm ³)	375
Cargo - Electric (kW)	7,500

(e) Motor Cycles

Engine Capacity	Rs. per cm ³
x ≤ 50cm ³	575
50cm ³ < x ≤ 150cm ³	1,150
150cm ³ < x ≤ 200cm ³	1,150
200cm ³ < x ≤ 250cm ³	1,725
250cm ³ < x ≤ 350cm ³	1,725
350cm ³ < x ≤ 450cm ³	2,300
450cm ³ < x ≤ 500cm ³	2,300
500cm ³ < x ≤ 800cm ³	2,875
800cm ³ < x ≤ 1000cm ³	2,875
1000cm ³ < x	3,450

Betting and Gaming Levy

- **Revision of Annual Levy**

Annual levy for carrying on the business of gaming other than playing rudjino will be revised to Rs. 400 million

Annual levy for carrying on the business of playing rudjino will be revised to Rs.1 million

- **Revision of Casino Entrance Levy:** Casino entrance levy will be revised to US \$ 50 per person
- **Revision of Levy on Gross Collection:** Rate of the levy on gross collection will be revised to 15%

Finance Act

- **Carbon Tax**

Maximum carbon tax payable on commercial vehicles will be capped as follows;

Fuel Type	Less than 05 years	05 to 10 years	Over 10 years
Hybrid (Petrol/Diesel)	25 Cts per cm ³ or Rs.3,500 whichever is lower	50 Cts per cm ³ Rs.5,500/- whichever is lower	Rs.1.00 per cm ³ Rs.7,500/ whichever is lower
Fuel (Petrol/Diesel)	50 Cts per cm ³ Rs.3,500/- whichever is lower	Rs.1.00 per cm ³ Rs.5,500/- whichever is lower	Rs.1.50 per cm ³ Rs.7,500/- whichever is lower

- **Luxury Tax on Motor Vehicles**

Luxury Tax on Motor Vehicles will be imposed on the CIF value or the manufacturer's price as the case may be in excess of the Luxury Tax free threshold, as follows;

Type of Vehicle	Luxury Tax free Threshold	Rate (Applicable on the amount exceeding the Luxury Tax free Threshold)
Diesel	Rs. 3.5 Mn	120%
Petrol	Rs.3.5Mn	100%
Hybrid Diesel	Rs. 4.0 Mn	90%
Hybrid Petrol	Rs. 4.0Mn	80%
Electric	Rs. 6.0 Mn	60%

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

International Telecommunication Operators Levy will be removed

Embarkation Levy will be increased by US \$ 10 to US \$ 60 per passenger

- **Revision of Customs Import Duty**

Rate of the Custom Import Duty on selected goods will be revised

Unit rate of the Custom Import Duty will be increased by 10% on importation of selected goods

Custom duty applicable on imported fruit drinks will be adjusted with effect from June 1, 2019.

Custom Duty on Undenatured Ethyl Alcohol will be increased by Rs.200 to Rs.1000 per litre.

- **CESS Duty**

CESS on Beedi leaves will be increased up to Rs.3,500/- per kg.

CESS on items classified under following HS Codes will be removed.

0408.11.00	0802.32.00	0802.62.00	0810.20.00	0813.10.00
0408.91.00	0802.41.00	0802.70.00	0810.30.00	0813.20.00
0802.21.10	0802.42.00	0802.90.10	0810.40.00	0813.30.00
0802.22.00	0802.51.00	0802.90.90	0810.70.00	8418.21.10
0802.31.10	0802.52.00	0808.40.00	0812.10.00	8418.21.90

CESS on items classified under following HS Codes will be adjusted.

2106.90.50	3401.19.20	3920.63.99	3924.10.90	7217.90.10
2202.99.91	3920.51.91	3920.69.91	4011.10.90	8708.91.20
2202.99.99	3920.51.99	3920.69.99	6505.00.10	8708.91.90
3401.11.20	3920.63.11	3924.10.10	6505.00.90	

- **Ports and Airports Development levy**

With the view of promoting tourism sector and to reduce the upfront cost of local manufacturing industry, PAL on the items classified under HS Codes 0712.20.00, 0712.90.10 and 7801.10.00 will be reduced to 2.5%.

The lapidary sector will be encouraged by the removal of PAL on the items classified under HS Codes 8464.10.00, 8464.20.00 and 8464.90.00.

PAL on the high tech machinery and equipment items classified under HS Codes specified in Table 1 to this annexure will be reduced to 2.5%.

In order to remove the disparity between direct imports and purchase from BOI companies, PAL on the sale of pleasure or excursion vessels and yachts manufactured by any BOI company to another BOI company which chartering such vessels and yachts for its business, will be removed.

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

In addition to the auction price, all payable duties will be charged from the bidder on imported beedi leaves forfeited by the Customs.

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

Stamp Duty on the usage of credit cards for foreign purchases will be removed in line with the imposition of NBT on the foreign payments.

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

Other Fees and Charges

- The rates of fees and charges of government agencies which have not been revised in last 03 years will be increased by 15%.
- Passport fee will be revised as follows;
 - i. Alteration Fee - Rs.1,000/- per unit
 - ii. Processing fee (Urgent basis) - Rs.15,000/- per unit
 - iii. Processing fee (Normal basis) - Rs.3,500/- per unit
- Fee for the reservation of a vehicle registration number in advance from the current registration number will be revised as follows;

Fee (Rs.)	Available Number Limit
70,000/-	10,000
90,000/-	20,000
100,000/-	30,000

- A lifetime personal vehicle registration numbers will be issued on a fee of Rs. 1 million

Administrative Provisions

Necessary amendments will be made to the respective provisions of the, Inland Revenue Act, No.24 of 2017, 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 Acts and Finance (Amendment) Acts, Default Tax (Special Provisions) Act No 16 of 2010, Telecommunication Levy Act No 21 of 2011, Ports and Airports Development Levy Act No 18 of 2011, Tax Appeals Commission Act No 23 of 2011, Imports and Exports (Control) Act No. 1 of 1969, Stamp Duty (Special Provisions) Act No 12 of 2006 and Land (Restriction on Alienation) Act No. 38 of 2014 in order to streamline the revenue administration and to rectify certain ambiguities and unintended effects (including differences in translations).

Effective Dates of Tax Proposals

Unless stated otherwise, the proposals in relation to:

- Income Tax amendments will be implemented with effect from the year of assessment commencing from April 1, 2019.
- Value Added Tax, Nation Building Tax, ESC and amendments to Finance Act will be implemented with effect from June 1, 2019.
- Custom Import Duty, Excise (Special Provisions) Duty and Excise (Ordinance) Duty, Special Commodity Levy, CESS and Ports and Airports Development Levy will take effect immediately.



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