



KPMG in Sri Lanka

Budget Highlights 2009

TAX



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For clients of KPMG Ford, Rhodes, Thornton & Co. only

*Enclosed is a publication titled “**Budget Highlights 2009**” which contains a resume` of the more significant fiscal proposals for the ensuing year, presented in Parliament today.*

We may mention that these have been compiled on the basis of a high level review of the proposals in the limited interim time available to us. May we also emphasize that these proposals need to be enacted by Parliamentary procedure for legal enforcement.

*Also attached hereto is a pocket card “**Tax Information 2009/2010**” for use as a ready reference.*

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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Forward

His Excellency the President presented his fourth budget as the Hon Minister of Finance & Planning. He emphasized his policy of encouraging local producers and production in line with 'Mahinda Chinthana' to empower the rural economy. The other priorities he has focused on relate to reducing the cost of living and to utilize foreign investments productively to produce all what we can, within our country.

In a broader sense, whilst promoting local production, the proposals were also aimed at providing relief that would benefit the majority of the society. Some of the proposals being the reduction of fuel prices, transport fares, electricity and water tariffs, VAT and income tax and an enhanced cost of living allowance granted to public servants and pensioners.

In summary the table below provides a comparison of what the government plans to achieve in 2009 and also how their previous budget estimates compare to the latest budget outcome.

Figures in Rs Bn	2009 Budget	2008 (revised estimates)	2008 Budget	2007
Total Revenue	855	709	751	565
Total Expenditure	(1191)	(1016)	(1044)	(841)
Budget Deficit	(336)	(307)	(293)	(276)
Financing				
• Foreign	154	123	139	131
• Domestic	183	184	155	145
Recurrent Expenditure	824	743	713	623
Revenue Surplus/(Deficit)	31	(34)	38	(58)
<i>Budget deficit as a % of GDP</i>	6.5	7.0	7.0	7.7
<i>Planned Economic Growth</i>	6.5%		7.5%	6.7%

06 November 2008.

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Income Tax

Exemptions

Foreign Currency Sovereign Bonds

Profits and income arising in Foreign Currency Sovereign Bonds issued by the Government of Sri Lanka will be exempt as follows.

Source of profits	Persons eligible for exemptions	Proposal	Prevailing
Interest income	Non-resident persons or any licensed commercial bank in Sri Lanka	Exempt	Liable at standard rates
Trade profits on the sale of the said bond	Non-resident persons or any licensed commercial bank in Sri Lanka	Exempt	Liable at standard rates

Comment

In terms of the Inland Revenue Act, interest arising on Reconstruction Bonds, Development Bonds, Nation Building Bonds and Treasury Bonds are exempt from income tax.

This exemption seeks to cover profits arising on another Government Security from chargeability to income tax.

Income arising to Artists

As a measure of reviving Arts and Culture, the following concessions have been extended to the industry.

Source of profits	Persons eligible for exemptions	Proposal	Prevailing
Profits on a sale of a book.	Writer of such book.	50% of the profits from the sale of such book within the 1 st year of printing to be exempt.	Liable at standard rates.
Profits on staging of a drama.	Producer of that drama.	50% of the profits from staging that drama in the 1 st year to be exempt.	Liable at standard rates.
Royalty paid on broadcasting or telecasting of a song.	Singer of that song	Exemption on royalty received by a singer on the broadcasting or telecasting of a song.	Liable at standard rates.

Comment

The proposal does not specify whether the exemption on royalty paid to a singer would be extended to cover a writer of the song or the holder of the intellectual right over the property.

Cinema Industry

Proposal

It is now proposed to extend the tax incentive given for upgrading of a cinema to a period of 7 years.

Prevailing

Commencing from 1 April 2007 provisions of the tax law provided a tax holiday of 5 years on the profits arising on a business from the exhibition of any cinematographic films, where such undertaking carried out an upgrading.

Comment

Budget proposals indicate that the extended tax period is for new and upgraded cinemas.

In terms of the current law new cinemas set up are entitled to a 10 year tax holiday. Thus it is most likely that this proposal refers to only upgrading of cinemas.

Interest arising to Lady Lochore Loan Fund

Proposal

Interest income, arising on loans granted by Lady Lochore Loan Fund to employees of the Government is to be exempted from income tax.

Prevailing

Such income is currently taxable at the standard rate applicable to the fund.

Concessionary Rates of Tax

Proposal

Profits from the export of tea packets containing not more than 1 kg in a packet, are to be taxed at a concessionary tax rate not exceeding 15%.

Prevailing

In terms of the current law, the preferential rate of tax is only applicable to non traditional exports and does not include the export of black tea in bulk.

Personal Tax Slabs

Proposal

It is proposed to widen tax slabs from the year of assessment 2009/2010 as follows.

<i>Taxable Income (Rs).</i>	<i>Tax on Lower Amount (Rs).</i>	<i>Rate on Excess over lower Amount (Rs).</i>
<i>0 - 400,000</i>	<i>Nil</i>	<i>5</i>
<i>400,000 – 800,000</i>	<i>20,000</i>	<i>10</i>
<i>800,000 – 1,200,000</i>	<i>60,000</i>	<i>15</i>
<i>1,200,000 – 1,700,000</i>	<i>120,000</i>	<i>20</i>
<i>1,700,000 – 2,200,000</i>	<i>220,000</i>	<i>25</i>
<i>2,200,000 – 2,700,000</i>	<i>345,000</i>	<i>30</i>
<i>2,700,000 upwards</i>	<i>495,000</i>	<i>35</i>

Prevailing

<i>Taxable Income (Rs).</i>	<i>Tax on Lower Amount (Rs).</i>	<i>Rate on Excess over lower Amount (Rs).</i>
<i>0 - 300,000</i>	<i>Nil</i>	<i>5</i>
<i>300,000 – 500,000</i>	<i>15,000</i>	<i>10</i>
<i>500,000 – 700,000</i>	<i>35,000</i>	<i>15</i>
<i>700,000 – 900,000</i>	<i>65,000</i>	<i>20</i>
<i>900,000 – 1,100,000</i>	<i>105,000</i>	<i>25</i>
<i>1,100,000 – 1,600,000</i>	<i>155,000</i>	<i>30</i>
<i>1,600,000 upwards</i>	<i>305,000</i>	<i>35</i>

Comment

The tax slabs were last revised for the Year of Assessment 2005/06. The proposal would provide relief across the board to all persons.

It is noted that the tax free allowance remains unchanged at Rs. 300,000 per annum.

Concessionary Tax Rate - Profits from Employment

Proposal

Profits from employment of a professional employee working for a company or partnership based in Sri Lanka which is exempt from income tax (i.e. engaged in the provision of services to a person or partnership outside Sri Lanka and earning foreign currency), is to be made chargeable to tax at a maximum rate of 20%, provided such employee is remunerated in foreign currency.

Prevailing

In terms of the provisions of the prevailing law, employees are generally liable to income tax at the standard rates applicable to individuals and is not dependent or related to the tax status of the employer.

Comment

The concession has been targeted at professionals, so as to encourage them to remain in Sri Lanka and work for institutions that provide high value adding services and position Sri Lanka as an international hub for such services.

Withholding tax

Deposits with Banks and Financial Institutions

Consequent to the proposed widening of income tax slabs applicable to individual tax payers, the Assessable Income slabs dependent upon by which withholding tax on interest is deducted is also to be widened as follows.

Proposed		Prevailing	
Rs.	%	Rs.	%
<i>Up to 300,000</i>	<i>0</i>	Up to 300,000	0
<i>300,001 – 1,000,000</i>	<i>2.5</i>	300,001 – 600,000	2.5
<i>1,000,001 and above</i>	<i>10</i>	600,001 and above	10

Comment

This relief was due with the proposed widening of personal tax slabs.

It is also noted that it would provide relief to persons dependent on interest from saving as pensioners.

The proposed change does not extend to charitable institutions, most likely since their tax rate is 10%.

Social Responsibility Levy

Imposition on Income Tax

Proposal

Budget proposal seeks to amend the statutory provisions, being item 6 of Schedule 1 as contained in the Finance (Amendment) Act No. 8 of 2008. The proposal is to come in to force with retrospective effect, from April 1, 2008.

Prevailing

The existing provision lends itself to the interpretation that companies are not liable to the levy. This proposal seeks to correct this unintended error.

- SRL is charged on companies at the rate of 1.5% on Income Tax.

Comment

In terms of the section reference (referred to previously) contained in the Finance Act, on an interpretation of law, Companies were not liable to pay Social Responsibility Levy on income tax during the year of assessment 2008/09. The Department of Inland Revenue however instructed that chargeability remained. This correction seeks to regularize the collection of tax.

Economic Service Charge (ESC)

Synopsis of proposed changes

	<i>Proposed</i>	<i>Prevailing</i>
Commencement of chargeability	Chargeability arises on reaching turnover thresholds specified by statute i.e. – Rs. 7.5 Mn	Manufacturing companies and re-opened factories were not chargeable to ESC for a period of 36 months from commencement of commercial operations.
Definition of turnover – Financial Institutions and Pawn Brokers	<i>The specific turnover definition applicable to Banks (as below) is to be made applicable to Financial Institutions and Pawn Brokers</i> <i>The turnover for Banks defined to include the receipts of such bank by way of, or on account of interest, discounts, dividends, exchange, service charges, commissions, brokerage and any other income derived by the bank, in the course of its business..</i>	Financial institutions other than banks and pawn brokers were chargeable to ESC on the total amount receivable, whether actually received or not, from every transaction entered into in that relevant quarter in the course of trade, business, profession or vocation carried on or exercised.
Exemption	<i>Proceeds from the sale of any foreign currency denominated sovereign bonds issued by the Government of Sri Lanka to any non resident person or any other Commercial Bank in Sri Lanka</i>	ESC was previously charged at the standard rates
Maximum charge	Rs. 30 Mn	Rs. 15 Mn

Comment

The increase in the maximum charge will affect only the large scale businesses where such cannot be claimed as tax credit owing to ESC paid exceeding income tax liability by an exempt status.

All other aspects of ESC, including the rates, remain unchanged.

Value Added Tax (VAT)

Threshold for VAT Registration

Proposal

It has been proposed to increase the VAT threshold to Rs 650,000 per taxable period or Rs 2.5 million per annum

Prevailing

Under Section 10 (1) of the VAT Act, any person carrying out a taxable activity is liable for VAT where the taxable supplies exceed Rs. 500,000 per taxable period (a month or quarter as the case may be) or Rs 1.8 million per annum

Comment

GST was introduced on 1 April 1998 and was imposed at various rates upon any person carrying out a taxable activity provided his taxable supplies exceeded Rs. 500,000 per quarter or Rs 1.8 million per annum.

VAT replaced GST on 1 August 2002 and followed the same threshold as GST.

The above proposal is the first change to the threshold of chargeability after the introduction of the concept of taxation of value addition in Sri Lanka.

The proposal will ease the administration of VAT and will provide relief to small and medium enterprises.

Optional VAT Registration

Proposal

It has been proposed to increase the threshold in relation to the registration for Optional VAT to Rs 3 Mn per annum

Prevailing

Under Section 25(l) of the VAT Act, the aggregate turnover that qualifies for Optional VAT registration is a minimum of Rs 2.5 Mn per annum.

Comment

Optional VAT was introduced on 01 January 2007 to enable a person on the border of the VAT threshold to apply for voluntary registration.

The option stipulates a person to pay VAT at 5% until such time the total turnover exceed Rs 2.5 Million or for a period of 3 years from registration, whichever occurs earlier.

The proposal seeks to complement the increase in the VAT threshold.

VAT Rate Change

Proposal

It has been proposed to reduce the standard rate of VAT from 15% to 12%

Prevailing

VAT is currently charged at the following rates:

Zero Rate - 0%
Basic Rate - 5 %
Standard rate - 15%
Luxury Rate - 20%

Comment

The standard GST rate of 12.5% which was introduced in 1998 has seen many variations during the past decade from time to time.

The standard rate has changed from 12.5% to 10% and later to 15%. Consequent to the new budget, Sri Lanka VAT system has been simplified for taxable supplies to be charged at 0%, 12% and 20%.

Changes to the Basic Rate (5%) items

Proposal

It has been proposed to exempt goods subject to Special Commodity Levy (SCL) from VAT charged at 5%.

The remaining goods in the Third Schedule will be charged at 12% (revised Standard Rate)

Prevailing

The Third Schedule to the VAT Act lists some essential goods such as sugar, dhal, potatoes, onions etc. which are liable to VAT at 5% without eligibility for input tax credits.

Comment

This proposal has the effect of the elimination of the basic rate of 5% resulting in VAT being levied at three rates. i.e. 0% (zero rate), 12% (standard rate) and 20% (luxury rate) with effect from 1 January 2009.

As per Section 2(5) of the Special Commodity Levy Act No. 48 of 2007 any item liable for SCL is not liable for any other tax, duty, levy or cess which is imposed under any Statutes listed in the Schedule to the Act. As the VAT Act is listed in the said Schedule goods subject to SCL would not be liable for VAT. Perhaps the intention of this proposal is to provide an exemption on the subsequent chargeability to VAT at 5% of essential imports liable to SCL.

Goods chargeable to VAT at 5% do not qualify for input tax credits. However, pursuant to the increase in the charge to 12% such goods will be eligible to claim input tax subject to the existing rules (i.e. restriction of input claim to 85% of the total output VAT and other rules).

Time Period for claiming input tax

Proposal

It has been proposed to extend the period of claiming of input tax credits up to 2 years on customs declarations relating to importation of goods.

Prevailing

Under Section 22 (6) of the VAT Act input credits supported by any tax invoice (including a cusdec) are allowable only in respect of such tax invoice/cusdec claimed within any taxable period ending on or before the expiry of such 12 months from the date of such invoice/cusdec. If the return is not furnished within the said period of 12 months it is deemed not to have been deducted.

Comment

The proposal does not extend the 12 month period for tax invoices issued for supplies. It is only confined to customs goods declaration issued for imports.

Credit for input tax against output tax

Proposal

It has been proposed to limit the deduction of Input Tax of VAT paid at 20% to 10%.

Prevailing

Under Section 22 (3) of the VAT Act, the current deduction of Input Tax of VAT paid at the luxury rate of 20% is 15%, except for any goods imported including those received from bonded area for the purpose of manufacture and export of goods so manufactured.

Comment

This would curtail the ability of the taxpayer to claim the total input tax by a further 5%. The limiting of input tax credit would be a disincentive for consumers who purchase luxury items listed in the fourth schedule. This proposal will serve to increase the cascading effect, and is against the concept of taxing value addition.

Suspension of VAT by local manufacturers

Proposal

It has been proposed to extend the facility of suspension scheme available for deemed exporters (through EDB), to certain specific services provided to exporters with retrospective effect from 01.06.08.

Prevailing

Under Section 2(2) of the VAT Act the Commissioner General may defer VAT on the supply of local goods by any local manufacturer to direct exporters who are registered with EDB for the purpose of manufacture of goods for export, until such time as the activities of the manufacturer are monitored by EDB and EDB furnishes a reconciliation on export of goods to the Commissioner General of Inland Revenue.

Comment

The proposal expands the suspension scheme to cover specified services in addition to goods. The mechanism for the determination of such services should be clarified.

New exemptions

Proposal

It has been proposed to exempt the following:

<i>Description</i>	<i>Effective from</i>	Proposed	Prevailing
Supply of locally manufactured tea machinery	01/10/2008	Exempt	15%
Supply of locally manufactured surgical gauze used for surgeries	01/01/2009		15%
Importation of buses on or after 09/07/2008 to replace of those destroyed by terrorist activities.	01/01/2009		15%
Importation of brass sheets, brass ingots, thread, dyes, paraffin wax and shellac for the manufacture of brassware by the National Craft Council with the approval of the Ministry of Rural Industries and Self Employment Promotion	01/01/2009		-
Importation of solar panel modules and accessories for the generation of solar power energy under specified HS Code Nos.	01/01/2009		15%
Importation of chemical naptha by the Ceylon Petroleum Corporation to be supplied to Ceylon Electricity Board for the generation of electricity	01/01/2009		-
Construction of work relating to Gama Naguma, Maga Naguma, Samurdhi, and community irrigation projects which are carried out through the participation of the community	01/01/2009		-
Raw material such as copper, silver	01/01/2009		15%
Raw material required for manufacture of foot-wear, hand bags, belts and other leather goods	01/01/2009		15%

Comments

- **VAT exemptions for items such as copper, leather and agriculture related machinery has been granted in order to encourage local manufacturers and exporters of such items.**
- **Locally manufactured chemical naptha was exempted by press notice dated 27/07/2007 and subsequently legislated by Value Added Tax (Amendment) Act, No. 15 of 2008**
- **Exemption on raw materials such as copper, silver and leather goods is presumed to be on importation.**

Exemption – VAT on financial services

Proposal

It has been proposed to exempt Lady Lochore Loan Fund from VAT on financial services.

Prevailing

Liable at 20%

Miscellaneous Taxes

Imports and Exports (Control) Act No. 01 of 1969

Proposal

A Gazette to be published under the aforesaid Act incorporating changes to be made, to correspond with the following changes proposed in tariff:

- *Re-formatting of subheadings in the Harmonized Commodity Coding System*
- *Removal of discrepancies with regard to importation of hearses and double cabs*

Comment

The effective date of the above should be clarified.

Debits Tax

Proposal

Provisions relating to the recovery of tax applicable under the Inland Revenue Act No 10 of 2006 to be incorporated under Debits Tax Act with effect from January 1, 2009.

Prevailing

Taxes in default are presently recovered through Magistrate Court procedure under Section 11 of Debits Tax Act No 16 of 2002. A person is deemed to be a defaulter of debit tax under Section 10 of the aforesaid Act if such person is unable to comply with the Direction of the Commissioner General of Inland Revenue to pay such debits tax due within 14 days of such Direction.

Comment

Chapter XXVI of the Inland Revenue Act No. 10 of 2006 specifies several methods for the recovery of tax in default such as

- Seizure and sale of property***
- Recovery from third parties***

Construction Industry Guarantee Fund Levy

Proposal

Construction Industry Guarantee Fund Levy (CIGFL) will be collected as a withholding tax at the time of withholding of income tax

Prevailing

At present, Construction Industry Guarantee Fund Levy is remitted by the construction contractor to the Commissioner General of Inland Revenue at varied rates depending on the value of the contract at the time that the contractor receives each contract payment.

Comment

Initially this levy was collected by Institute for Construction Training & Development (ICTAD) and by the Finance (Amendment) Act No 13 of 2007 it was made payable to the Commissioner General of Inland Revenue.

Currently, the contractee is required to deduct 1% as income tax at the time the contract fee is paid. The proposal is to require him to deduct the levy as well. It is likely that the contractee may have to issue a certificate of deduction as for income tax withheld.

The CIGFL is imposed on the following basis and most likely withholding may also be at similar rates.

<i>Value of construction contract</i>	<i>Rates applicable</i>
<i>< Rs. 15 Mn</i>	<i>Nil</i>
<i>Rs. 15 Mn - Rs. 50 Mn</i>	<i>0.25%</i>
<i>Rs. 50 Mn – Rs. 150Mn</i>	<i>0.50%</i>
<i>>Rs. 150 Mn</i>	<i>1%</i>

Port & Airports Development Levy

Proposal

It is proposed to increase the rate from 3% to 5%.

Prevailing

Every article imported into Sri Lanka is subject to PAL at 3% on its CIF value for customs purposes.

Comment

PAL was introduced in May 2002. Different rates have been applied on imports and imports for re-export. These rates have been varying from time to time and given below is a tabulation of same.

Imports

Period	Rates
1 January 2007	3.0%
1 January 2006 - 31 December 2006	2.5%
19 November 2004—31 December 2005	1.5%
1 May 2002 — 18 November 2004	1.0%

Imports for processing and re-export

Period

1 January 2006	excluded
1 January 2005-31 December 2005	0.25%
1 January 2003 — 31 December 2004	0.5%
1 May 2002—31 December 2002	1.0%

Imports by diplomatic missions would continue to be exempt from PAL while imports for processing and re-export, or imports to be used for manufacture of goods for export would continue to be excluded from the scope of PAL.

Cellular Mobile Telephone Subscribers' Levy

Proposal

The scope of the levy is proposed to be expanded to include subscribers of fixed telephone lines with the exception of such subscribers who are surviving spouses of service personnel killed in action and disabled soldiers.

Prevailing Law

Under Finance (amendment) Act No. 37 of 2007 the telephone levy of 10% is imposed on all subscribers of mobiles and cordless phones

Comment

Initially the levy was imposed by Finance Act No. 11 of 2004 on cellular mobile telephone users at the rate of 2.5% calculated on the value of supply of services or future services. This rate was increased to 10% by the amendment to the Finance Act in 2007 and the applicability was extended to mobile wireless phones.

Excise Duty

Proposal

New rates applicable on excisable articles under Section 3 of the Excise (Special Provision) Act No. 13 of 1989 to be gazetted with effect from 7 November 2008.

Comment

Excise Duty is levied on specified articles manufactured or produced in Sri Lanka or imported into Sri Lanka and declared as excisable by an Order made by the Minister of Finance & published under Section 3 of the Excise (Special Provisions) Act, No. 13 of 1989.

Excise Ordinance as amended and the Excise (Special Provisions) Act as amended together with the Regulations prescribed under the aforesaid statutes published in Gazettes form the regulatory framework for the Levy of Excise Duty in Sri Lanka.

Cess

Proposal

Following is a summary of the Cess rates proposed with effect from 7 November 2008 on importation of selected items to induce local production by maximizing the usage of local products and as an incentive to those already engaged in such local production.

Item	Proposal – rate
<i>Polythene and plastic</i>	<i>1% to be increased to 5%</i>
<i>Ayurvedic medicine</i>	<i>Increase not specified</i>
<i>Fruits and vegetables</i>	<i>Increase not specified</i>
<i>Sarees, sarongs, readymade garments and materials imported for local consumption</i>	<i>Increase by 50%</i>
<i>Fridges, fans & ceramic-ware</i>	<i>Increase by 50%</i>
<i>Chocolate, biscuit & sweets</i>	<i>Increase by 50%</i>
<i>Handicrafts</i>	<i>Increase by 100%</i>
<i>Wheat flour</i>	<i>5%</i>
<i>Produce similar to local agricultural products such as Black gram, kurakkan, cowpea and sesame seed</i>	<i>15%</i>
<i>Rubber latex</i>	<i>Rs. 25 per kg</i>
<i>Tea</i>	<i>Rs. 4 per kg</i>
<i>Maize & animal feed (including by BOI companies)</i>	<i>25%</i>
<i>Paper</i>	<i>5%</i>
<i>Household and office furniture</i>	<i>15%</i>
<i>Foot-wear, hand bags, belts & other leather goods</i>	<i>Rs. 200 per kg</i>
<i>Salt</i>	<i>Rs. 10 per kg</i>
<i>Tea packets and tea bags</i>	<i>To be exempted</i>

Comment

Cess is charged and levied on importation of goods to Sri Lanka in terms of the Sri Lanka Export Development Act No. 40 of 1979.

Cess is levied on the value of goods for customs duty purposes at the time of importation and a sum equivalent to 10% of such value either,

- on an ad valorem rate, or**
- percentage of the value of goods.**

Where both bases are specified, that which results in the imposition of the higher Cess is applicable.

Special Commodity Levy

Milk powder & Sugar

Proposal

It is proposed to increase the levy on imported milk powder to Rs. 15/- per kg from the prevailing rate of Rs. 5/- and on imported sugar to Rs. 16/- from the prevailing rate of 14/- with effect from 7 November 2008

Prevailing

Special Commodity Levy was introduced by the Special Commodity Levy Act No. 48 of 2007 to be imposed on essential commodities that the Minister would specify by an Order, published in the Gazette. The Levy is a composite levy where no other tax, duty, levy or cess or any other charge¹ shall be applicable on such commodity. Following is a summary of the rates applicable on the prevailing essential commodities published in Gazette Notification dated 26 August 2008 (No.1564/3).

H.S. Heading	Description	Special Commodity Levy
03.05	Sprats, dried, not salted	Rs. 20.00 per Kg.
04.02	In powder, granules or other solid forms, of a fat content, by weight, not exceeding 1.5 % Not containing added sugar or other sweetening matter Other	Rs. 05.00 per Kg. Rs. 05.00 per Kg. Rs. 05.00 per Kg. (to be increased to Rs. 15 per kg)
07.01	Other - Potatoes	Rs. 20.00 per Kg.
07.03	B' Onions	Rs. 20.00 per Kg.
07.13	Peas (Pisum sativum)	Rs. 15.00 per Kg.
07.13	Chickpeas	Rs. 15.00 per Kg.
07.13	Green Gram (Moong)	Rs. 13.00 per Kg.
07.13	Masoor dhal (red lentils) - Whole Masoor dhal (red lentils) - Split Masoor dhal (Yellow lentils) - Whole Masoor dhal (Yellow lentils) - Split	Rs. 4.00 per Kg. Rs. 6.00 per Kg. Rs. 4.00 per Kg. Rs. 6.00 per Kg.
09.04	Chillies Neither crushed nor ground Chillies - crushed or ground	Rs. 30.00 per Kg. Rs. 30.00 per Kg.
16.04	Salmon Herrings	Rs. 25.00 per Kg. Rs. 25.00 per Kg.

¹ Ports and Airports Development Levy, Value Added Tax, Social Responsibility Levy, Customs Duty, Cess & Excise Duty

	Sardines, sardinella and drisling or sprats Tunas, skipjack and bonoto (Sarda spp.) Makereel Anchovies Other Other prepared or preserved fish	Rs. 25.00 per Kg. Rs. 25.00 per Kg. Rs. 25.00 per Kg. Rs. 25.00 per Kg. Rs. 25.00 per Kg. Rs. 25.00 per Kg.
17.01	White crustalline cane sugar White crustalline beet sugar	Rs. 14.00 per Kg. Rs. 14.00 per Kg. (to be increased to Rs. 16 per kg)

Comments:

It is also proposed to exempt the items chargeable at the rate of 5% specified in the Value Added Tax Act No. 14 of 2002 (VAT) from such charge if such item is specified as an item chargeable with Special Commodity Levy.

However the proposal is ambiguous & it is presumed that the VAT exemption is for the subsequent supply of goods liable for Special Commodity Levy at the point of importation.

Fuel Adjustment Levy

Proposal

- The Fuel Adjustment Levy charged by the CEB will be reduced to 15% for a period of one year, for tourist and hotel industries.

Nation Building Levy (NBL)

Introduction

The government has proposed a new Levy termed the Nation Building Levy akin to the National Security Levy which prevailed in the past at the rate of 1% on turnover for a period of 2 years.

Who is liable?

- Importers
- Manufactures
- Providers of services

Basis of the Levy

Turnover (net of exclusions given below) which in the case of –

- an importer, is the CIF value of the articles imported,
- any other liable persons, is the amount received or receivable in respect of any transaction entered into by such person, reduced by bad debts incurred;

Excise Duty paid under the Excise Duty (Special Provisions) Act No. 13 of 1989; and

Value Added Tax paid under the Value Added Tax Act No. 14 of 2002

Threshold

The Levy is payable for any quarter where turnover for that quarter exceeds Rs. 100, 000/=

Taxable period – 3 months

Filing of Returns and payments

Every liable person (other than importers) will be required to furnish a return of his quarterly turnover and to pay the Levy on self — assessment basis, within 20 days from the end of each quarter.

The Levy payable by importers will be collected by the Director General of Customs at the time the Customs duties or other charges etc., if any, are collected.

Assessments, appeals, recovery

The provisions of the Inland Revenue Act, No 10 of 2000 relating to assessments, appeals, recovery etc. will be made applicable to the assessments, appeals, recovery etc.

Input Credit:

Every manufacturer will be entitled, to credit for the Levy, paid on materials

- (i.) imported (other than plant machinery etc.); or*
- (ii.) purchased from any other manufacturer,*

and which are used exclusively in such business of manufacturer.

Carry forward provisions

Any NBL paid in excess of the liability for that quarter, may be carried forward to succeeding quarters and set off against NBL liability for such quarter, but no part of the Levy shall be refunded.

Exclusions from turnover

- the proceeds from export of any article manufactured in Sri Lanka;
- the value of any article not being plant, machinery or fixtures imported exclusively for use in/ for the manufacture of any article for export;
- the sales proceeds of any imports manufactured outside Sri Lanka.
- the sales proceeds of any exports from Sri Lanka;
- the value of any article which is imported to Sri Lanka for display at an exhibition; the temporary use in Sri Lanka in any project approved by the Minister; for the purposes of repairs to that article to be carried out in Sri Lanka; or any other similar purpose, *and is to be re-shipped by such person, within a period of one year from the date of importation;*
- the value of any article imported, if such article was taken out of Sri Lanka for repairs prior to its importation;
- the value of any cinematographic film or tele drama produced in Sri Lanka and sent out of Sri Lanka for further processing or printing with the approval of the National Film Corporation.
- the value of any spare part imported by any airline or shipping company, to be used for the maintenance of any aircraft of ship, used in international traffic and owned or chartered by such airline or shipping company;
- the sales proceeds of any article, or any sum received or receivable in respect of the provision of services to the United Nations Organization or to any specialized agency of such organization or to the diplomatic mission of any foreign Government or to any member of the diplomatic staff of such mission or to any other person approved by the Minister on the recommendation of the Minister of Foreign Affairs as being of the status of a diplomatic mission.
- any sum received or receivable by any person from the provision of any one or more of the following services —
 - Carriers on the business of Banking or Finance
 - supply of electricity;
 - medical services;
 - supply of water;
 - transport of goods or passengers
 - leasing of movable properties.
- service of a construction contractor, not being a subcontractor, insofar as such services are in respect of constructing any building, road, bridge, water supply, drainage or

sewerage system, harbour, airport or any infrastructure project in telecommunication or electricity;

- services provided to any exporter of any article, being services directly related to improving the quality and character of such article;
- the services of sewing garments provided to any exporter of such garments;
- services of a freight forwarder, shipping agent licensed under the Licensing of Shipping Agents Act No. 10 of 1972 or courier insofar as such services are in respect of the exporter of any article from Sri Lanka;
- services provided by a public corporation in respect of the export of any article from Sri Lanka;
- operating a hotel, guest house, restaurant or other similar business, if, such hotel, guest house, restaurant or other similar business is registered under the Value Added Tax Act, No. 14 of 2002;
- the services of an auctioneer, broker, insurance agent or commission agent of any local produce;
- the services of a travel agent registered with the Ceylon Tourist Board in respect of inbound tours, if such person is registered with the Ceylon Tourist Board.
- services of a computer software developer in respect of software developed by such person for use wholly outside Sri Lanka and for which payment is received in foreign currency through a bank
- services provided over the Internet, using custom-built software, by an enterprise, exclusively for the provision of such services being services enabling or facilitating the sale of goods, or for the provision of services, by a person in Sri Lanka to persons outside Sri Lanka, for payment in foreign currency;
- client support services provided over the internet or telephone, by an enterprise, exclusively for the provision of such services, to one or more identified clients outside Sri Lanka, for payment in foreign currency;
- life insurance premia where such person carries on any insurance business;
- the CIF Value of any article imported if such article is subject to the Special Commodity Levy charged under the Special Commodity Levy Act No 48 of 2007;
- distribution or production and supply, of any cinematographic films primarily for exhibition in cinemas;
- exhibiting films in a cinema;
- Value at the point of import or proceeds from the sale of following articles
 - Fertilizer;
 - Petroleum and Petroleum products;
 - LP Gas; and
 - Pharmaceuticals

and any other, as may be specified by the Minister by order published in the Gazette.

Comment

The Levy is proposed to operate only for the eight quarters of years 2009 and 2010. However the National Security Levy which was introduced on similar grounds continued for a far longer period than for which it was originally intended.

The proposal is silent as to the claimability of the remaining carry forward at the end of the two year period.

Introducing an additional tax would further complicate the tax structure in Sri Lanka.

Customs Duty

New Exemptions

It is proposed to exempt the following items from customs duty.

- Fashion jewelry industry

Intermediate goods to be used for fashion jewelry industry

- Pharmaceutical Industry

Packaging materials for the purpose of pharmaceutical industry

- Handicraft Industry

Raw material to be used for handicraft industry

- Energy Industry

Materials used for donor funded projects implemented by Ceylon Electricity Board

Raw materials, components parts and accessories for the manufacture of energy saving compact lamps

- Tea Industry

Components and parts used for fabrication of tea machinery

- Leather Industry

Materials used for the manufacture of foot-wear, hand bags, belts and other leather goods

Rate Changes

The following rate and HS code changes, have been proposed.

- Value Added Vein Quartz (Export Duty)

HS code	Description	<i>Proposed Rate</i>	<i>Prevailing Rate</i>	
2506.10	Free on Board for Vein Quartz (per M.T)	20%	20%	
	Raw Vein Quartz			Up to 139
	Value added in range of Vein Quartz	140-190		14%
	Value added in range of Vein Quartz	191-240		09%
	Value added in range of Vein Quartz	241-299		03%
	Value added in range of Vein Quartz	Exceeding 300		Free

- Polyesters Industry

HS code	Description	<i>Proposed Rate</i>	<i>Prevailing Rate</i>
3907.91	Polyesters	6%	2.5%

- Paper Industry

HS code	Description	<i>Proposed Rate</i>	<i>Prevailing Rate</i>
4805.91	Uncoated paper and paperboard	6%	15%
4810.29	Paper and paperboard	Free	2.5%

- Rubber Industry (Tyres)

HS code	Description	<i>Proposed Rate</i>	<i>Prevailing Rate</i>
4011.20	Used on buses or lorries	28% or Rs. 90/= per Kg	28% or Rs. 70/= per Kg
4011.10	Used on Motor cars		28% or Rs.80/= per Kg
4011.99.90	Other		

- Sugar Industry

HS code	Description	<i>Proposed Rate</i>	<i>Prevailing Rate</i>
1701.11	Raw sugar	Rs. 12 per Kg	Rs. 10 per Kg

- Wheat Industry

HS code	Description	<i>Proposed Rate</i>	<i>Prevailing Rate</i>
1001.90.01	Import Duty on Wheat Grain	10%	6%

- Vehicles

HS code	Description	<i>Proposed Rate</i>	<i>Prevailing Rate</i>
8704.21.51 8704.21.52 8704.31.41 8704.31.42	Cargo carrying vehicles	6%	6%
87.04.21.61 8704.21.62 8704.31.51 8704.31.52			15%

- Cement Industry

HS code	Description	<i>Proposed Rate</i>	<i>Prevailing Rate</i>
2523.21	White cement, whether or not artificially coloured	6%	15%
2523.29.10			
2523.29.20			
2523.29.30			
2523.30	Aluminous cement		
2523.90	Other hydraulic cements		

▪ Other

HS code	Description	<i>Proposed Rate</i>	<i>Prevailing Rate</i>
8507.10	Automotive Batteries	28% or Rs. 85/= per Kg	28%
84.15	Air Conditioners	28%	15%
8539.31.10	▪ Energy efficient AC compact fluorescent lamps	Free	2.5%
8437.10.90 8437.80.90	▪ Machinery for grading seed, grain	Free	2.5%
4410.11 4410.12 4410.19 4410.90	▪ Creation of new HS Codes and revision of tax for Particle board	4410.11.10 – 2.5% 4410.11.90 – 6% 4410.12 } 4410.19 } 6% 4410.90 }	6%
5208.11	▪ Creation of new HS codes and unbleached woven fabrics of cotton.	5208.11.10 – Free 5208.11.90 – Free	Free

Other proposals

- Soap

Creation of new HS codes for soap wrappers.

- Electric Mosquito Destroyers

Introduction of two new Hs codes for Electric Mosquito Destroyers.

- Tea

Creation of new HS codes for Tea Stalk Extracting Machines.

- Vacuum containers

Introduction of new HS codes for vacuum containers for transport of semen in liquid nitrogen.

- Vehicles

Creation of new HS codes for Hearses and Gas operated Auto Trishaws.

Revision of text of national sub divisions to separate double cabs from crew cabs

- Products related to solar system.

Creation of new HS codes to identify product related to solar system.

- Reformatting of National Sub-Divisions in H.S. Codes System.

Surcharge on Customs Duty

Comment

Currently applicable Surcharge of 15%, imposed under Section 10 (A) of Chapter 235 of the Customs Ordinance, will remain unchanged.

Tariff revisions under Free Trade Agreements

The following tariff revisions under the Free Trade Agreements entered into by Sri Lanka will be effective from 07 November 2008 by a Customs Notification as per Order under the Revenue Protection Act No. 19 of 1962.

South Asia Free Trade Area (SAFTA)

Proposal

For developing member countries of SAARC to offer a preferential tariff rate of 10% where the general duty rate is less than 20%

For under-developed countries of SAARC to offer a 30% reduction on the existing rate of duty

Comments

SAFTA was entered into with the view of elimination of Customs Duty on the trade of practically all products in the SAARC region by end of 2016. This agreement came into effect on 01 January 2006.

Article-7 of SAFTA requires the developing countries in South Asia i.e. India, Pakistan and Sri Lanka, to reduce their duties to 20% in the first phase of the two year period ending in 2007. In the final five year phase ending 2012, (with the exception of Sri Lanka that is granted a further one year ending 2013) the 20% duty will be reduced to 0% in a series of annual cuts.

In keeping with Article -7, the Government has proposed a flat rate of 10% as duty, where the general duty rate is less than 20% in relation to the developing member countries of SAARC i.e. India and Pakistan. A 30% reduction on the existing duty is proposed for under-developed countries of SAARC, i.e. Afghanistan, Bangladesh, Bhutan, Maldives and Nepal.

India – Sri Lanka Trade Agreement (ISFTA)

Proposal

A complete waive off of the balance 30% of the preferential tariff rate in respect of the items in the residual list which should have been implemented with effect from 01 March 2008

Comments

ISFTA was entered into to establish a Free Trade Area for the purpose of free movement of goods between India and Sri Lanka inter alia through elimination of tariffs. This agreement is effective from March 2000.

Article III (Annexure B) specifies the tariffs to be brought down by not less than 35% before the expiry of three years and 70% before the expiry of the sixth year and 100% before the expiry of eight years from March 2000.

In keeping with Article III, the proposal re-affirms the commitment to ISFTA, whereby the Government would waive off the balance 30% of the preferential tariff in respect of items identified in the residual list, which should ideally have been implemented with effect from 12 June 2006.

Pakistan – Sri Lanka Trade Agreement (PSFTA)

Proposal

A reduction of 20% of the tariff in respect of items in the Phasing out List which should have been implemented with effect from 12 June 2008.

- PSFTA was entered into for a Free Trade Area for the purpose of free movement of goods and services between Pakistan and Sri Lanka through elimination of tariffs. This agreement is in effect from 13 June 2005.
- A Tariff Phasing out Schedule (i.e. on Margin of Preference of the MFN rates) was agreed at a meeting between Pakistan and Sri Lanka in July 2002 whereby Sri Lanka agreed to reduce the tariff in the following manner.

Applicable Year End	% Reduction
Upon entry into force (13 June 2005)	≥ 20%
End of Year 1 (12 June 2006)	≥ 30%
End of Year 2 (12 June 2007)	≥ 40%
End of Year 3 (12 June 2008)	≥ 60%
End of Year 4 (12 June 2009)	≥ 80%
End of Year 5 (12 June 2010)	100%

- In line with the agreed Phasing out Schedule the Government will waive off a tariff of 20% in order to implement the phasing out

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