

08th November 2012.

To: Clients of Tudor V. Perera & Co.

Dear Client,

Budget Proposals - Year 2013 (Taxation)

It gives us great pleasure in forwarding herewith an overview of the Budget Proposals announced by His Excellency the President Mahinda Rajapakse, in his capacity as the Finance Minister, in the Parliament on 08th November 2012.

However, this should not be treated as authoritative statement, since the Budget Proposals for the year 2013 are pending legislation.

The facts given are for general guidance and professional advice should be sought prior to acting on same.

Should you need further clarifications, please feel free to contact us.

Yours faithfully,
TUDOR V. PERERA & CO.

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TAXATION

1. Income Tax

1.1. Exemptions/Taxation at concessionary rates

1.1.1. Exemptions

1.1.1.1. Institutional

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

- (a) College of General Practitioners of Sri Lanka established under Act No. 26 of 1974.
- (b) Sri Lanka Social Security Board established under Sri Lanka Social Security Board Act No. 17 of 1996.
- (c) Any Public Corporation to the extent of provision of services free of charges out of the funds voted by Parliament from the Consolidated Fund or out of any loan arranged through the Government.
- (d) Sri Lanka Savings Bank which is merged with National Development Trust Fund (NDTF).

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

1.1.1.2. Source wise

- (a) The exemption of profits and income from any off-shore business referred to in paragraph (b) of Section 13 of the Inland Revenue Act will be extended to include situations where goods are procured from one Country and transported to another Country other than Sri Lanka (with effect from 01.04.2012).
- (b) Royalty, franchising fee or any payment for designing made to any foreign collaborator by a BOI registered company during the period of tax holiday under Section 17A or Section 16D of Inland Revenue Act where the foreign direct investment raised outside Sri Lanka exceeds US\$ 50 Mn., if such services are:
 - essential in carrying out activities in Sri Lanka; and
 - not obtainable in Sri Lanka;as determined by the BOI on request made for that purpose.
- (c) Profits and income of any Government assisted private school which is not established under the Companies Act and registered with the Ministry of Education which is mandated to follow the Government curricula set by the Ministry of Education and the circulars issued by such Ministry.
- (d) Interest income from investment made on or after 01.01.2013 in:
 - Corporate Debt Services, quoted in any Stock Exchange licensed by the Securities and Exchange Commission of Sri Lanka (including the deduction of WHT under section 135); or
 - Municipal Bonds issued with the approval of the General Treasury (including the deduction of WHT under section 134).
- (e) Profits and income (except income from dividends and interest) of Lanka Puthra Development Bank.
(Section 13 of the Inland Revenue Act will be amended.)

- (f) The income from emoluments arising in Sri Lanka of any individual who is an expert within the meaning of paragraph (dd) of Subsection (1) of Section 8 of the Inland Revenue Act, and who is not a citizen of Sri Lanka and brought to Sri Lanka by a BOI registered company), during the period of tax holiday under Section 17A or Section 16D of the Inland Revenue Act, where the total investment made is out foreign direct investments exceeding US\$ 50Mn., if such services are essential to carry out the activities of the Company, as determined by the BOI on request made for this purposes.

Provided that the number of experts in an undertaking to whom this provision is applicable shall not exceed five.

(Section 8 of the Inland Revenue Act will be amended.)

- (g) The exemption on income from loans taken from persons outside Sri Lanka referred to in Section 9 (a) of the Inland Revenue Act will be amended to cover bonds as well effective from 01.04.2012.

(Section 9 (a) of the Inland Revenue Act will be amended.)

- (h) The profits and income of an undertaking from cultivation of renewable energy crops in agricultural lands.

(Section 16E will be introduced in the Inland Revenue Act.)

1.1.1.3. Tax concessions to Sri Lankan citizens earnings outside Sri Lanka

- (a) The present rule in deciding residency of an individual based on his absence from Sri Lanka for an unbroken period of 365 days referred to in Section 79(3) of the Inland Revenue Act, will be removed. Accordingly, only the 183 days rule will apply in deciding residency.

(Section 79 of the Inland Revenue Act will be amended.)

- (b) The profits and income derived from any source outside Sri Lanka by an individual who is a resident and citizen of Sri Lanka, will be exempt from income tax, if such income is remitted to Sri Lanka through a bank, in Sri Lanka.

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

- (c) The present exemption on profits and income derived from outside Sri Lanka applicable to dual citizens who arrive and stay in Sri Lanka referred to in Section 15 of the Inland Revenue Act, will be extended to individuals who have obtained permanent resident status in any other country or any similar status in which such individual obtains the citizenship in Sri Lanka and any other country.

(Section 15 of the Inland Revenue Act will be amended.)

1.1.2. *Concessionary Rates*

- 1.1.2.1. The present rate of 28% will be reduced to 10% in relation to Unit Trust Management Companies.

- 1.1.2.2. The maximum rate of income tax applicable to pilots on the profits from employment referred to in Section 40A and the qualified employees referred to in Section 40B (where identified professional services are provided to persons out of Sri Lanka for payment in foreign currency) will be reduced to 16%.

- 1.1.2.3. The maximum rate of income tax applicable on employment income being compensation for loss of employment which is not uniformly applicable to all the employees (as referred to in Subsection (2) of Section 35) will be reduced to 16%.
- 1.1.2.4. The tax rate on profits from poultry farming will be reduced to 10%.
- 1.1.2.5. Any supply of goods manufactured in Sri Lanka or provision of services, to foreign ships for payments in foreign currency will be treated as deemed exports and the profit and income there from will be taxed subject to the concessionary rate of 12%.
- 1.1.2.6. The sale of any product manufactured in Sri Lanka for payment in foreign currency through foreign exchange earning account authorized by the Central Bank of Sri Lanka will be treated as deemed exports and the profits and income there from will be taxed at the concessionary rate of 12%.
- 1.1.2.7. The sale of goods manufactured in Sri Lanka by an export oriented BOI registered enterprise to:
- Any BOI registered enterprise enjoying tax holiday under Section 16C, 17A or 16D of the Inland Revenue Act or the Strategic Development Projects Act and which is, permitted to import project related goods or raw materials on duty free basis under the provisions of that BOI Agreement during the project implementation period; or
 - Any person eligible to import specific goods on duty free basis under any Government Authority;
- will be treated as deemed exports of the manufacturer of such goods up to the quantity, approved by the BOI as import replacement, for tax purposes.
- 1.1.2.8. "Organic tea in bulk" will be classified as nontraditional goods, for the application of the concessionary rate of 12%.
- 1.1.2.9. The annual turnover of Rs. 300 Mn. referred to in Section 59B will be revised to Rs. 500 Mn. for the application of the concessionary rate of 10%.
- 1.1.2.10. Tax payable by any company listing its shares on or after 01.04.2013, and more than 20% of its shares are issued to the general public, will be reduced by 50% for the year of assessment in which such shares are listed and for the two years of assessment immediately succeeding that year of assessment.
- 1.1.2.11. The profits and income of any person or partnership from operating any mini hydro power project or other alternative energy source will be taxed at the concessionary rate of 12%.

(Relevant Sections and the Rate Schedules will be amended).

1.2. *Ascertainment of profits and income*

1.2.1. *Deductions (allowable under Section 25 of the Act)*

1.2.1.1. Allowance for Depreciation

The cost of acquisition of any plant, machinery or equipment acquired on or after April 01, 2013:

- (a) For technology upgrading purposes or introducing any new technology will be allowed for deduction at 50% per year;
- (b) For energy efficiency purposes, which provides more than 30% of the total requirement of the power generation out of alternative energy resources will be allowed for deduction in full;
- (c) For the establishment of Broker Back Office System to be compliant with the CSE requirements in relation to the Risk Management System will be allowed for deduction in full; and
- (d) For any export industry will be allowed for deduction at 50% per year.

1.2.1.2. **Special Levies charged by the Government**

Any sum paid by a Public Corporation or Government owned business undertaking as a special levy to the Government will be allowed as an expenditure deductible.

1.2.1.3. **Research and Development expenses**

The triple deduction allowed for expenditure on research and development carried out through Government institutions will be extended to such expenditure incurred on research carried out through private institutions as well.

1.2.1.4. **Advertisement expenses**

The present restriction on the deduction of advertisement expenses (25%), will be removed for specific sponsorship of international sport events approved by the Minister of Sports (with effect from August 01, 2012).

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

1.3. ***Withholding Tax on interest income from Corporate Debt Security***

1.3.1. The following provisions will be made in relation to interest income on Corporate Debt Securities not exempt from income tax:

- (a) Deduction will be on the full interest for the respective period at the time of issue, or where the security is issued with floating rate of interest, at the time beginning of each reviewing period; and
- (b) Where no deduction has been made up front, deduction will be at the time of payment of interest (payable on or after April 01, 2011).

(Section 135 of the Inland Revenue Act will be amended.)

1.4. ***Transfer pricing legislation***

- (a) Separate provisions will be made for the determination of arms length price of goods and services in local transactions of associated undertakings;
- (b) Provisions will be introduced for advance pricing arrangements.

(Section 104 of the Inland Revenue Act will be amended.)

1.5. ***Time bar***

The present time bar period of 2 years will be reduced to 18 months effective from the year of assessment commencing from April 01, 2013.

(Section 163 of the Inland Revenue Act will be amended.)

1.6. *Taxation of BOI registered enterprises after the expiry of tax holiday*

Where the BOI enters into an agreement with any enterprise, which provides for income tax concessions, and:

- (a) the taxation under such agreement after the expiry of the tax exemption period provided thereunder is more burdensome, than the taxation under the Inland Revenue Act, then provisions of the Inland Revenue Act will apply; and
- (b) the income tax concessions provided under BOI agreement will not be extended through supplementary agreements.

(The Inland Revenue Act will be amended to provide such provisions.)

1.7. Any request for interpretation will be dealt with within six months.

2. Value Added Tax (VAT)

2.1. *Exemptions*

(a) The supplies made by the following Institutions will not be liable to VAT:

- (i) Central Bank of Sri Lanka (including the VAT on Financial services)
- (ii) Any Public Corporation to the extent of provision of services on behalf of the Government, free of charges out of the funds voted by Parliament from the Consolidated Fund or out of any loan arranged through the Government.

(b) The supply of services to a Unit Trust by the Unit Trust Management Company will be exempt from VAT.

(c) The supply of hotel accommodation to any sportsman, organizer of any sport event or sponsor arriving in Sri Lanka for participating in any sport event or activity connected with sport will be exempt from VAT.

(d) Locally manufactured products out of coconut waste (coco peat, coir fiber, grow pellets, grow bags, twist fiber, coconut husk) will be exempt from VAT.

(e) The import or supply of following items will be exempt from VAT:

- Bowsers under HS Code No. 8704.23.10, 8704.23.20, 8704.32.10, 8704.32.20.
- Bulldozers , graders, levelers, excavators under HS Code No. 84.29 .
- Fire fighting vehicles under HS Code No. 8705.30.10.
- Road Tractor for semi trailers under HS Code 8701.20.10.
- Raw materials for the manufacture of energy saving bulbs under HS Code No. 8543.90.

(Part II of the First Schedule will be amended)

2.2. *Imposition of VAT for whole sale and retail businesses*

Any person or a partnership carrying on a business of wholesale or retail trade and making a quarterly turnover/supplies (including exempt turnover/supplies) not less than Rs. 500 Million, will be liable to be registered for VAT. However, the VAT is chargeable on liable supplies only.

(Section 3 of the VAT' Act will be amended.)

2.3. The VAT exemption applicable on services which result in the improvement of quality, character or value of any fabric or garment will be;

- restricted to such services provided to non-exporters; and
- extended to cover such services related to yarn.

(item (xliv) of paragraph (b) of Part II of the First Schedule will be amended.)

2.4. SVAT Scheme

- (a) Relevant amendments will be incorporated to the VAT Act and the Guidelines issued (for SVAT), where necessary with the view to further simplification of the scheme.
- (b) The Guidelines will be regularized through Gazette notifications.
- (c) Provisions will be made for SVAT registration mandatory.
- (d) Penal provisions will be introduced for non compliance with the statutory requirements of the SVAT Scheme.

(Relevant provisions of the VAT Act will be amended.)

2.5. Filing of VAT Returns

The date of filing VAT Return will be extended to 30th day of the month, while keeping the due date for payments as 20th.

(Section 21 of the VAT Act will be amended.)

3. Nation Building Tax (NBT)

3.1. Exemptions

3.1.1. Solar panel modules, accessories or solar home systems for the generation of solar power energy under HS Code Nos. 8501.31.10, 8541.40, 8513.10.10, 9405.10.10, 9405.10.20, 9405.20.10, 9405.20.20, 9405.40.30, 9405.40.40, 9032.89.10, and 8539.31.20.

3.1.2. Coal under HS Code Nos. 2701.11, 2701.12 and 2701.19.

3.1.3. The import of goods for any international sports event approved by the Minister of Finance.

3.1.4. Gems imported subject to Special Service Fee at the rate specified in the Gazette published under Section 6A(a) of the Customs Ordinance, (Chapter 235) including any subsequent sales of such gems as processed gem.

NBT on local sales imported gems without any processing (imposed in lieu of Turnover Tax) remains taxable.

3.1.5. The Turnover of the following Institutions will not be liable for NBT

(a) Central Bank of Sri Lanka.

(b) Any Public Corporation to the extent of provision of services on behalf of the Government, free of charges out of the funds voted by Parliament from the Consolidated Fund or out of any loan arranged through the Government.

(Schedule of excepted articles or services of the NBT Act will be amended.)

4. Sale of manufactured goods to local market by export oriented companies

The export oriented enterprises engaged in manufacturing of garments or ceramic products, will be permitted to increase their domestic sales up to 40% subject to VAT and NBT in lieu of all the indirect taxes payable on sale.

The present piece based tax of Rs. 25/- per piece on sale applicable to garments will be removed.

Such enterprise will be treated as export enterprise for SVAT purposes.

The income tax on the profits and income from sale (both export and the sales made to local market) will be at the concessionary rate of 12%.

5. Cess

Cess will be increased or imposed on import of following items

<u>Item</u>	<u>HS Headings/HS Code</u>
Dairy products	04.03, 04.04, 04.05, 04.06
Birds' eggs	04.08
Edible products of animal origin	04.10
Cut flowers and flower buds, foliage	06.03, 06.04
Fresh, preserved, dried vegetables and Fruits/Other vegetable and fruit products	07.02, 07.04, 07.05, 07.06, 07.07, 07.08, 07.09, 07.10, 07.11, 07.12, 07.14, 08.01 (except 0801.31.10 and 0801.31.90), 08.02, 08.03, 08.04 (except 0804.10), 0805.10.20, 0805.40, 0805.50, 0805.90, 0806.20, 08.07, 0808.30, 0808.40, 08.09, 08.10, 08.11, 08.12, 08.13, 08.14, 20.01, 20.02, 20.03, 20.04, 20.05, 20.06, 2007.91, 2007.99, 20.08 (except 2008.30.10 and 2008.50.10), 20.09 (except 2009.11.10)
Edible oils	15.08, 15.09, 15.10, 1512.21, 1512.29, 1513.21, 1513.29, 15.14, 15.15, 15.16.20
Margarine	1517.10
Sausages and preserved meat products	16.01, 1602.32, 1602.50, 1602.90, 16.03
Honey and jiggery	17.02
Confectioneries	17.04, 18.06
Bakery products	19.05
Food preparations	21.03, 21.04, 21.05
Mineral water	22.01, 22.02
Vinegar	22.09
Salt	25.01
Lubricants	2710.19.80
Gauze and bandage	30.05, 58.03
Putty	3214.10
Soap	34.01 (except 3401.20)
Adhesives	3506.91, 3903.90.10, 3905.12, 3905.21, 3906.10.10, 3906.90.10, 3919.90
Handles for toothbrushes	3926.90.60
Tyres for cars and light truck	4011.10, 4011.20.90
Soap wrappers	48.11 (except 4811.10)
Wet cleansing tissues	56.01
Fabrics	50.07, 51.11, 51.12, 51.13, 52.08, 52.09, 52.10, 52.11, 52.12, 53.09, 54.07, 54.08, 55.12, 55.13, 55.14, 55.15, 55.16, 58.01, 58.02, 5804.21, 5804.29, 5804.30, 58.06, 58.09, 58.11, 59.01, 60.01, 60.02, 60.03, 60.04, 60.05, 60.06
Steel	7214.20.90, 7306.61.90
Aluminium wire	7605.11
Radiators and parts	8708.91

Taxi meters	9029.10.10
Prefabricated buildings	94.06

Cess on import of following items will be reduced/removed

<u>Item</u>	<u>HS Headings/HS Code</u>
Water less urinals	3922.90
Jute fabrics	53.10
Groats and meal of maize of maize	1103.13
Natural honey	04.09

Cess on export of following items will be increased

<u>Item</u>	<u>HS Headinss/HS Code</u>
Cinnamon	0906.11
Cloves	0907.10
Natural Sands	
Waste	2505.10.10
Other	2505.10.90
Other	2505.90
Quartz	2506.10.10
Clay	25.07
Phosphate	2510.10.10
Stones (Emery, corundum)	2513.20
Stones (Gravel, pebbles etc)	2517.49
Mica	
Crude	2525.10
Waste	2525.30
Steatite	
Not crushed	2526.10
Crushed	2526.20
Other minerals	25.30
Ilmanite	2614.00.10
Rutile	2614.00.20
Titanium	2614.00.90
Zirconium	2615.10
Niobium, tantalum, vanadium	2615.90

6. Customs Duty

The policy on Customs Duty structure remains unchanged except for the following revisions.

<u>HS Code</u>	<u>Proposed Customs Duty</u>
1. <i>To promote local Livestock Industry</i>	
Milk powder	
0402.10	30% or Rs. 125/- per kg (A Duty waiver of 15% or Rs. 18/- per kg)
0402.21	30% or Rs. 125/- per kg (A Duty waiver of 15% or Rs. 18/- per kg)
0402.29	30% or Rs. 125/- per kg (A Duty waiver of 15% or Rs. 18/- per kg)

2. To encourage local value added industries

Glass beads		
7018.20		Free
Maize starch		
1108.12		15%
Molded or pressed articles of paper pulp		
4823.70		5%
Polyester resin		
3907.91.00		Free
Pneumatic tyres of rubbers		
4011.20.10 (New NSH)		15% or Rs. 70/- per kg
4011.20.90 (New NSH)		15% or Rs. 70/- per kg
4011.10		30% or Rs. 140/- per kg
Wet cleansing tissues		
5601.21.10 (New NSH)		30%
5601.21.90 (New NSH)		Free
5601.22.10 (New NSH)		30%
5601.22.90 (New NSH)		Free
5601.29.10 (New NSH)		30%
5601.29.90 (New NSH)		Free
Structure and parts of structure		
Iron or steel 7308.90.90		30%
Coated Papers - Printing or graphic purposes		
4810.22		5%
4810.29		5%

3. To promote use of water preserving sanitary ware

Water less urinals		
3922.90.10 (New NSH)		Free

4. To promote use of renewable energy sources

Day lighting devices which capture sunlight transfer & diffuse light in a building interior		
7610.90.10 (New NSH)		5%
9405.50.20 (New NSH)		5%

5. To make the taxes on imports to be in line with the domestic taxes

Beer made form malt		
2203.00		Rs. 150/- per Ltr.
Spirit		
2207.10		Rs. 250/- per Ltr.
2207.20.10		Rs. 200/- per Ltr.
2207.20.20		Rs. 200/- per Ltr.
2207.20.90		Rs. 200/- per Ltr.
Spirits obtained by distilling grape wine or grape marc		
2208. 20		Rs. 1,250/- per Ltr.
Whiskies		
2208.30		Rs. 1,250/- per Ltr.
Rum		
2208.40.10		Rs. 1,250/- per Ltr.
2208.40.90		Rs. 1,250/- per Ltr.

Gin & Geneva 2208.50	Rs. 1,250/- per Ltr.
Vodka 2208.60	Rs. 1,250/- per Ltr.
Liquors and cordials 2208.70	Rs. 1,250/- per Ltr.
2208.90.10	Rs. 1,250/- per Ltr.
2208. 90.90	Rs. 1,250/- per Ltr.

7. Excise Duty

The Excise (SP) Duty on following HS Codes will be revised:

<u>Item</u>	<u>HS Code</u>
Go Karts	8703. 21 .62
Trishaws	8703.21.51, 8703.21.54, 8703.21.55, 8703.31.50, 8703.31.60,
Motor Cars (less than 1,000 cc)	8703.21.69, 8703.21.79, 8703.21.92, 8703.21.93
Trucks - g.v.w. is between 5 & 20 tonnes	8704.22.30, 8704.22.40, 8704.32.30, 8704.32.40
Trucks - g.v.w. is exceeding 20 tonnes	8704.23.30, 8704.23.40
Single Cabs	8704.21.81, 8704.21.82, 8704.31.71, 8704.31.72
Aerated Water	2201.10.90, 2202.10, 2202.90.90
Pipe Tobacco	2403.19.10, 2403.91.10, 2403.99.10
Hearses	Exemption will be removed

8. Special Commodity Levy

In order to encourage local industries, the Special Commodity Levy presently applicable on following items will be revised.

<u>Item</u>	<u>HS Code</u>
Chilies - Crushed or ground	0904.22.10
Canned fish	1604.11, 1604.12, 1604.13, 1604.14, 1604.15 1604.16, 1604.17, 1604.19, 1604.20
Black gram	0713.31.90
Maldiv fish	0305.59.10
Grapes	0806.10
Coriander - Crushed or ground	0909.22
Turmeric - crushed	0910.30.90
Ground Nut - shelled	1202.42
Mustard seeds	1207.50
Seeds of cumin	0909.30
Palm oil - crude and refined	1507.10, 1507.90, 1511.10, 1511.90.10, 1511.90.20, 1511.90.90, 1512.11, 1512.19 1513.11.11, 1513.11.19, 1513.11.21, 1513.11.29, 1513.19.10, 1513.19.90

9. Betting & Gaming Levy

The present tax structure of the business of Betting and Gaming will be revised as follows:

9.1. The annual levy payable will be revised as follows:

(a) The Business of Bookmakers:

- Betting business through Agents Rs. 2,000,000/- per year
- Where live telecast facilities are used Rs. 500,000/- per year
- Where live telecast facilities are not used Rs. 25,000/- per year

(b) The business of Gaming:

- Gaming including rudjino Rs. 100 Million per year

9.2. In lieu of all indirect taxes other than taxes referred to in paragraph (a) and (b) above a 5% all inclusive levy will be charged on gross collection (as Betting and Gaming Levy) on monthly basis.

(The Betting & Gaming Levy Act will be amended.)

9.3. The present income tax at the rate of 40% will remain unchanged. No operator is permitted to carry on a business of Betting or Gaming activities without a registration with the Department of Inland Revenue for tax purposes.

10. Ports and Airports Development Levy (PAL)

10.1. Exemptions

10.1.1. Solar panel modules, accessories or solar home systems for the generation of solar power energy under HS Code Nos. 8501.31.10, 8541.40, 8513.10.10, 9405.10.10, 9405.10.20, 9405.20.10, 9405.20.20, 9405.40.30, 9405.40, 9032.89.10, and 8539.31.20.

10.1.2. Medical equipment to be donated to an institution which provides free healthcare services with the approval of Ministry of Health.

10.1.3. Coal under HS Code Nos. 2701.11, 2701.12 and 2701.19.

10.2. PAL on the consumables for the textile & apparel industry under the following HS Code Nos. will be reduced to 2.5%.

Consumables

<u>H. S. Code</u>	<u>Description</u>
84.48.51	Sinkers, needles and other articles used in forming stitches
84.52.30	Sewing machine needles
84.52.90	Other parts of sewing machines
84.51.90	Ironing parts
34.02	Organic surface active agents
34.02.11	Anionic
34.02.12	Cationic
34.02.13	Non-ionic
34.02.19	Other

11. Telecommunication Levy

The present 20% rate of Telecommunication Levy will be reduced to 10% in respect of services provided through internet/broad band, to facilitate IT and BPO sectors.

12. Investment Fund Account (IFA)

- 12.1. The investment in sustainable energy/sources including solar power and women entrepreneurship venture capital projects up to Rs. 10 Mn. each will be added as qualifying sectors for lending funds of the Investment Fund Account.
- 12.2. Where the funds in the investment fund account have not been utilized as per the Guidelines issued by the Central Bank of Sri Lanka/Inland Revenue Department by 30.06.2013, the respective institutions are required to transfer the funds lying credit of the funds to the Treasury.

13. Strategic Development Projects

Provisions will be incorporated to exempt Cess on importation of raw materials, during the project implementation period, in cases where the required raw materials are not available in Sri Lanka for the required quantity.

14. Finance Acts

- 14.1. Taxes/levies paid on raw materials imported to be used for manufacture of goods for export subject to following taxes not exempted under the relevant legislations will be rebated on specific cases identified in line with the provisions in the Custom Ordinance:
- (a) Cess under Export Development Act;
 - (b) Special Commodity Levy under the Special Commodity Levy Act No. 48 of 2007.
- 14.2. The definition of “semi - luxury dual purpose motor vehicle” referred to in the Finance Act No. 16 of 1995, will be amended to exclude any single cab or light truck less than GVW 3,500 Kg. used for transport of goods, therefrom such vehicles will not be liable to semi luxury dual purpose motor vehicle levy payable on or after 01.01.2013.
- 14.3. Part IV of the Finance Act No. 12 of 2012 will be amended to provide for the following;
- (a) To publish regulations to form the basis in which the guideline and approval would be granted.
 - (b) To determine the scope of the exemptions to be granted.
 - (c) To declare the relevant areas to be brought under the Acts.

15. Economic Service Charge (ESC)

- 15.1. Funds voted by Parliament from the Consolidated Fund or from any loan arranged through the Government for the provision of services on behalf of the Government of Sri Lanka by any Public Corporation will not be treated as turnover for the purposes of ESC.
- 15.2. Central Bank will be exempt from ESC.

16. Tax Concessions to SME Sector

- 16.1. Any person or partnership, with an annual liable turnover/supplies not exceeding Rs. 12 Mn., from all the businesses carried on by such person or partnership will not be liable to pay VAT and NBT (including NBT on whole sale or retail business).
(Section 10 of the VAT Act and Section 3 of the NBT Act will be amended).
- 16.2. (a) Income tax and corresponding indirect taxes payable by any person having turnover not exceeding Rs. 300 Million per year from every trade or business carried on by such person for any period ending prior to April 01, 2011, and not complied with tax laws, will be exempted from payment of such taxes, if the past earnings are invested prior to 31.03.2014, in any trade or business and duly comply with tax laws; and

- (b) The profits and income from such trade or business (carried on by capitalizing such earnings) will be exempt from income tax for a period of 5 years.

16.3. Tax exemptions to individuals returning after the completion of foreign employment.

Any individual who returns from foreign employment and invest his/her savings to commence new businesses will be exempt from all taxes payable on turnover and on the profits and income from all such new businesses for a period of 5 years.

17. Embarkation Levy/Visa Fee

- (a) The present Embarkation Levy will be increased to US\$ 25/-.
(b) Online Visa fee will be increased to US\$ 5/-.

18. Stamp Duty

18.1. Exemptions

Stamp Duty on the instrument of transfer of stocks transferred by any person to a margin trading account (slash account) and vice versa will be exempted.

18.2. Changes

<u>Instrument</u>	<u>Duty</u>
Affidavit	Rs. 250/-
Policy of Insurance	Rs. 1/- for every Rs. 1,000/- or part thereof of the aggregate of the premia payable on the policy
Notary Warrant	Rs. 2,000/-
Periodic Licence to carry on Trade Business etc.	Rs. 2,000/- or 10% of licence fee whichever is less
Licence for Sale of Liquor	Rs. 20,000/-
Demand for payment on usage of a credit card	Rs. 15/- for every thousand or part thereof

19. Tax Appeals Commission

The Tax Appeals Commission Act will be amended to provide for the following:

- (a) Extension of time to hear and conclude the appeals that were pending in the Board of Review as at 31.03.2011 and stand transferred to Tax Appeal Commission.
- (b) Making provisions to continue hearing the appeals that arose under Inland Revenue Act No. 28 of 1979, 38 of 2000 or Finance Act No. 11 of 2004.
- (c) Making provisions for stating cases for the opinion of the Courts of Appeal (by the Tax Appeals Commission) will be included in the Tax Appeals Commissions Act itself.
- (d) Time for preferring an appeal to the Commission will be adjusted to be one month from the date of transmission of reasons for respective determination of the Commissioner General.
- (e) With regard to the deposit (25% of tax) to be made as a prerequisite for preferring appeal to the Commission, Provisions will be made to refund any excess of such deposit and transfer the tax to the Commissioner General of Inland Revenue.
- (f) With regard to the bank guarantee (in place of deposit), the beneficiary thereof and tenor thereof will be specified.

(Tax Appeals Commission Act will be amended with effect from 01.04.2011.)

20. Fees and charges

20.1. *The Department of Registrar of Companies*

<u>Description</u>	<u>Rs.</u>
For registration of a Limited Company	15,000
For registration of an unlimited Company	12,500
For registration of a company Limited by Guarantee	25,000
For registration of mortgages, charges and debentures	5,000
For registration of an Annual Return	5,000
The registration of any document required or authorized to be registered or required to be delivered, sent, given or forwarded to filled with, the Registrar-General of Companies, other than the notices and reports required to be delivered to the Registrar-General of Companies by a receiver or manager, an administrator or a liquidator	1,000
For approval of a name of a Company (Name Request)	1,000
For inspection of a file kept by the Registrar-General of Companies	500
For certification of any document or extract thereof filed with the Registrar-General of Companies	500
For inspecting the register of charges	500
For registration of Company Secretaries	5,000
Amount to be credited to a bank to defray the expenses of an off-shore company for the purpose of its office in Sri Lanka	US\$ 100,000
For registration of an off-shore company	100,000
For renewal of an off-shore company	100,000
For registration of a place of business in Sri Lanka by an Overseas Company	50,000
For re-registration of an existing Company	10,000

20.2. *The Registrar General's Department*

<u>Description</u>	<u>Fee (Rs.)</u>
<i>Marriages</i>	
Registration of Marriages by a Christian Minister	100
Registration of Marriages (General)	
i. Entry of a marriage notice at the office	100
ii. Entry of a marriage notice at another place	200
iii. Registration of marriage at the office	750
iy. Registration of marriage outside the office (Section 38-1)	1,000
v. Registration of marriage outside the office (Section 38-2)	5,000
vi. Issue of Registrar's Certificate	1,000
<i>Registration of Kandyan Marriages</i>	
i. Receiving a marriage notice under Section 16 (1) and (2)	50
ii. Receiving a marriage notice under Section 16 (3)	50
iii. Receiving a marriage notice under Section 16 (4)	100
iv. Obtaining a special licence	500

v. Obtaining a licence to register a marriage outside the office between 6.00 a.m. to 6.00 p.m.	100
vi. Obtaining a licence to register a marriage outside the office between 6.00 p.m. to 6.00 a.m.	500
vii. Registration of a marriage at the office	100
viii. Registration of a marriage outside the office within 6.00 a.m. to 6.00 p.m.	500
within 6.00 p.m. to 6.00 a.m.	1,000
Obtaining a certified copy of Kandyan marriage certificate	1,000

<u>Description</u>	<u>Fee (Rs.)</u>
<i>Birth</i>	
Registration of Births occurred at Sri Lanka or Foreign Country	No change
Obtain a Certified Copy of the Certificate of Birth	
If the number of the certificate of birth & the registered date is known	50
If the number of the certificate of birth & the registered date is not known	
For search of birth registers for period of 03 months	100
For search of birth registers for period 02 years	200
Alteration of information in a Birth Register	25
Registration of past Births	
Within 12 months of occurrence	10
More than 12 months of occurrence	25
Translate Birth Certificate	200
<i>Deaths</i>	
Registration of occurred in Sri Lanka or Foreign Country	No Change
Alteration of Information in a Death Register	25
Obtain a certified copy of the certificate of death	
i. if the death certificate number and the registered date is known	50
ii. if the death certificate number and the registered date is not known	
- for a search of death registers for period of 03 months	50
- for search of death registers for period of 02 years	150
Registration of Past Death	
i. Within 12 months of occurrence of the death	10
ii. More than 12 months of occurrence of the death	25
Translate Death Certificate	200

20.3. ***Day Book Entry Registration Fees***

<u>Description</u>	<u>Fee (Rs.)</u>
Original of Deeds sought to be registered at the Land Registry per document	5

Revenue to Central Government

Charge levied on a Caveat effective of 6 months (to be in effect for a period of 02 years)	2,500
Charge levied for a Land Registry Search	500
Stamp fees for Annual Notarial Registration	1,000
Charges to be paid by a Registered Attorney for Case File Records (per proxy instead of a case)	200

20.4. ***Revenue Licencing Annual Fee for Motor Vehicles***

<u>Vehicle Category</u>	<u>New Revenue Licencing Fee (Rs.)</u>
<i>Lorry, Ambulance, Hears</i>	
<i>Petrol</i>	
Up to 2,000 Kg.	1,500
Exceeding 2,000 Kg. but not exceeding 5,000 Kg.	2,000
Exceeding 5,000 Kg. but not exceeding 10,000 Kg.	2,500
Exceeding 10,000 Kg. but not exceeding 15,000 Kg.	3,000
Exceeding 15,000 Kg. but not exceeding 20,000 Kg.	4,500
Exceeding 20,000 Kg. but not exceeding 25,000 Kg.	4,600
Exceeding 25,000 Kg. but not exceeding 30,000 Kg.	6,000
Exceeding 30,000 Kg.	7,000
<i>Diesel</i>	
Up to 2,000 Kg.	3,000
Exceeding 2,000 Kg. but not exceeding 5,000 Kg.	4,000
Exceeding 5,000 Kg. but not exceeding 10,000 Kg.	6,000
Exceeding 10,000 Kg. but not exceeding 15,000 Kg.	7,000
Exceeding 15,000 Kg. but not exceeding 20,000 Kg.	10,000
Exceeding 20,000 Kg. but not exceeding 25,000 Kg.	12,000
Exceeding 25,000 Kg. but not exceeding 30,000 Kg.	14,000
Exceeding 30,000 Kg.	15,000
Motor Bicycles	700
Three-wheelers	750
<i>Busses</i>	
Omnibus belonging to persons other than SLTB	150
Private motor coach	500
<i>Dual Purpose Vehicles</i>	
<i>Petrol</i>	
Up to 1,000 Kg.	2,000
Exceeding 1,000 Kg. but not exceeding 1,500 Kg.	2,200
Exceeding 1,500 Kg. but not exceeding 2,000 Kg.	2,700
Exceeding 2,000 Kg. but not exceeding 2,500 Kg.	3,100
Exceeding 2,500 Kg. but not exceeding 3,000 Kg.	4,200
Exceeding 3,000 Kg. but not exceeding 3,500 Kg.	10,000
Exceeding 3,500 Kg. but not exceeding 4,000 Kg.	12,000
Exceeding 4,000 Kg.	15,000

<i>Diesel</i>	
Up to 1,000 Kg.	3,500
Exceeding 1,000 Kg. but not exceeding 1,500 Kg.	4,000
Exceeding 1,500 Kg. but not exceeding 2,000 Kg.	4,200
Exceeding 2,000 Kg. but not exceeding 2,500 Kg.	5,500
Exceeding 2,500 Kg. but not exceeding 3,000 Kg.	9,000
Exceeding 3,000 Kg. but not exceeding 3,500 Kg.	10,000
Exceeding 3,500 Kg. but not exceeding 4,000 Kg.	12,000
Exceeding 4,000 Kg.	15,000
<i>Motor Car</i>	
<i>Petrol</i>	
Up to 762 Kg.	2,000
Exceeding 762 Kg. but not exceeding 1,016 Kg.	2,200
Exceeding 1,016 Kg. but not exceeding 1,270 Kg.	3,000
Exceeding 1,270 Kg.	4,000
<i>Diesel</i>	
Up to 762 Kg.	3,100
Exceeding 762 Kg. but not exceeding 1,016 Kg.	4,000
Exceeding 1,016 Kg. but not exceeding 1,270 Kg.	6,000
Exceeding 1,270 Kg.	8,000

21. Technical Rectifications

Necessary adjustments will be made to the respective provisions of 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) Acts, Default Tax (Special Provisions) Act No. 16 of 2010, Telecommunication Levy Act No. 21 of 2011 and Tax Appeals Commission Act No. 23 of 2011 to rectify certain ambiguities and unintended effects (including differences in translations).

22. Effective dates of Proposals

Unless stated otherwise, the proposals in relation to:

- (i) Income Tax and Economic Service Charge will be implemented with effect from April 01, 2013.
- (ii) Value Added Tax, Finance Acts, Telecommunication Levy Act, Betting & Gaming Levy Act, Nation Building Tax and Airport Departure Tax, Stamp Duty and changes to fees and charges will be implemented with effect from January 01, 2013.
- (iii) Cess, Ports and Airports Development Levy, Excise (Special) Duty, Customs Duty and Special Commodity Levy will be implemented with immediate effect.

TAX RATES 2013/2014

	CORPORATE INCOME TAX	MISCELLANEOUS
	<u>Rate</u>	<u>Rate</u>
	<ul style="list-style-type: none"> • Unit Trust, Mutual Funds and Unit Trust Management Companies 10% • Venture Capital Companies 12% • Company (other than the above and any holding Company, a subsidiary company or associate company of a group of companies) where the taxable income of which does not exceed Rs. 5 Mn. 12% • Any company (including a group company) which become QPC prior to 01.04.2011, for five years from the beginning of the year of assessment becoming QPC and taxable income of which exceed Rs. 5 M, but commences after 01.04.2006 33.33% • Other Companies 28% 	<ul style="list-style-type: none"> • Clubs and Associations 10% • ETF, EPF or other provident of pension funds 10% • Charitable Institutions 10% • Cooperative Societies Exempt • Entrepot Trade 10% • Operation and maintenance of facilities for storage, development of software or supply of labour <ul style="list-style-type: none"> - Maximum 10% (individual) 10% (companies) 10% • On qualified export profits (subject to a maximum of 15% for individuals) <ul style="list-style-type: none"> - Deemed exports (subject to a maximum of 15% for individuals) 12% - Services rendered in Sri Lanka to a person or partnership outside Sri Lanka by any resident company 15% • Transshipment agency fees in foreign currency 15% • Partnership tax on divisible profits and other income of a partnership business, if divisible profits exceeds Rs. 600,000/- (on the excess) 8% • Non citizen carrying on the profession or vocation of entertainer or artiste 12% • Petroleum exploration 12% • 3% of funds received by NGOs. 28% • Lottery or betting or gaming activity, liquor or tobacco products 40% • Profits and income from educational services 10% • Any undertaking of which turnover does not exceed Rs. 500 Mn. (other than buying and selling) 10% • Export or supply to exporter with domestic value addition 65% or more <ul style="list-style-type: none"> - Individual maximum 10% - Company 10% • Profits and income of newly setup branch of a Commercial Bank dedicated to development banking 24% • Profits and income from activities carried out as research and development <ul style="list-style-type: none"> - Person other than a Company 16% - Company 24% • Organic Tea in Bulk - Non Traditional 12% • Manufacturer of tea in joint venture with tea exporter in value added form with Sri Lankan brand name 12% • Handloom Industry 12% • Health Care Services 12% • Unspecified rate 28%
INDIVIDUAL INCOME TAX	WITHHOLDING TAX	
<u>Rate</u>	<u>Rate</u>	
Tax free allowance (Resident Individuals) Rs. 500,000/-		
First Rs. 500,000/- of taxable income 4%	<ul style="list-style-type: none"> • If the interest is paid or cred - Company 10% <li style="padding-left: 20px;">- Partnership 8% • If the interest is paid or credited to an individual and a declaration has been made by such individual to the bank or financial institution to the effect that: <ul style="list-style-type: none"> - Assessable income does not exceed Rs. 500,000/- Exempt - Assessable income exceeds Rs. 500,000/- but does not exceed Rs. 1,500,000/- 2.5% - All other cases 8% • If the interest is paid or credited to a charitable institution and a declaration has been made by such charitable institution to the bank or financial institution to the effect that assessable income does not exceed Rs. 500,000/- Exempt • Interest or discount on corporate debt security 10% • Dividends 10% • Government rewards or shares of fines 10% • Lottery prizes in excess of Rs. 500,000/- 10% • Winnings from betting or gambling 10% • Treasury Bills, Treasury Bonds etc. (only in the hand of the primary dealers) 10% • Annuities & Royalties 10% • Management fees or similar payments 5% • On remuneration/benefit paid to Directors/Chairperson/Board of Directors or an individual having more than one employment or aggregate of such amount <ul style="list-style-type: none"> - If monthly benefit does not exceed Rs. 25,000/- per month 10% - If exceed Rs. 25,000/- per month 16% 	
Next Rs. 500,000/- of taxable income 8%		
Next Rs. 500,000/- of taxable income 12%		
Next Rs. 500,000/- of taxable income 16%		
Next Rs. 1,000,000/- of taxable income 20%		
Balance taxable income 24%		
Excluded from Statutory Income (If WHT has been paid)		
- Interest & Dividends		
Employment Income of Government and Private Sector subject to PAYE Tax		
Tax deducted under PAYE Scheme will be treated as final		
Tax free allowance deductible will be Rs. 600,000/- per annum		
TAX ON TERMINAL BENEFITS FROM EMPLOYMENT (RETIRING GRATUITY ETC.) UNDER UNIFORM BASIS		
<ul style="list-style-type: none"> • On the first Rs. 5 Mn. of the sum where the period of service or contribution is not less than 20 years Exempt • On the first Rs. 2 Mn. of the sum where the period of service or contribution is less than 20 years Exempt • On the next Rs. 1,000,000/- 5% • On the balance 10% • Compensation under Voluntary Retirement Scheme (in the opinion of CGIR) up to Rs. 2 Mn. Exempt • Compensation under Labour Commissioner approved retrenchment scheme up to Rs. 2 Mn. Exempt • Non-uniform compensation for loss of employment under normal rates (subject to maximum rate) 16% 		
Employment income from Government Service - Payee system applied and such tax will be final, unless there is other source of income		
DIVIDEND TAX		
<ul style="list-style-type: none"> • Tax on dividend distributed by a resident company 10% • If 10% of distributable profits of the previous year is not distributed, tax on the difference between the 33 1/3% of such distributable profit and the amount distributed 15% • In the case of non-resident companies, a sum equal to remittances made out of profits chargeable to income tax 10% 		

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NEW INCLUSIONS - MISCELLANEOUS <i>Contd....</i>		ECONOMIC SERVICE CHARGE <i>Contd....</i>		BETTING & GAMBLING LEVY	
	<u>Rate</u>		<u>Rate</u>		
• Poultry Farming	10%	• Persons granted exemptions/concessionary rates/others		• Business of book maker	
• Supply of goods/provision of services for foreign ships for payment in foreign currency	12%	- Who are exempt from income tax (including tax holiday Companies)	0.25%	- Betting business done through agents	Rs. 2,000,000/-
• Sale of any product manufactured in Sri Lanka for payment in foreign exchange earning account (Deemed Exports)	12%	- Who during certain periods are incurring losses	0.25%	- If live telecast facilities are used	Rs. 500,000/-
• Mini hydro projects or alternative energy source	12%	- Who are subject to tax under concessionary rates	0.25%	- If live telecast facilities are not used	Rs. 25,000/-
• New company listings on or after 01.04.2013 and more than 20% of its shares offered to the public - Rate of tax will be reduced by	50%	- Who are engaged in wholesale or retail trade other than products manufactured or produced by the seller (excepting distributors of dealers in motor vehicles or liquor)	0.25%	• Business of gaming	Rs. 100,000,000/-
CAPITAL ALLOWANCES		- Who carry out primary conversion of any tea, rubber or coconut plantation including desiccated coconut, coconut oil or fiber, copra and sheet rubber, but excluding any conversion which produces any alcoholic beverage	0.25%	In lieu of all indirect taxes other than above 5% all inclusive levy will be charged on gross collection monthly.	
	<u>Rate</u>	• Advertising Agents		CONSTRUCTION INDUSTRY GUARANTEE FUND LEVY	
a) Information technology equipments and calculating equipments including software (other than locally manufactured)	25%	- Prior to 01st April 2011	1%	• Value of contract	<u>Rate</u>
b) Commercial vehicles, furniture	20%	- On or after 01st April 2011	0.25%	- Less than Rs. 15 Mn.	Exempt
c) Machinery and equipments not referred to in (a) & (b) above (acquired or assembled) and plant etc. not referred to in item (d)	33.33%	• Any other businesses including of which the turnover is defined by Notice published in the Gazette (including dealers in motor vehicles, liquor, tobacco and petroleum)	1%	- Not less than Rs. 15 Mn. but less than Rs. 50 Mn.	0.25%
d) Plant Machinery or equipments used in health care, printing on paper, gem cutting and polishing, packaging of any commodity, rice milling, ships	33.33%	Turnover as gazetted (optional)	1%	- Not less than Rs. 50 Mn. but less than Rs. 150 Mn.	0.5%
e) Qualified building, constructed on or after 01.04.2011	10%	• Freight forwarders on gross commission		- Rs. 150 Mn. or more	1%
f) Industrial or hotel building acquired from a person who has used such building in any trade or business	6.67%	• Garment exporters CMP/CMT Values (on NFE Basis)		STAMP DUTY	
g) Purchase of locally developed of software	100%	• Gem/Diamond Exporters on CMP Values		Specified Instruments	
h) Any bridge, railway track, reservoirs, electricity, water distribution line and toll roads (constructed or acquired)	6.67%	• Primary dealer of securities on sale proceeds over aggregation of invest on purchase of securities & interest paid or discount allowed		• Affidavit	Rs. 250/-
i) High Tech Plant, machinery or equipment acquired on or after 01.04.2012 for energy efficiency purposes	100%	VALUE ADDED TAX (VAT)		• Policy of Insurance	Rs. 1/- for every Rs. 1,000/-
j) Technology upgrading or new technology	50%	• Standard Rate	12%	• Notary Warrant	Rs. 2,000/-
k) Broker-Back office to be in compliance with CSE requirements	100%	• VAT on Financial Services	12%	• Periodic license to carry on trade, business etc.	Rs. 2,000/- or 10% of license fee whichever is less
l) Any export industry	50%	• Direct exports of goods and supply of certain services referred to in Section 7 of the VAT Act	0%	• Any license issued authorizing the holder to carry on any trade or business for sale of liquor	Rs. 20,000/-
ECONOMIC SERVICE CHARGE		• Optional VAT		• Claim or demand of money on usage of credit cards	Rs. 15/- for Rs. 1,000/- or part
(applicable if quarterly turnover exceeds Rs. 50 Million)		- First 3 years of registration	2%	• Share Certificate	Rs. 5/- for Rs. 1,000/- or part
Chargeability - ESC is payable only on the turnover of any business, the profits of which are not liable to income tax or incurring losses during that period.		- Next 3 years	4%	• Mortgage	Rs. 1/- for Rs. 1,000/- or part
• Enterprises to which the Board of Investment of Sri Lanka Law, No. 4 of 1978 is applicable (liable to pay income tax)		- Next 3 years	8%	• Promissory Note	Rs. 1/- for Rs. 1,000/- or part
	<u>Rate</u>	- Next 3 years	12%	Lease or hire of any property	
- Apparel exporters	} 0.1%	- Next 3 years		• Thereof, of the aggregate rent or hire	
- Board of Investment house		- Next 3 years		Rs. 10/- for Rs. 1,000/- or part of the aggregate rent or hire	
- Manufacturers of textiles for apparel exporters		- Next 3 years		(payable for the whole terms comprised in the lease or hire agreement shall be deemed to be the aggregate of the hire or lease payable for the first 20 years of such terms)	
NATION BUILDING TAX (NBT)		SHARE TRANSACTION LEVY		• A receipt or discharge given for money or property (including remuneration)	
		• On liable turnover	2%	- Up to and including Rs. 25,000/-	Exempt
		(wholesale or retail - 50% of the turnover)		- Above Rs. 25,000/-	Rs. 25/-
		(Distributors - 25% of the turnover)			
		SHARE TRANSACTION LEVY			
		• On the turnover (of the buyer and the seller)	0.3%		