



Budget Highlights
2018

09th November 2017

Dear Client

BUDGET PROPOSALS – 2018

The “Blue – Green budget, the launch of Enterprise Sri Lanka” being the 72nd Budget of The Democratic Socialist Republic of Sri Lanka (2018) was presented in Parliament today by the Minister of Finance and Mass Media, Minister Mr. Mangala Samaraweera.

The budget proposals are aimed at achieving the full economic growth potential of Sri Lanka while ensuring an environmentally sustainable development strategy.

In this context one of the notable proposals are the concessions on imports taxes for electrical vehicles including electric three wheelers, cars and buses.

Apart from this, key proposal presented in line with the “ Blue – Green” budget theme are:

1. Proposal for Government to bear 50% of the investment cost incurred on equipment and machinery by SME polythene producers when converting from polythene to environment friendly alternatives
2. Introduction of a concessionary Green Loan Scheme encouraging local entrepreneurs to engage in manufacturing bags, packing materials etc. out of bio degradable materials such as banana fiber, palm leaves, coir, and bamboo.
3. VAT exemption proposed for the solar tracker classified under HS Code 84.79.89.50

This memorandum has been prepared as a general guide, exclusively for the information of our clients and staff. These proposals may be subject to alteration during the passage of legislation, through the Parliament. Therefore, conclusions and decisions should be made only after due consideration and consultation.

For additional information and guidance on the proposed changes, the Tax and Business Advisory Services of SJMS Associates will be pleased to assist you.

Yours faithfully,

SJMS Associates
SJMS ASSOCIATES
Chartered Accountants

Contents

| | |
|----------------------------------|----|
| 1. Income tax | 2 |
| 2. Value Added Tax (VAT) | 9 |
| 3. Nation Building Tax (NBT) | 11 |
| 4. Economic Service Charge (ESC) | 12 |
| 5. Miscellaneous | 13 |
| About SJMS Associates | 37 |
| Contacts | 39 |



1. Income tax

A new Inland Revenue Act is to be effective from April 01, 2018. The 2018 budget speech did not contain any changes to income tax except

- Backward integrated activities related to agriculture will be taxed at the concessional Income Tax rate of 14%.

We have shared with you previously an overview of the new Inland Revenue Act. We present below key highlights of the proposed law.

Corporate Income Tax

All business activities of a company are treated as conducted in the course of **a single company business**.

1.1.1. Corporate income tax rate

The corporate income tax rates will be revised to a 3 tier structure comprising of a lower rate of 14%, a standard rate of 28% and a higher rate of 40%.

| Companies | Income Tax Rate (Proposed Act) % | Current Act % |
|---------------------------------|----------------------------------|---------------|
| SME | | 12 |
| Exporters (goods and services)* | 14 | 12 |
| Agricultural business | | 12 |

| Companies | Income Tax Rate (Proposed Act) % | Current Act % |
|---|---|----------------------|
| Educational Services | | 10 |
| Information Technology Services | | 10 |
| Promotion of tourism | | 12 |
| Betting and gaming, liquor, tobacco | 40 | 40 |
| Standard rate | 28 | 28 |
| Gains from realization of investment assets | 10 | NIL |

* Exports includes specified undertakings

Specified undertaking means an undertaking which is engaged in

- a. Entrepot trade
- b. Offshore business
- c. Providing front end services to clients abroad
- d. Headquarters operations of leading buyers for management of financial supply chain and billing operation
- e. Logistic services such as bonded warehouse or multi-country consolidation in Sri Lanka
- f. Transshipment Operations
- g. Freight forwarding
- h. Supply of services to any exporter of goods or services or to any foreign principal of such exporter directly, services provided by an agent of a ship operator to his foreign principal.
- i. Production or manufacture, and supply to an exporter of non-traditional goods
- j. The performance of any service of ship repair, ship breaking repair and refurbishment of marine cargo containers, provision of computer software, computer programmes, computer systems or recording computer data or such other services as may be specified by the Minister by notice published in the Gazette, for payment in foreign currency.

1.1.2. Revision of capital allowances

| Depreciable asset class | New rate | Previous rate |
|--|---|----------------------|
| Computers and data handling equipment together with peripheral devices | 20% | 25% |
| Buses and minibuses, goods vehicles; construction and earth- moving equipment, heavy general purpose or specialized trucks, trailers and trailer-mounted containers; plant and machinery used in manufacturing | 20% | 20% 33 1/3% |
| Railroad cars, locomotives, and equipment; vessels, barges, tugs, and similar water transportation equipment; aircraft; specialised public utility plant, equipment, and machinery; office furniture, fixtures, and equipment; any depreciable asset not included in another class | 20% | 20% 33 1/3% |
| Buildings, structures and similar works of a permanent nature | 5% | 10% |
| Intangible assets, excluding goodwill | The actual useful life of the intangible asset or where the intangible asset has an indefinite useful life* | 10% |

In addition to the depreciation allowance, a balancing allowance, that is the loss on realization (disposal) of depreciable assets can be deducted in calculating the business profit.

Assessable charge that is the gain on the disposal of depreciable asset is to be included in calculating the profit.

* indefinite useful life has been defined as 20 years

1.1.3. Carry forward of losses

Losses are identified as:

- Business loss and
 - Investment loss.
- a) **Losses incurred from business:** Can be set off against income from business and income from investment
 - b) **Losses from investment:** Can be set off only against investment income
 - c) **Excess loss:** Can be carried forward and set off against the future income for subsequent 6 years.
 - d) **Loss on depreciation:** Can be carried forward and set off in the subsequent 10 years or 25 years for specific investments (enhanced depreciation allowances)
 - e) **Losses attributable to a reduced rate of tax (had it been a profit):** Such loss can be set off against such income subject to lower rate of tax or only against exempt profit if the loss is from exempt profit.
 - f) Current law of limiting losses to 35% of total statutory income is repealed.
 - g) Losses from leasing and insurance business can be set off against such income only. This is similar to the current law.

When the ownership of an entity changes by more than 50%, the loss shall not be permitted to be deducted after the change, if it does not conduct the same business it conducted before the change, for a period of 2 years after the change for a partnership or a company.

1.1.4. Finance cost (Thin Capitalization)

Finance cost (other than for financial institutions) shall not exceed the amount of cost attributable to financial instruments subject to the following restrictions

- a. Manufacturing entity-3 times of Capital+ Reserves
- b. Other than manufacturing entity- 4 times of Capital + Reserves

Any disallowed financial costs for which a deduction is denied as a result of the above may be carried forward and treated as incurred during any of the following six years of assessment, but only to the extent of any unused limitation as per the above restriction for the year.

The Commissioner General may specify the circumstances in which losses on financial instruments may only be set off against gains on financial instruments.

When the ownership of an entity changes by more than 50%, the disallowed finance cost shall not be permitted to be deducted after the change, if it does not conduct the same business it conducted before the change, for a period of 2 years after the change for a partnership or a company.

Previously only claims of interest on loans obtained by a holding company from its subsidiary or vice versa was restricted.

1.1.5. Qualifying Payments

Qualifying Payments have been restricted to:

A donation made by an entity in money to an approved charitable institution that is

- i. a charitable institution established for the provision of institutionalized care for the sick or the needy; and
- ii. declared by the Minister as an approved charitable institution

can be deducted as Qualifying payments from the Total Statutory Income subject to a maximum of one-fifth of the assessable income or Rs. 500,000, whichever is less.

1.1.6. Distribution of profits

Dividends

The definition of a dividend has been widened compared to the previous Act. It has been defined to mean a payment received by a member of a company

- as a division of profits,
- in the course of a liquidation or reconstruction,
- in a reduction of capital or
- share buy-back or
- otherwise

includes a capitalisation of profits whether by way of a bonus share issue, increase in the amount paid-up on shares or otherwise

excludes a payment to the extent to which it is –

- i. matched by a payment made by the member to the company;
- ii. debited to a capital, share premium or similar account; or
- iii. otherwise constitutes a final withholding payment or is included in calculating the income of the member;

Under the previous Act, when a company bought back shares from its shareholders, only the excess, if any, paid to any shareholder over the market price of such share quoted in the Colombo Stock Exchange or the market price as at the date on which the share buyback is approved was considered as a dividend.

Distribution by a resident company

Distribution of dividends by a resident company subject to a final withholding tax. The WHT rate applicable is 14%. The liability is of the shareholder, while the company is only a withholding agent.

Dividends distributed out of foreign dividends received - The WHT rate applicable is 14%. Previously was exempt provided the (re)distribution was done within 3 months of receiving the foreign distribution.

Exemptions

Dividend distributed out of dividends received locally.

Distribution by a non-resident company

The dividend income should be included in calculating the income of the shareholders.

Remittance Tax

A non-resident person who carries on business in Sri Lanka through a permanent establishment (PE), must pay tax on the remitted profits earned within the year of assessment.

The tax rate will be 14% and is payable within 30 days after making such remittances.

“Remitted profits” means amounts remitted or retained abroad out of the profits taxable in Sri Lanka other than dividends paid by a resident company to the non resident person.

Minimum Dividend Distribution

Minimum dividend distribution requirements have not been stipulated in the new Act.

1.1.7. WHT

| Withholding from service Fees and Contract Payments | WHT Rate |
|--|----------|
| Service fee paid with a source in SL to a resident individual who is not an employee (on amounts exceeding Rs. 50,000/month) *** | 5% |
| Service fee/Insurance premium paid with a source in Sri Lanka to a non-resident person | 14% |

***** Services means:**

- (i) teaching, lecturing, examining, invigilating or supervising an examination
- (ii) commission / brokerage to a resident insurance sales or canvassing agent
- (iii) endorsement fee
- (iv) supply of any article on a contract basis through tender/quotation
- (v) other matters as may be prescribed by regulation

1.1.8. Investment Incentives

Provision has been made for enhanced depreciation allowances on tangible assets used in a business as follows:

| Qualifying Criteria | Enhanced Depreciation Allowance |
|---|---------------------------------|
| <ul style="list-style-type: none"> • Depreciable assets are used in Sri Lanka (excluding Northern Province), • Between USD 3 Mn to USD 100 Mn has been incurred on Depreciable assets during the year | 100% |
| <ul style="list-style-type: none"> • Depreciable assets are used in Sri Lanka (excluding Northern Province), • A sum in excess of USD 100 Mn has been incurred on Depreciable assets during the year | 150% |
| <ul style="list-style-type: none"> • Depreciable assets are used in the Northern Province • A sum in excess of USD 3 Mn has been incurred on Depreciable assets during the year | 200% |
| <ul style="list-style-type: none"> • More than USD 250 Mn has been incurred by a state owned company on Depreciable assets during the year | 150% |

Provision for temporary enhanced depreciation allowances has been given for the first 3 years after the enactment of the Act as follows:

| Qualifying Criteria | Enhanced Depreciation Allowance |
|---|---------------------------------|
| <ul style="list-style-type: none"> • Depreciable assets are used in Sri Lanka (excluding Northern Province) • Upto USD 3 Mn has been incurred on Depreciable assets during the year | 100% |
| <ul style="list-style-type: none"> • Depreciable assets are used in the Northern Province • Upto USD 3 Mn has been incurred on Depreciable assets during the year | 200% |

Depreciable assets for the purpose of temporary enhancement allowances means;

- Computers and data handling equipment together with peripheral devices
- Buildings, structures and similar works of a permanent nature
- Plant or machinery used to improve business process or productivity and fixed to the business premises.

Companies which have invested USD 1,000Mn or more in depreciable assets (other than intangible assets) in Sri Lanka and pays dividends out of profits sheltered under enhanced depreciation allowances enjoy the following benefits:

- Exemption from dividend tax
- Exemption from PAYE for expatriate employees (upto a maximum of 20 employees)

New Concessions

| Industry | Criteria to be satisfied | Concession granted |
|-------------------------|---|---|
| Information Technology | <ul style="list-style-type: none"> Conducts a business which predominantly consists of providing information technology services Employs more than 50 persons during the whole of the year Maintains a file as a withholding agent for those employees | <ul style="list-style-type: none"> A company is entitled to an additional deduction when calculating the company's income from business for a year of assessment equal to 35% of the total payments made by the company which are to be included in calculating the taxable income of its employees other than a company director The company shall not be entitled to an enhanced capital allowance for three years Unrelieved loss incurred as the result of application of this section shall not be deducted in any succeeding year of assessment. |
| Headquarters Relocation | Any institution in the international network established on or after October 1, 2017, by relocating in Sri Lanka, the Headquarters or regional H/O as specified by the Commissioner General. | Tax at 0% for three years of assessment after the commencement of this Act |
| Renewable Energy | Any person who has entered into a Standardized Power Purchase Agreement on or before November 10, 2016 with the Ceylon Electricity Board to provide electricity generated using renewable resources | Tax at 14% for the three years of assessment after the commencement of this Act. Presently, producing any alternative energy is chargeable at 12%. |

Personal Income Tax

1.1.9. Tax free threshold on income from employment

The tax free threshold on income from employment will be increased to Rs. 1,200,000 per annum (Rs.100,000 per month). Currently, the tax free threshold on income from employment is Rs. 750,000 per annum (Rs. 62,500 per month).

1.1.10. Tax rates

Subject to the tax free allowance and qualifying payment relief entitlement for Residents and Non- Residents, the tax structure on taxable income will be as follows:

| Taxable Income Tax Slabs (Rs.) | Tax Rate (%) |
|--------------------------------|--------------|
| First 600,000 | 4 |
| Next 600,000 | 8 |
| Next 600,000 | 12 |
| Next 600,000 | 16 |
| Next 600,000 | 20 |
| Balance | 24 |

Senior Citizens

Relief:

- Interest income derived from a financial institution, up to Rs. 1,500,000 for each year of assessment will not be taxable.

Exemptions:

- Any amount derived by a senior citizen from an annuity for life for a period of not less than ten years purchased from a bank or an insurance company registered under the Regulation of Insurance Industry Act, No. 43 of 2000.

Withholding tax rates

In the case of interest or discount paid to a resident person (other than to an individual who is a senior citizen in relation to a bank deposit account) – 5%.

Interest paid to a senior citizen – To be prescribed by regulations.

Qualifying Payments have been restricted to

1. A donation made by an individual in money to an approved charitable institution that is
 - I. established for the provision of institutionalized care for the sick or the needy; and
 - II. declared by the Minister as an approved charitable institution, can be deducted as Qualifying payments from the Total Statutory Income subject to a maximum of 1/3rd of the assessable income or Rs.75,000 whichever is less.

Reliefs

1. Tax Free Allowance of Rs. 500,000 is applicable for an individual for each year of assessment.
2. An amount equal to 25% of the total rental income for the year of assessment, can be claimed as a relief for the repair, maintenance, and depreciation relating to the investment asset by an individual who receives rental income from an investment asset, but shall only be allowed to the extent no deduction or cost is claimed for any actual expenditures incurred by the taxpayer for the repair, maintenance, and depreciation of the investment asset.
3. In the case of a resident individual or partner of a partnership with income earned in foreign currency in Sri Lanka from any service rendered in or outside Sri Lanka to any person outside Sri Lanka, to be utilized outside Sri Lanka, Rs. 15 Mn for each year of assessment, upto a total of such income for the year.



2. Value Added Tax (VAT)

2.1 Removal of Exemptions

2.1.1 Import or supply of imported goods made liable for VAT:

| Item Description | Exempted HS Code |
|------------------|--|
| Plants & Flowers | 06.01, 06.02.10, 06.02.20, 06.02.30, 06.02.40, 06.02.90.90 |
| Plastic Beads | 39.26.90.70 |
| Yarn/Fabrics | 50.01, 50.02, 50.03, 50.04, 50.05, 50.06, 50.07, 51.11, 51.12, 51.13, 52.01, 52.03, 52.05, 52.06, 52.08, 52.09, 52.10, 52.11, 52.12, 53.09, 53.10, 54.02, 54.03, 54.07, 54.08, 55.09, 55.10, 55.12, 55.13, 55.14, 55.15, 55.16, 58.01, 58.02, 58.04.21, 58.04.29, 58.04.30, 58.06, 58.09, 58.11, 60.01, 60.02, 60.03, 60.04, 60.05, 60.06, 62.15 |
| Wood & Articles | 44.03, 44.07, 44.08, 44.09 |
| Dyes | 32.04.11, 32.04.12, 32.04.13, 32.04.14, 32.04.15, 32.04.16, 32.04.17 |
| Glass Beads | 70.18.10 |
| Plant and | 84.07, 84.11.91, 84.13.40, 84.43.19.10, 84.43.32.30, |

| Item Description | Exempted HS Code |
|----------------------------|--|
| Machinery/Industrial racks | 84.43.32.40, 84.43.39.20, 84.43.99.30, 84.44, 84.45, 84.46, 84.47, 84.48, 84.51.40.10, 84.51.50, 84.51.80.10, 84.51.90, 84.70.10, 84.79.89.10, 84.79.89.20, 84.79.89.30, 84.79.89.40 |
| Electronic goods | 85.16.40, 85.16.72, 85.27.21, 85.27.29, 85.27.91, 85.27.92, 85.39.31.20, 85.43.70.30, 85.43.70.90, 85.43.90 |
| Aeroplanes & Parts | 88.02, 88.03.30, 88.05.21, 88.05.29 |
| Spectacles | 90.01, 90.02, 90.03, 90.04, 90.05 |
| Cameras & Projectors | 90.06, 90.07, 90.08, 90.10 |
| Watches | 91.01, 91.02, 91.05 |

2.1.2 Sale of condominium housing units

2.2 New Exemption

Solar tracker classified under HS Code 84.79.89.50

2.3 VAT refund scheme for foreign passport holders

Will be implemented at the Airports and Sea Ports with effect from May 01, 2018 for foreign passport holders.

Effective date of proposals

The proposals in relation to VAT will be implemented with effect from April 01, 2018.



3. Nation Building Tax (NBT)

3.1 Removal of Exemption

The supply of liquor either by importing or manufacturing was made exempt from NBT with effect from October 25, 2014. This exemption has been removed.

3.2 New Exemptions

- Importation of non-motorized equipment and accessories for water sports such as Kayaks, Canoes, Kite Surfing, and diving
- Importation of non-powered equipment and accessories for aero sports such as Hang Gliding, Ballooning, dirigibles, Parachutes and Para-Gliders
- Importation of gem stones for cutting and re-export purposes
- Importation of equipment that enables advanced technology agriculture practices, including greenhouses, poly tunnels and materials for the construction of greenhouses, by any grower.
- Importation of machines and equipment including solar panels and, storage batteries which will be imported for the establishment of solar charging stations.
- Upfront payment of NBT applicable on the sale of yachts built by BOI companies to the local BOI charter companies.
- NBT on domestic coconut oil and kernel products will be exempt for a period of 1 year.

Effective date of proposals

The proposals in relation to NBT will be implemented with effect from April 01, 2018



4. Economic Service Charge (ESC)

4.1 ESC base for imported motor vehicles will be amended as follows;

- Motor vehicles liable for Excise duty - Excise Duty payable
- Motor vehicles not liable for Excise duty - CIF Value

Currently the ESC base for imported motor vehicles is on CIF value.

Effective date of proposal

The proposal in relation to ESC will be implemented with effect from April 01, 2018.



5. Miscellaneous

5.1 Finance Act

5.1.1 Cellular Tower Levy

- A levy to be imposed on operators of cellular towers per cellular tower.
- The rate will be Rs.200,000 per month per tower.

5.1.2 SMS Advertising Levy

- Bulk SMS advertisements will attract a levy of 25 cents per SMS.
- The levy is payable by the advertiser.

5.1.3 Carbon Tax

- A carbon tax is to be imposed on motor vehicles based on the engine capacity.
- The rate would be based on the age and fuel type of the vehicle as follows:

| Type of vehicle | Less than 05 years | 05 to 10 years | Over 10 years |
|------------------------|--------------------|-----------------|-----------------|
| Hybrid (Petrol/Diesel) | 25 Cts per cm3 | 50 Cts per cm3 | Rs.1.00 per cm3 |
| Fuel (Petrol/Diesel) | 50 Cts per cm3 | Rs.1.00 per cm3 | Rs.1.50 per cm3 |
| Passenger bus | Rs. 1,000 | Rs.2,000 | Rs.3,000 |

- Electric vehicles would be exempted from the levy.

5.1.4 Debt Repayment Levy (DRL)

- A DRL is to be imposed on cash transactions carried out through financial institutions.
- The rate would be Rs.2 per cash transactions of Rs.10,000 (i.e. 0.02%).
- The levy is chargeable on total cash transactions and is payable by the financial institutions (not to be passed on to customers).
- To be effective from April 01, 2018 and to remain in effect for a period of 3 years.

5.1.5 Luxury Tax on Motor Vehicles

- A one-time payment luxury tax to be introduced in lieu of the present system of payment over 7 years.
- The present system would continue for the vehicles already registered.
- Tax depends on the band of engine capacity or motor power of the vehicle as follows:

| | Super Luxury (Rs.) | Luxury (Rs.) | Semi Luxury (Rs.) | |
|--|-------------------------------|-----------------|----------------------|----|
| Dual purpose (Petrol/diesel) 2200cm3 < | -- | -- | 250,000 | |
| Motor Car | Petrol 1800cm3 < x ≤ 2500 cm3 | | | |
| | Diesel 2200cm3 < x ≤ 3000 cm3 | -- | 500,000 | |
| | Electric 200 kW < x ≤ 300 kw | | | |
| | Petrol 2500cm3 < x ≤ 3500 cm3 | | | |
| | Diesel 3000cm3 < x ≤ 4000 cm3 | -- | 1,000,000 | |
| | Electric 300 kW < x ≤ 400 kw | | | |
| | Petrol 3500cm3 < | | | |
| | Diesel 4000cm3 < | 2,000,000 | -- | -- |
| | Electric 500 kW < | | | |

5.1.6 Travel and Tourism

- A tax of 1% to be imposed on the commission income derived by on-line travel agents from business carried out in Sri Lanka.
- Both resident and non-resident on-line travel agents would be subject to this tax.
- All tourist service providers to be registered with the Sri Lanka Tourism Development Agency (SLTDA).

Effective Date of Proposals

The proposed amendments to the Finance Act are to come into effect commencing April 01, 2018.

5.2 Excise Duty under Excise Ordinance

5.2.1 Liquor

Excise Duty based on alcohol volume will be introduced as follows:

| Type of liquor | Per liter of alcohol |
|----------------|----------------------|
| i. Hard liquor | Rs. 3,300 |
| ii. Beer | Rs. 2,400 |
| iii. Wine | Rs. 2,400 |

5.2.2 Non-potable alcohol

Excise duty will be imposed on import of non-potable alcohol at Rs.15 per Kg.

5.2.3 Raw material used for manufacturing of Ethanol

Excise Duty will be imposed on raw materials used for manufacturing of ethanol as follows:

| Raw Material | Proposed Duty |
|----------------------------|-----------------|
| Toddy | Rs. 5 per litre |
| Molasses/Maize/Rice/Fruits | Rs. 10 per Kg |

5.2.4 Liquor Licenses

- Rate structure of Liquor license fee will be simplified with effect from January 01, 2018.
- Issuance of new liquor license will be simplified to promote tourism.

Changes to Excise Duty will be published by Gazette.

5.2.5 Excise (Special Provisions) Duty

Canned Beer

Excise (Special Provisions) Duty applicable on canned beer will be removed.

Sugar tax on sweetened beverages

Excise duty based on the quantum of sugar contained will be introduced for beverages with added sugar classified under HS Code 22.02 at the rate of 50 cts per gram of sugar

Plastic resin

Excise duty on plastic resin (items classified under the HS Codes 3901.10, 3901.20, 3902.10, 3903.11 and 3904.10) will be introduced at Rs. 10 per Kg.

Motor vehicles

Ad-valorem rate of excise duty on motor vehicles will be removed

Excise duty will be applied based only on the Engine Capacity (cubic centimeter (cm³) for petrol and diesel motor vehicles

Excise duty base for electric vehicles will be the motor power of the engine (kilowatt (Kw))

The rate for Engine capacity based excise duty on petrol fuel & petrol hybrid motor cars are as follows.

| Engine capacity | Petrol fuel (Rs. Per cm³) | Petrol hybrid (Rs. Per cm³) |
|---|---|---|
| ≤ 1000 cm ³ | 1,750 | 1,250 |
| 1000 cm ³ < x ≤ 1300 cm ³ | 2,750 | 2,000 |
| 1300 cm ³ < x ≤ 1500 cm ³ | 3,250 | 2,500 |
| 1500 cm ³ < x ≤ 1600 cm ³ | 4,000 | 3,000 |
| 1600 cm ³ < x ≤ 1800 cm ³ | 5,000 | 4,500 |
| 1800 cm ³ < x ≤ 2000 cm ³ | 6,000 | 5,000 |
| 2000 cm ³ < x ≤ 2500 cm ³ | 7,000 | 6,000 |
| 2500 cm ³ < x ≤ 2750 cm ³ | 8,000 | 7,000 |
| 2750 cm ³ < x ≤ 3000 cm ³ | 9,000 | 8,000 |
| 3000 cm ³ < x ≤ 4000 cm ³ | 10,000 | 9,000 |
| 4000 cm ³ < | 11,000 | 10,000 |

The rate for Engine capacity based excise duty on diesel fuel & diesel hybrid motor cars are as follows:

| Engine capacity | Diesel fuel (Rs. Per cm³) | Diesel hybrid (Rs. Per cm³) |
|---|---|---|
| ≤ 1500 cm ³ | 4,000 | 3,000 |
| 1500 cm ³ < x ≤ 1600 cm ³ | 5,000 | 4,000 |
| 1600 cm ³ < x ≤ 1800 cm ³ | 6,000 | 5,000 |
| 1800 cm ³ < x ≤ 2000 cm ³ | 7,000 | 6,000 |
| 2000 cm ³ < x ≤ 2500 cm ³ | 8,000 | 7,000 |
| 2500 cm ³ < x ≤ 2750 cm ³ | 9,000 | 8,000 |
| 2750 cm ³ < x ≤ 3000 cm ³ | 10,000 | 9,000 |
| 3000 cm ³ < x ≤ 4000 cm ³ | 11,000 | 10,000 |
| 4000 cm ³ < | 12,000 | 11,000 |

Duty rates for Electric vehicles are as follows:

| Motor power | Unregistered (brand new) vehicle (Rs. Per kw) | Used vehicle (Rs. Per kw) |
|---------------------|--|--------------------------------------|
| ≤ 50 Kw | 7,500 | 15,000 |
| 50Kw < x ≤ 100 Kw | 12,500 | 25,000 |
| 100 Kw < x ≤ 200 Kw | 25,000 | 40,000 |
| 200 Kw | 40,000 | 55,000 |

Duty rates for three wheelers are as follows:

| | | |
|--------------------------|---|-------------------------------|
| Petrol | - | Rs. 2,100 per cm ³ |
| Diesel | - | Rs. 1,250 per cm ³ |
| Electric | | |
| Unregistered (brand new) | - | Rs. 7,500 per Kw |
| Registered (used) | - | Rs. 10,000 per Kw |

Electrical Three wheelers will receive a 90% concession from the Government.

Applicable duty will be revised for off-road electric sports vehicles classified under HS Code 8703.10.11, 8703.10.19, 8703.10.21, 8703.10.29 to facilitate promotion of sports tourism.

5.3 Customs Import Duty

5.3.1 Exemption of Custom Import Duty

- Importation of Crust (semi processed) leather for further processing (Tanning Industry) and supply of raw materials for the leather products industry.
- Importation of machinery, equipment, accessories and raw materials or intermediate materials, to be used only for manufacturing of biodegradable packaging products and materials.
- Customs Import Duty will be updated on importation of goods in line with the HS 2017 version and also revised on importation of selected goods.

Effective Date of Proposals

Customs import duty, Excise (Special Provisions) Duty and Excise (Ordinance) Duty will take effect immediately.

5.4 Cess

5.4.1 Cess will be removed on the following items facilitating certain emerging sectors namely tourism, value adding industries and other industries.

| | | | | | | |
|------------|------------|------------|------------|------------|------------|------------|
| 0201.10.00 | 0209.90.00 | 2101.20.12 | 4010.19.00 | 7607.20.20 | 0207.45.00 | 6910.10.10 |
| 0201.20.00 | 0210.11.00 | 2101.20.13 | 4010.31.00 | 7608.10.00 | 0207.51.00 | 6910.10.90 |
| 0201.30.00 | 0210.12.00 | 2101.20.19 | 4010.32.00 | 7608.20.00 | 0207.52.00 | 6910.90.10 |
| 0202.10.00 | 0210.19.00 | 2106.90.97 | 4010.33.00 | 7615.20.10 | 0207.53.00 | 7228.30.00 |
| 0202.20.00 | 0210.20.00 | 2201.10.10 | 4010.34.00 | 7802.00.00 | 0207.54.00 | 7404.00.00 |
| 0202.30.00 | 0210.91.00 | 2201.10.90 | 4010.35.00 | 7902.00.00 | 0207.55.00 | 7503.00.00 |
| 0203.11.00 | 0210.92.00 | 2201.90.10 | 4010.36.00 | 8002.00.00 | 0207.60.00 | 7602.00.00 |
| 0203.12.00 | 0210.93.00 | 2201.90.90 | 4010.39.00 | 8301.20.00 | 0208.10.00 | 7604.29.00 |
| 0203.19.00 | 0210.99.00 | 2203.00.10 | 4011.30.00 | 8301.70.00 | 0208.30.00 | 7607.20.10 |
| 0203.21.00 | 0305.10.00 | 2203.00.20 | 4011.70.00 | 8304.00.00 | 0208.40.00 | 9404.29.10 |
| 0203.22.00 | 0305.20.00 | 2203.00.90 | 4011.80.10 | 8306.10.10 | 0208.90.90 | 9404.29.20 |
| 0203.29.00 | 0305.59.10 | 2204.10.00 | 4011.80.90 | 8413.60.00 | 0209.10.00 | 9404.29.30 |
| 0204.10.00 | 0305.59.90 | 2204.21.00 | 4012.13.00 | 8413.70.11 | 0902.40.91 | 9404.29.90 |
| 0204.21.00 | 0403.10.00 | 2204.22.00 | 4012.90.10 | 8413.70.19 | 0902.40.92 | 9404.30.10 |
| 0204.22.00 | 0403.90.00 | 2204.29.00 | 4014.10.00 | 8415.10.10 | 0902.40.93 | 9404.30.90 |
| 0204.23.00 | 0405.10.00 | 2204.30.00 | 4014.90.00 | 8415.20.10 | 0902.40.99 | 9404.90.10 |
| 0204.30.00 | 0405.20.00 | 2205.10.00 | 4016.93.10 | 8415.20.90 | 1001.99.90 | 9603.90.90 |
| 0204.41.00 | 0405.90.00 | 2205.90.00 | 4016.93.20 | 8418.10.10 | 1513.21.00 | 9613.10.00 |
| 0204.42.00 | 0804.10.10 | 2206.00.10 | 4016.99.10 | 8418.10.90 | 1513.29.00 | 9613.20.00 |
| 0204.43.00 | 0804.10.20 | 2207.10.00 | 4016.99.20 | 8418.29.10 | 1517.10.30 | |
| 0204.50.00 | 0806.20.00 | 2207.20.10 | 4017.00.10 | 8418.29.20 | 1517.10.90 | |
| 0205.00.00 | 0808.30.00 | 2207.20.90 | 4301.10.00 | 8418.29.30 | 1803.10.00 | |

| | | | | | |
|------------|------------|------------|------------|------------|------------|
| 0206.10.00 | 0809.40.00 | 2501.00.00 | 4301.30.00 | 8418.29.90 | 1804.00.00 |
| 0206.21.00 | 0810.50.00 | 2523.30.00 | 4301.60.00 | 8418.91.10 | 2101.20.11 |
| 0206.22.00 | 0810.90.90 | 2523.90.00 | 4301.80.00 | 8420.10.00 | 3912.11.00 |
| 0206.29.00 | 0902.30.13 | 2712.20.00 | 4301.90.00 | 8421.21.10 | 3912.12.00 |
| 0206.30.00 | 0902.30.19 | 2712.90.00 | 4302.11.00 | 8421.21.90 | 3912.20.00 |
| 0206.41.00 | 0902.30.23 | 3302.90.00 | 4302.19.10 | 8421.23.90 | 3913.10.00 |
| 0206.49.00 | 0902.30.29 | 3307.90.10 | 4302.19.90 | 8423.10.20 | 3914.00.00 |
| 0206.80.00 | 0902.30.33 | 3401.20.10 | 4302.20.00 | 8438.80.40 | 3916.10.00 |
| 0206.90.00 | 0902.30.39 | 3906.10.90 | 4302.30.00 | 8516.60.90 | 3916.20.00 |
| 0207.24.00 | 0902.40.11 | 3909.10.00 | 4823.70.00 | 8539.22.00 | 3917.40.10 |
| 0207.25.00 | 0902.40.12 | 3909.20.00 | 4911.99.30 | 8546.20.00 | 3926.10.10 |
| 0207.26.00 | 0902.40.13 | 3909.31.00 | 6701.00.00 | 8708.70.10 | 4007.00.00 |
| 0207.27.00 | 0902.40.19 | 3909.39.00 | 6703.00.00 | 8708.92.00 | 4010.11.00 |
| 0207.41.00 | 0902.40.21 | 3909.40.00 | 6704.11.00 | 8708.99.40 | 4010.12.00 |
| 0207.42.00 | 0902.40.22 | 3910.00.00 | 6704.19.00 | 8712.00.20 | 6801.00.00 |
| 0207.43.00 | 0902.40.23 | 3911.10.00 | 6704.20.00 | 8712.00.90 | 6815.20.00 |
| 0207.44.00 | 0902.40.29 | 3911.90.00 | 6704.90.00 | 8714.92.10 | 6815.91.00 |

5.4.2 Cess will be revised on the following HS Codes, facilitating the availability of goods for value addition and consumption purposes.

| | | | |
|------------|------------|------------|------------|
| 0406.10.00 | 0406.40.00 | 0709.99.12 | 0709.99.20 |
| 0712.20.00 | 2922.42.10 | 4805.24.00 | 4805.25.00 |
| 4810.29.00 | 5208.11.20 | 5208.21.10 | 5208.21.90 |
| 6402.19.90 | 6403.19.90 | 6506.10.20 | 8509.40.00 |
| 8708.91.10 | 8708.91.20 | 4013.90.10 | 4013.90.90 |
| 9105.21.00 | 9105.29.00 | | |

5.5 Ports and Airports Development Levy (PAL)

5.5.1 PAL on the following items including importation of non-powered equipment and accessories for aero sports such as Hang Gliding, Ballooning, dirigibles, Parachutes and Para-Gliders will be removed.

| | | | | |
|------------|------------|------------|------------|------------|
| 0101.21.00 | 0504.00.00 | 1205.10.00 | 2701.20.00 | 2834.10.00 |
| 0101.21.00 | 0505.10.00 | 1205.90.00 | 2705.00.00 | 2835.24.00 |
| 0101.29.00 | 0505.90.00 | 1206.00.00 | 2707.20.00 | 2836.60.00 |
| 0101.30.00 | 0507.10.00 | 1207.10.10 | 2708.10.00 | 2836.91.00 |
| 0101.90.00 | 0507.90.00 | 1207.21.00 | 2710.12.10 | 2836.92.00 |
| 0102.21.00 | 0508.00.10 | 1207.29.00 | 2710.19.10 | 2837.11.00 |
| 0102.29.00 | 0508.00.20 | 1207.30.00 | 2710.91.00 | 2837.19.00 |
| 0102.31.00 | 0508.00.90 | 1207.50.00 | 2711.12.00 | 2837.20.00 |
| 0102.39.00 | 0510.00.10 | 1207.60.00 | 2711.19.90 | 2840.11.00 |
| 0102.90.00 | 0510.00.90 | 1207.70.00 | 2711.29.00 | 2841.30.00 |
| 0103.10.00 | 0511.10.00 | 1207.91.00 | 2713.90.00 | 2841.80.00 |
| 0103.91.00 | 0511.91.10 | 1207.99.10 | 2716.00.00 | 2842.90.10 |
| 0103.92.00 | 0511.91.20 | 1207.99.90 | 2801.30.00 | 2842.90.20 |
| 0104.10.10 | 0511.91.20 | 1209.10.00 | 2802.00.00 | 2842.90.30 |
| 0104.10.90 | 0511.99.10 | 1209.21.00 | 2804.40.00 | 2843.10.00 |
| 0104.20.10 | 0511.99.20 | 1209.22.00 | 2804.50.90 | 2843.29.00 |
| 0104.20.90 | 0511.99.40 | 1209.23.00 | 2804.61.00 | 2843.30.00 |
| 0105.11.10 | 0511.99.50 | 1209.24.00 | 2804.80.00 | 2845.10.00 |
| 0105.11.10 | 0511.99.60 | 1209.25.00 | 2804.90.10 | 2846.10.00 |
| 0105.11.20 | 0511.99.90 | 1209.29.00 | 2805.12.00 | 2849.90.00 |
| 0105.11.20 | 0601.10.00 | 1209.30.00 | 2805.19.00 | 2850.00.00 |
| 0105.11.90 | 0601.20.10 | 1502.10.00 | 2806.20.00 | 2852.10.00 |
| 0105.12.10 | 0601.20.90 | 2502.00.00 | 2809.10.00 | 2852.90.00 |
| 0105.12.90 | 0602.10.00 | 2504.90.90 | 2811.11.00 | 2853.10.00 |
| 0105.13.10 | 0602.20.00 | 2505.10.10 | 2811.12.00 | 2853.90.00 |

| | | | | |
|------------|------------|------------|------------|------------|
| 0105.13.90 | 0602.30.00 | 2505.10.91 | 2811.29.20 | 2901.22.00 |
| 0105.14.10 | 0602.40.00 | 2508.50.00 | 2812.19.00 | 2901.23.00 |
| 0105.14.90 | 0602.90.10 | 2508.60.00 | 2812.90.00 | 2901.24.00 |
| 0105.15.10 | 0602.90.20 | 2508.70.00 | 2813.10.00 | 2901.29.00 |
| 0105.15.90 | 0604.20.00 | 2510.20.90 | 2815.30.00 | 2902.11.00 |
| 0105.94.00 | 0604.90.00 | 2511.10.00 | 2819.90.00 | 2902.20.00 |
| 0105.99.00 | 0709.99.11 | 2515.11.00 | 2820.90.00 | 2902.42.00 |
| 0106.12.00 | 0713.31.11 | 2515.20.00 | 2822.00.00 | 2902.43.00 |
| 0106.13.00 | 0713.31.21 | 2516.20.00 | 2824.10.00 | 2902.60.00 |
| 0106.14.00 | 0713.32.10 | 2518.10.00 | 2824.90.00 | 2903.13.00 |
| 0106.19.10 | 0713.33.10 | 2518.20.00 | 2825.10.00 | 2903.19.10 |
| 0106.19.20 | 0713.34.10 | 2518.30.00 | 2825.20.00 | 2903.22.00 |
| 0106.19.90 | 0713.35.10 | 2525.10.00 | 2825.30.00 | 2903.29.10 |
| 0106.20.00 | 0713.39.10 | 2528.00.10 | 2825.40.00 | 2903.82.00 |
| 0106.31.00 | 0802.21.90 | 2528.00.90 | 2825.50.00 | 2903.99.90 |
| 0106.32.00 | 0802.22.00 | 2530.90.20 | 2825.70.00 | 2904.20.10 |
| 0106.32.00 | 0802.31.90 | 2601.11.00 | 2825.80.00 | 2904.20.90 |
| 0106.33.00 | 0802.32.00 | 2602.00.00 | 2826.30.00 | 2905.16.00 |
| 0106.39.00 | 0810.20.00 | 2604.00.00 | 2827.31.00 | 2905.19.10 |
| 0106.41.00 | 0810.30.00 | 2608.00.00 | 2827.35.00 | 2905.29.00 |
| 0106.49.00 | 0810.40.00 | 2615.90.00 | 2827.41.00 | 2905.43.00 |
| 0106.90.00 | 0810.50.00 | 2617.10.00 | 2829.11.00 | 2905.49.00 |
| 0501.00.10 | 1061.10.00 | 2617.90.00 | 2830.90.00 | 2905.59.00 |
| 0501.00.90 | 1202.30.00 | 2620.11.00 | 2831.90.00 | 2906.12.00 |
| 0502.90.00 | 1204.00.00 | 2620.99.00 | 2833.29.10 | 2906.13.00 |
| 2907.15.00 | 2918.19.00 | 2932.99.10 | 3801.20.00 | 4113.30.90 |
| 2907.21.00 | 2918.22.00 | 2933.11.00 | 3802.10.31 | 4114.10.00 |
| 2907.23.00 | 2918.30.00 | 2933.32.00 | 3802.10.32 | 4114.20.00 |
| 2907.29.00 | 2918.91.00 | 2933.33.00 | 3806.20.00 | 4206.00.00 |
| 2908.19.10 | 2918.99.10 | 2933.39.20 | 3807.00.10 | 4301.10.00 |
| 2908.19.90 | 2919.10.00 | 2933.49.00 | 3809.10.00 | 4301.30.00 |
| 2908.99.10 | 2919.90.10 | 2933.52.00 | 3811.11.00 | 4301.60.00 |
| 2908.99.90 | 2919.90.90 | 2933.54.00 | 3813.00.10 | 4301.80.00 |
| 2909.19.90 | 2920.19.90 | 2933.59.10 | 3814.00.20 | 4301.90.00 |
| 2909.20.90 | 2920.21.00 | 2933.79.00 | 3814.00.30 | 4302.11.00 |
| 2909.30.10 | 2920.22.00 | 2933.99.10 | 3815.12.00 | 4302.19.10 |
| 2909.30.99 | 2921.22.00 | 2934.10.00 | 3817.00.20 | 4302.19.90 |
| 2909.4110 | 2921.30.00 | 2934.91.00 | 3818.00.00 | 4302.20.00 |
| 2909.49.10 | 2921.42.00 | 2937.12.00 | 3824.30.00 | 4302.30.00 |
| 2909.50.10 | 2921.43.00 | 2937.19.00 | 3824.75.00 | 4303.10.00 |
| 2909.60.10 | 2921.44.00 | 2937.22.00 | 3824.79.00 | 4303.90.00 |
| 2910.10.00 | 2921.45.00 | 2937.29.00 | 3825.50.00 | 4304.00.00 |
| 2910.20.00 | 2921.49.00 | 2937.90.00 | 3826.00.00 | 4401.11.00 |
| 2910.30.00 | 2922.17.00 | 2938.10.00 | 3904.61.00 | 4401.12.00 |
| 2910.40.00 | 2922.19.00 | 2939.19.00 | 3904.69.00 | 4401.21.00 |
| 2910.50.00 | 2922.21.00 | 2939.20.00 | 3907.70.00 | 4401.22.00 |
| 2911.00.00 | 2922.29.10 | 2939.30.00 | 3912.11.00 | 4401.31.00 |
| 2912.12.00 | 2922.29.90 | 2939.69.00 | 4011.30.00 | 4401.39.00 |
| 2912.21.00 | 2922.39.00 | 2941.20.00 | 4012.13.00 | 4402.10.00 |
| 2912.49.00 | 2922.44.00 | 2941.30.00 | 4101.20.00 | 4402.90.10 |
| 2912.50.90 | 2924.23.10 | 2941.40.00 | 4101.50.00 | 4402.90.90 |
| 2913.00.00 | 2924.23.20 | 3102.50.00 | 4102.10.00 | 4404.10.00 |
| 2914.19.00 | 2926.10.00 | 3102.80.00 | 4102.21.00 | 4404.20.00 |
| 2914.23.00 | 2926.20.00 | 3103.90.00 | 4102.29.00 | 4406.11.00 |
| 2914.61.00 | 2926.90.00 | 3201.10.00 | 4103.20.00 | 4406.12.00 |
| 2914.62.00 | 2930.20.10 | 3201.90.00 | 4103.90.00 | 4407.99.10 |
| 2914.71.00 | 2930.20.90 | 3301.30.00 | 4103.90.00 | 4412.39.10 |
| 2914.79.00 | 2930.90.10 | 3307.90.10 | 4104.11.90 | 4413.00.10 |
| 2915.13.00 | 2930.90.20 | 3502.90.00 | 4104.19.10 | 4418.40.00 |
| 2915.24.00 | 2930.90.40 | 3507.90.10 | 4104.19.90 | 4418.50.00 |
| 2915.40.00 | 2931.31.00 | 3604.10.00 | 4104.41.00 | 4501.10.00 |
| 2916.15.00 | 2931.32.00 | 3605.00.00 | 4104.49.00 | 4501.90.00 |

| | | | | |
|------------|------------|------------|------------|------------|
| 2916.20.10 | 2931.34.00 | 3606.10.00 | 4105.10.00 | 4502.00.00 |
| 2916.20.20 | 2931.36.00 | 3606.90.00 | 4105.30.00 | 4503.10.00 |
| 2916.20.50 | 2931.37.00 | 3701.20.00 | 4106.21.00 | 4503.90.00 |
| 2916.20.90 | 2931.38.00 | 3702.31.10 | 4106.22.00 | 4504.10.00 |
| 2916.34.00 | 2931.39.00 | 3702.32.00 | 4106.31.00 | 4504.90.00 |
| 2916.39.00 | 2932.11.00 | 3702.39.00 | 4106.32.00 | 4701.00.00 |
| 2917.12.00 | 2932.12.00 | 3702.53.90 | 4106.40.10 | 4702.00.00 |
| 2917.13.00 | 2932.13.00 | 3702.54.00 | 4106.40.90 | 4703.11.00 |
| 2917.33.00 | 2932.14.00 | 3702.96.20 | 4106.91.00 | 4703.19.00 |
| 2917.36.00 | 2932.20.10 | 3702.96.90 | 4106.92.00 | 4703.21.00 |
| 2918.12.00 | 2932.20.90 | 3702.97.20 | 4112.00.00 | 4703.29.00 |
| 2918.13.00 | 2932.93.00 | 3704.00.10 | 4113.20.00 | 4704.11.00 |
| 2918.17.00 | 2932.94.00 | 3706.90.00 | 4113.30.10 | 4704.19.00 |
| 4704.21.00 | 4905.91.00 | 7019.11.00 | 7405.00.00 | 8411.21.00 |
| 4706.10.00 | 4907.00.10 | 7019.12.00 | 7410.21.00 | 8411.22.00 |
| 4706.20.00 | 4907.00.20 | 7019.52.00 | 7410.22.00 | 8411.81.00 |
| 4706.30.00 | 4907.00.30 | 7019.90.20 | 7411.22.00 | 8411.82.00 |
| 4706.91.00 | 4907.00.40 | 7020.00.10 | 7419.10.00 | 8411.91.00 |
| 4706.92.00 | 4911.91.30 | 7020.00.40 | 7419.99.20 | 8412.10.00 |
| 4706.93.00 | 5113.00.00 | 7113.11.90 | 7501.20.00 | 8418.50.90 |
| 4707.10.00 | 5202.10.00 | 7113.20.90 | 7502.10.00 | 8421.23.00 |
| 4707.20.00 | 5207.90.00 | 7114.11.00 | 7502.20.00 | 8428.10.10 |
| 4707.30.00 | 5208.11.20 | 7114.20.00 | 7504.00.00 | 8428.31.00 |
| 4707.90.00 | 5208.21.10 | 7116.10.00 | 7505.12.00 | 8429.30.00 |
| 4802.10.00 | 5208.21.90 | 7118.90.90 | 7505.21.00 | 8430.20.00 |
| 4802.20.00 | 5305.00.93 | 7201.20.00 | 7507.20.00 | 8430.31.00 |
| 4802.40.00 | 5308.10.00 | 7202.19.00 | 7801.91.00 | 8430.50.00 |
| 4802.54.20 | 5311.00.90 | 7202.29.00 | 7804.20.00 | 8432.90.10 |
| 4802.55.10 | 5607.29.00 | 7204.21.00 | 7901.20.00 | 8435.90.00 |
| 4802.56.10 | 5608.11.10 | 7205.21.00 | 7905.00.00 | 8438.60.00 |
| 4802.57.10 | 5702.39.10 | 7206.90.00 | 8001.20.00 | 8439.10.00 |
| 4802.58.20 | 5702.42.00 | 7207.20.90 | 8003.00.00 | 8439.91.00 |
| 4802.61.10 | 5702.50.20 | 7208.26.00 | 8041.11.10 | 8440.90.00 |
| 4802.62.10 | 5702.50.90 | 7208.37.00 | 8102.96.00 | 8442.40.00 |
| 4802.62.20 | 5702.99.00 | 7208.38.00 | 8103.90.00 | 8443.32.20 |
| 4802.62.90 | 5704.90.10 | 7218.10.00 | 8104.19.00 | 8444.00.00 |
| 4804.41.00 | 5906.91.00 | 7218.91.00 | 8104.30.00 | 8445.11.00 |
| 4804.49.00 | 5908.00.00 | 7218.99.00 | 8105.20.00 | 8445.12.00 |
| 4804.51.00 | 5911.31.00 | 7221.00.00 | 8106.00.90 | 8445.13.00 |
| 4805.12.00 | 6402.19.10 | 7222.11.00 | 8107.20.00 | 8445.19.00 |
| 4805.30.00 | 6403.19.10 | 7225.50.00 | 8107.90.00 | 8445.20.00 |
| 4805.50.00 | 6602.00.90 | 7225.99.00 | 8108.20.00 | 8445.40.00 |
| 4805.91.00 | 6703.00.00 | 7226.20.00 | 8109.20.00 | 8445.90.00 |
| 4805.92.10 | 6704.11.00 | 7226.92.00 | 8109.90.00 | 8446.10.00 |
| 4805.92.90 | 6704.19.00 | 7227.10.00 | 8111.00.90 | 8447.11.00 |
| 4805.93.10 | 6704.20.00 | 7228.10.00 | 8112.21.00 | 8448.11.00 |
| 4806.20.00 | 6704.90.00 | 7228.50.00 | 8112.29.00 | 8448.19.00 |
| 4808.40.10 | 6801.00.00 | 7228.80.00 | 8113.00.10 | 8448.20.00 |
| 4810.13.10 | 6901.00.10 | 7302.30.00 | 8113.00.90 | 8448.31.00 |
| 4810.14.10 | 7001.00.90 | 7304.51.10 | 8212.20.10 | 8448.32.00 |
| 4810.31.00 | 7002.10.00 | 7305.12.90 | 8215.91.00 | 8448.33.00 |
| 4810.32.00 | 7002.20.00 | 7305.20.90 | 8401.10.00 | 8448.39.00 |
| 4810.39.00 | 7002.31.00 | 7305.31.90 | 8401.20.00 | 8448.42.00 |
| 4811.10.00 | 7002.39.00 | 7305.39.10 | 8401.30.00 | 8454.10.00 |
| 4812.00.00 | 7003.20.00 | 7306.11.10 | 8401.40.00 | 8457.20.00 |
| 4813.10.00 | 7003.30.00 | 7306.19.10 | 8406.10.00 | 8459.10.00 |
| 4818.50.10 | 7010.10.00 | 7315.20.00 | 8406.81.00 | 8459.21.00 |
| 4822.10.00 | 7010.20.00 | 7321.19.00 | 8407.31.10 | 8459.31.00 |
| 4901.99.20 | 7011.20.00 | 7321.82.00 | 8407.32.10 | 8459.39.00 |
| 4903.00.00 | 7014.00.10 | 7326.20.10 | 8407.33.10 | 8459.49.00 |
| 4904.00.10 | 7015.10.00 | 7402.00.00 | 8407.34.10 | 8459.51.00 |
| 4904.00.90 | 7017.10.10 | 7403.12.00 | 8409.10.00 | 8460.12.00 |

| | | | | |
|------------|------------|------------|------------|------------|
| 4905.10.00 | 7017.20.10 | 7404.00.00 | 8411.01.20 | 8460.19.00 |
| 8460,31,00 | 8532,22,10 | 8703,10,29 | 9017,10,00 | |
| 8460,40,00 | 8532,23,10 | 8801,00,00 | 9017,20,10 | |
| 8461,20,00 | 8532,23,90 | 8802,11,00 | 9017,20,30 | |
| 8461,30,00 | 8532,24,10 | 8802,12,00 | 9031.41,00 | |
| 8461,40,00 | 8532,24,90 | 8802,30,00 | 9101,19,10 | |
| 8468,10,00 | 8532,25,10 | 8802.40,00 | 9108,11,00 | |
| 8470,30,00 | 8532,29,10 | 8802,60,00 | 9108,12,00 | |
| 8472,90,10 | 8532,30,10 | 8803,20,00 | 9108,19,00 | |
| 8472,90,90 | 8532,90,10 | 8803,30,00 | 9108,90,00 | |
| 8473,10,90 | 8533,10,00 | 8803,90,00 | 9113,10,00 | |
| 8473,40,10 | 8533,21,00 | 8804,00,11 | 9114,10,00 | |
| 8473,50,10 | 8533,31,00 | 8804,00,19 | 9114,30,00 | |
| 8475,10,00 | 8533,39,00 | 8804,00,90 | 9114.40,00 | |
| 8475,21,00 | 8533,90,00 | 8805,10,00 | 9208,10,00 | |
| 8476,81,00 | 8540,20,00 | 8805,21,00 | 9208,90,00 | |
| 8479,89,20 | 8540,40,00 | 8805,29,00 | 9209,30,00 | |
| 8479,89,50 | 8540,60,00 | 8903,10,10 | 9209,91,00 | |
| 8501,61,10 | 8540,79,00 | 8903,99,10 | 9209,92,00 | |
| 8501,61,90 | 8540,91,00 | 8904,00,10 | 9209,94,00 | |
| 8501,62,00 | 8540,99,00 | 8904,00,90 | 9209,99,10 | |
| 8501,63,00 | 8541,10,00 | 8905,10,00 | 9209,99,20 | |
| 8501,64,00 | 8541,21,00 | 8905,20,00 | 9301,10,00 | |
| 8502,40,00 | 8541.40,00 | 8905,90,00 | 9301,20,00 | |
| 8506,30,00 | 8541,50,00 | 8906,10,00 | 9301,90,00 | |
| 8506,40,00 | 8541,60,00 | 8906,90,00 | 9302,00,00 | |
| 8506,60,00 | 8541,90,00 | 8907,10,00 | 9303,90,00 | |
| 8519,20,00 | 8543,10,00 | 8907,90,00 | 9307,00,00 | |
| 8519,30,00 | 8543,30,00 | 8908,00,00 | 9401,10,10 | |
| 8519,50,00 | 8543.70,10 | 9001,20,00 | 9401,10,90 | |
| 8519,81,10 | 8544,20,10 | 9002,20,00 | 9405,50,20 | |
| 8522,10,00 | 8545,11,00 | 9002,90,00 | 9504,90,10 | |
| 8523,29,20 | 8545,19,10 | 9003,90,10 | 9506,11,00 | |
| 8527,12,00 | 8545,19,90 | 9003,90,90 | 9506,12,00 | |
| 8528,49,10 | 8601,10,00 | 9005,90,00 | 9506,19,00 | |
| 8528,59,10 | 8601,20,00 | 9006,30,00 | 9506,21,00 | |
| 8528.72,10 | 8602,10,00 | 9006,40,00 | 9506,29,10 | |
| 8528.72,20 | 8602,90,00 | 9006,51,00 | 9506,29,20 | |
| 8528,72,31 | 8603,10,00 | 9006,52,90 | 9506,31,00 | |
| 8528,72,32 | 8603,90,00 | 9006,53,10 | 9506,32,00 | |
| 8528,72,32 | 8605,00,00 | 9006,53,20 | 9506.40,00 | |
| 8528.72,33 | 8606,10,00 | 9006,53,90 | 9507,10,00 | |
| 8528,72,34 | 8606,30,00 | 9006,59,10 | 9507,30,00 | |
| 8528,72,34 | 8606,91,10 | 9006,59,90 | 9508,10,00 | |
| 8528.72,35 | 8606,91,90 | 9006,61,00 | 9601,10,00 | |
| 8528.72,36 | 8606,92,00 | 9006,69,00 | 9601,90,10 | |
| 8528,72.36 | 8606,99,00 | 9006,99,00 | 9601,90,90 | |
| 8528,73,10 | 8607,11,00 | 9007,10,10 | 9602,00,90 | |
| 8528.73,20 | 8703,10,11 | 9007,10,90 | 9614,00,00 | |
| 8532,21,10 | 8703,10,19 | 9012,90,00 | 9704,00,00 | |
| 8532,21,90 | 8703,10,21 | 9013,10,00 | 9705,00,00 | |

5.5.2 PAL will be exempted on machines and equipment including solar panels and storage batteries which will be imported for the establishment of solar charging stations.

5.5.3 PAL will be exempted on sale of yachts built by BoI companies to local BoI charter companies.

5.5.4 PAL on the items classified under the following HS Codes will be reduced

| | | | |
|------------|------------|------------|------------|
| 8415.90.90 | 8450.90.00 | 7212.40.00 | 8501.20.00 |
| 8418.91.10 | 8401.40.00 | 3920.30.10 | 8471.41.90 |
| 8418.91.20 | 7411.10.00 | 9032.10.00 | 8471.49.90 |
| 8418.99.00 | 8501.10.90 | 7210.30.00 | 8471.50.90 |
| 8414.30.00 | 8414.90.10 | 8483.50.00 | 8473.30.90 |

5.5.5 PAL will be revised on the importation of non-motorized equipment and accessories for water sports such as Kayaks, Canoes, Kite Surfing, and diving.

5.6 Sri Lanka will revise and adopt 2017 Version of Harmonized System of Commodity Classification and Coding System, as amended by the World Customs Organization (HS System 2017 Version) with effect from November 10, 2017.

5.7 Value limit of Export Trade Sample (Selected Goods only) will be revised to US \$ 400 or its equivalent per shipment, effective from January 01, 2018.

5.8 The next stage of the Tariff Liberalization Programme (Phase II) of the South Asian Free Trade Agreement (SAFTA) will be implemented effective from November 10, 2017.

5.9 In line with the emerging technology and environmental and safety standards, PreShipment Inspection Certification for importation of used motor vehicles will be revised effective from January 01, 2018.

5.10 Issuance of Usance Letter of Credit Facility for importation of motor vehicles will be canceled with effect from January 01, 2018.

5.11 Importation of Motor Vehicles below the Emission Standard of the EURO 4 or its equivalent will be prohibited with effect from January 01, 2018 in line with the health and environmental safeguard measures.

5.12 Importation of Motor Vehicles, which do not comply with the safety measures namely
 (a) Air Bags for driver and the front passenger,
 (b) Anti-Locking Breaking System (ABS) and
 (c) Three Point Seat Belts for driver and the passengers travelling in the front and rear seats, will be prohibited with effect from January 01, 2018 for the safety of passengers / travelers.

5.13 Para-Tariffs applicable on importation of sports shoes (for the use of football and rugby players) will be removed / exempted with a view to facilitate development of such sports activities among the rural youth.

5.14 Other Fees and Charges

- The rates of fees and charges of government agencies which have not been revised in the last three years will be increased by 15%.

5.15 Enterprise Sri Lanka Credit Scheme

| No. | Name of the Loan Scheme | Beneficiaries | Maximum Loan Amount (Rs.) | Interest Subsidy from the Government (%) | Interest rate to the Customer (%) |
|----------|--------------------------|---|--------------------------------|--|-----------------------------------|
| 1 | Ran Aswenna | <ul style="list-style-type: none"> • Small Scale Farmers and Farmer Organizations • Floriculture farmers • Entrepreneurs in ornamental fish related businesses | 5,000,000 | 50 | 6.54 |
| | Category I | | | | |
| | Category II | | Agro Processing Establishments | 300,000,000 | 50 |
| | Category III | Commercial Scale Farming | 750,000,000 | 50 | 6.54 |
| 2 | Govi Navoda | <ul style="list-style-type: none"> • Small scale farmers • Farmers' organizations (for mechanizing the cultivation activities) | 500,000 | 75 | 3.27 |
| 3 | Riya Shakthi | Owners of the school service vans | 4,000,000 | 75 | 3.27 |
| 4 | Rivi Bala Savi | Households | 350,000 | 50 | 6 |
| 5 | Diri Saviya | Poultry producers Self – employed persons | 50,000 | 100 | 0 |
| 6 | Jaya Isura Category I | Small enterprises with an annual turnover between Rs. 25 Mn to Rs. 250 Mn and with an employment cadre of 10 to 50 who are engaged in - <ul style="list-style-type: none"> • Agriculture • Fisheries • Livestock • Floriculture • Horticulture • Light engineering • Printing • Tourism • Handicrafts • Apparel • Information Technology • Manufacturing Industry Sectors | 100,000,000 | 50 | 6.54 |
| | Category II | Medium enterprises with an annual turnover between Rs. 250 Mn to Rs. 750 Mn and with an employment cadre of 51 to 300 who are engaged in the same sectors mentioned under Category I | 400,000,000 | 25 | 9.81 |
| 7 | Sonduru Piyasa | Owners of houses with an area of less than 750 sq.ft. | 200,000 | 50 | 6.54 |

| No. | Name of the Loan Scheme | Beneficiaries | Maximum Loan Amount (Rs.) | Interest Subsidy from the Government (%) | Interest rate to the Customer (%) |
|-----------|--|--|--------------------------------------|--|-----------------------------------|
| 8 | Madya Aruna Category I (To purchase media equipment) | Registered journalists | 300,000 | 100 | 0 |
| | Category II (To upgrade media equipment) | Registered journalists | 150,000 | 50 | 6.54 |
| 9 | Rooftop Solar Power Generation Project Category I | Households | 7,500,000 | - | 8 |
| | Category II | Entrepreneurs | Minimum 7,500,000 (No Maximum Limit) | - | 8 |
| 10 | Investment made technology for the generation of solar power to be used for their own operations | Companies incorporated under the Companies Act, No. 7 of 2007, Individuals, Co-operative societies, Farmers/fisheries societies engaged in - <ul style="list-style-type: none"> • Agriculture • Agro processing including drip irrigation • Poultry • Canning • Plantation and tourism industry | - | - | 8 |
| 11 | Pavithra Ganga Initiative | The companies that already discharge their waste in to the Kelani River, lagoons and estuaries will be: <ul style="list-style-type: none"> • Supported in the next 5 years to invest in technology to ensure zero discharge of waste into these water bodies. • Eligible to utilize the "E – Friends" credit facility at a concessionary interest rate of 6-8% | - | - | 6 - 8 |
| 12 | Concessionary Green Loan scheme introduced by the Regional Development Bank) | Local entrepreneurs to engage in - <ul style="list-style-type: none"> • manufacturing bags • packing materials etc. out of bio degradable materials such as banana fiber, palm leaves, coir, and bamboo | - | - | |

5.16 Supporting the SMEs

| # | Category | Type of Subsidy/ Loan | Amount Granted by the Government | Benefit to SME |
|---|--|---|---|---|
| 1 | Conversion of non- bio degradable Polythene to environmentally alternatives | Grant | 50% of Investment cost incurred on equipment or machinery | 50% investment granted |
| 2 | SME | Subsidy on consultancy services costs | 100% of cost of the company for a period of 36 months & 50% of cost for another 24 months | Subsidized technical support 100% hire purchase lease rental and the interest borne by the Government. |
| | | Grant | 100% hire purchase lease rental and the interest borne by the Government. | |
| | | Financial & non financial support | Provision of facilities | interest subsidy being at least 10% above the norm more for women entrepreneurs |
| | Fisheries | Grant | 50% of the cost of introducing technology such | 15% above the norm more for differently abled persons 50% investment granted |
| | Fisheries -Deep sea fishing | Grant | 50% of the cost of multi-day boats | 50% investment granted |
| 3 | University graduates with viable business ideas | Loan | A loan of Rs. 1.5 mn per idea per person | 100% interest subsidized by the government all repayment is fully guaranteed through a government guarantee |
| 4 | IT Initiative '- Local startups '-foreign startups IT companies with a turnover around USD 2-3 million per annum to at least double their revenue in 3 years. | Grants, equity investments, credit facilities, mentoring, technical support | Rs. 3 billion over a period 3 years to finance the "IT initiative" | Financial and non-financial support |
| 5 | I2I Initiative to connect University graduates and NVQ 4 certified graduates for a registered patent or a viable business idea with the industry | Monthly salaries of employees | 50% of salary (max Rs. 50,000) Period of 24 months Cost of patenting in Sri Lanka and counsel on patenting | Financial support |
| 6 | Homestay Programme – supporting origin | Loan | Rs. 5 million (maximum) per person to upgrade their house | Interest rate of 6% per annum and a loan period of 10 years |
| 7 | Middle Income (Home Buyers) | Loan | Rs. 5 million (maximum) loan | Interest rate of 7% per annum and a loan period of 7 years |
| 8 | Export Market Access Support Programme | Financial support | Meet the costs of compliance and rent/ retail space | |

5.17 Amendments are proposed to the following Acts among other Acts.

1. Changes proposed to the Land (Restrictions and Alienation) Act, No. 38 of 2014 as amended in the 2017 budget such as granting relief to public companies, allowing foreign persons to purchase condominiums below the 4th floor etc will be incorporated.
2. The Shop and Office Employees Act, No. 15 of 1954 and Wages Boards Ordinance, No. 27 of 1941 to be amended to provide for the option of flexible working hours.
3. Strengthening of Bankruptcy laws
4. With a view to encouraging particularly the venture capital entities that have shown preference in investing through the Limited Liability Partnerships (LLP), LLP structure will be introduced after reviewing existing statutes such as the
 - Partnership Ordinance, No. 21 of 1866,
 - Prevention of Frauds Ordinance, No.07 of 1840 and the
 - Companies Act, No.07 of 2007
5. Secured Transactions Act, No. 49 of 2009, Act, Nos. 1 of 2011
 - Recovery of Loans (Special Provisions) (Amendment) Act, No 19 of 2011,
 - Land Development Ordinance, No. 19 of 1935,
 - Debt Recovery (Special Provisions) Act, No. 2 of 1990,
 - Mortgage Act, No. 98 of 1981 and the Mediation Board Act, No. 72 of 1992 also require amendments in order to improve the efficiency of the financial sector while ensuring consumer convenience and protection.

OUR COMMENTS

BUDGET OVERVIEW

Budget 2018, themed “Blue – Green Budget; the Launch of Enterprise Sri Lanka”, envisions on pursuing a Blue – Green Development Strategy, whereby the Government plans to integrate the full economic potential of ocean related activities in formulating the overall growth strategy, and build the economy on an environmentally sustainable development strategy. The Enterprise Sri Lanka initiative is expected to promote entrepreneurial skills and facilitate not only the established private sectors but also the small business enterprises.

A number of measures have been proposed to increase the tax revenue, chief amongst which motor vehicles excise duty and luxury tax revisions, duty revisions on VAT and NBT and introduction of a Debt Repayment Levy. The Government has also proposed several expenditure proposals mainly aimed at developing small and medium sized enterprises. With these initiatives, the Government aims at reducing the budget deficit amounting to 5.2% of the GDP in 2017 to 4.8% in 2018.

In this context, we give below a few salient features of the budget proposals which capture the broader theme.

Supporting the use of renewable energy

As part of the Government’s focus on an environmentally sustainable development strategy, several incentives will be provided to encourage the use of off-grid solar power in establishing electric car charging stations and in agriculture and agro processing including drip irrigation, poultry, canning, plantation and, in the hotel industry. These incentives includes: -

- Solar tracker classified under HS Code 84.79.89.50 will now be exempt from Value Added Tax
- NBT and PAL will be exempted on machines and equipment including solar panels and, storage batteries which will be imported for the establishment of solar charging stations.
- Individuals, companies incorporated under the Companies Act, No. 07 of 2007, co-operative societies, farmers’ / fisheries societies engaged in agriculture, agro processing including drip irrigation, poultry, canning, plantation and tourism industry, that will invest in technology for the generation of solar power to be used for their own operations, will be supported through the introduction of a loan scheme at a subsidized interest rate of 8%.
- Renewable energy companies would be granted 50% tax concession for 4 years

Travel and tourism

In-order to develop the tourism industry, several projects are proposed. These include the development of six forts, modernization of key railway stations, development of national parks, etc. Further, the liquor licensing fee structure is expected to be rationalized and the issuance of new liquor license will be simplified to promote tourism especially in Guest houses, Boutique Hotels etc.

A VAT refund scheme for foreign passport holders will be implemented at the Airports and Sea Ports with effect from 01st May 2018. This proposal is expected to entice both foreigners and expatriates working in Sri Lanka to do more purchases from Sri Lanka.

The Online Travel Agents (OTAs) in the tourism industry (both resident and non-resident) which derive their commission from the businesses carried out in Sri Lanka, will be imposed a tax of 1% on the commission derived or accrued by OTAs from reservations in Sri Lanka.

Debt Repayment Levy (DRL)

A new levy known as DRL will be introduced on cash transactions by financial institutions at the rate of 0.02% for a period of three years. This levy is expected to create Rs. 20,000 Mn in additional tax revenue and could be considered as effective way of collecting taxes at source from the financial institutions. This levy cannot be passed on to the customer and we believe that the introduction of this levy, will only provide an insignificant relief towards the Rs. 7,000 Bn debt repayment over the next three years.

Investment incentives

The budget proposals provide several incentives for job creation and investments in fixed assets in designated zones, renewable energy, information technology and Headquarter relocations.

The present restrictions on the foreign ownership on the shipping and the freight forwarding agencies will be lifted. This will pave way for major international shipping lines and logistics operators to base their operations in Sri Lanka.

These incentives are expected to increase the investments in the country including foreign investments which could create employment and achieve sustainable growth.

In summary, the 2018 Budget has proposed some encouraging measures to increase the revenue, while providing several concessions to the small and medium sized industries and start up enterprises for sustainable growth. A good tax collection system and proper administration could help in the creation of wealth for the society at large and equal distribution of wealth.



Appendices

APPENDIX A**SUMMARY OF CORPORATE TAX RATES****Y/A 2013/ 2014 - 2018/ 2019**

| | 2018/19 % | 2017/18 % | 2016/17 % | 2015/16 % | 2014/15 % | 2013/14 % |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| Income Tax | | | | | | |
| Companies (excluding manufacturers and service providers) | | | | | | |
| Taxable Income > Rs. 5 Mn | 28 | 28 | 28 | 28 | 28 | 28 |
| Taxable Income < Rs. 5 Mn | 28 | 12 | 12 | 12 | 12 | 12 |
| Any holding company, subsidiary or ass. company taxable income < Rs. 5 Mn | | | | | | |
| | 28 | 28 | 28 | 28 | 28 | 28 |
| Companies being manufacturers and service providers other than holding/subsidiary or associate companies. From 01.04.2018 conducting any business. | | | | | | |
| Small and Medium Enterprises (SME) with turnover | | | | | | |
| < Rs. 500 Mn from 01.04.2013 | | 12 | 12 | 12 | 12 | 10 |
| < Rs. 750 Mn from 01.04.2015 | | | | | | |
| < Rs. 500 Mn from 01.04.2018 | | | | | | |
| Turnover > Rs. 750 Mn | | | | | | |
| Turnover > Rs. 500 Mn from 01.04.2018 | 28 | 28 | 28 | 28 | 28 | 28 |
| Others | | | | | | |
| Provident Funds | 14 | 10 | 10 | 10 | 10 | 10 |
| Clubs and Associations | 14 | 10 | 10 | 10 | 10 | 10 |
| Non-governmental Organizations | 28 | 28 | 28 | 28 | 28 | 28 |
| Manufacture and sale, or import and sale of tobacco and liquor Products. From 01.04.2018 business of liquor tobacco, betting and gaming | | | | | | |
| | 40 | 40 | 40 | 40 | 40 | 40 |
| Concessionary Rate | | | | | | |
| Operations and maintenance of facilities for storage or supply of Labour | | | | | | |
| | 14 | 10 | 10 | 10 | 10 | 10 |
| Locally developed software. From 01.04.2018 information technology services | | | | | | |
| | 14 | 10 | 10 | 10 | 10 | 10 |
| Educational Services | | | | | | |
| | 14 | 10 | 10 | 10 | 10 | 10 |

| | 2018/19 % | 2017/18 % | 2016/17 % | 2015/16 % | 2014/15 % | 2013/14 % |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Qualified Export / tourism | 14 | 12 | 12 | 12 | 12 | 12 |
| Construction | 28 | 12 | 12 | 12 | 12 | 12 |
| Agricultural undertakings | 14 | 12 | 12 | 12 | 12 | 12 |
| Agriculture Section 16 | 14 | 10 | 10 | 10 | 10 | 10 |
| Venture Capital Companies | 28 | 12 | 12 | 12 | 12 | 12 |
| Unit Trusts | 28 | 10 | 10 | 10 | 10 | 10 |
| Unit Trust Management Companies | 28 | 10 | 10 | 10 | 10 | 10 |
| Petroleum Exploration | 28 | 12 | 12 | 12 | 12 | 12 |
| Exports with 65% | 14 | 10 | 10 | 10 | 10 | 10 |
| Value Addition | | | | | | |
| Dividend Tax | N/A | 10 | 10 | 10 | 10 | 10 |
| Deemed Dividend Tax | N/A | 15 | 15 | 15 | 15 | 15 |
| Remittance Tax | | | | | | |
| Non-resident companies | 14 | 10 | 10 | 10 | 10 | 10 |

| | | | | | | |
|--|------------|--------|--------|---------|---------|---------|
| Foreign Dividends | Exempt (1) | Exempt | Exempt | Exempt | Exempt | Exempt |
| Share Transaction Levy on Sale of Shares of Quoted Companies | 0.3(2) | 0.3(2) | 0.3(2) | 0.3(2) | 0.3(2) | 0.3 (2) |
| Economic Service Charge (ESC) on turnover | 0.5 | 0.5 | 0.5 | 0.25(3) | 0.25(3) | 0.25(3) |
| Partnership | N/A | 8(4) | 8 (4) | 8 (4) | 8 (4) | 8 (4) |

- 1) Where recipient is a resident company which hold 10% or more shares with 10% or more voting power in the non-resident company.
- 2) To be paid by both buyer and seller.
- 3) To be paid only by companies which are not paying income tax on trade profits due to profits being exempt or due to incurring losses.
- 4) Divisible profit in excess of Rs.1,000,000.

| | 2018/19 % | 2017/18 % | 2016/17 % | 2015/16 % | 2014/15 % | 2013/14 % |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| Withholding tax | | | | | | |
| Interest – To resident | 5 | 10 | 10 | 10 | 10 | 10 |
| – To non-resident * | 14 | 15 | 15 | 15 | 15 | 15 |
| Royalty – To resident | 14 | 10 | 10 | 10 | 10 | 10 |
| – To non-resident * | 14 | 15 | 15 | 15 | 15 | 15 |
| Rent – To resident | 10 | N/A | N/A | N/A | N/A | N/A |
| – Non-residents | 14 | 20 | 20 | 20 | 20 | 20 |
| Dividends * | 14 | 10 | 10 | 10 | 10 | 10 |
| Management fees | N/A | 05 | 05 | 05 | 05 | 05 |
| Reward payments by Govt. | 14 | 10 | 10 | 10 | 10 | 10 |
| Lottery prizes, winning from betting and gambling | | | | | | |
| Gem and jewellery sale at auction | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 |
| Capital allowances | | | | | | |
| Buildings | 5 | 10 | 10 | 10 | 10 | 10 |
| Plant, machinery and fixtures | 20 | 33 1/3 | 33 1/3 | 33 1/3 | 33 1/3 | 33 1/3 |
| Computer, data equipment and software | 20 | 25 | 25 | 25 | 25 | 25 |
| Software (locally developed) | 20 | 100 | 100 | 100 | 100 | 100 |
| Commercial vehicles and office furniture | 20 | 20 | 20 | 20 | 20 | 20 |
| Bridges and railways | 20 | 6 2/3 | 6 2/3 | 6 2/3 | 6 2/3 | 6 2/3 |
| Plant and machinery for businesses exporting more than 60% of total turnover | 20 | 50 | 50 | 50 | 50 | - |
| High tech plant, machinery and equipment for energy efficiency purposes | | 50 | 50 | 50 | 50 | 50 |
| | 20 | 100 (1) | 100(1) | 100 (1) | 100 (1) | 100 (1) |

* Subject to DTAA

Note:

(1) More than 30% of the total energy requirement is met through alternative energy resources.

| | 2018/19 % | 2017/18 % | 2016/17 % | 2015/16 % | 2014/15 % | 2013/14 % |
|---|---|---|---|---|---|---|
| Deduction of losses (restricted) | | | | | | |
| Life Insurance Business | Deductible from business or investment income | Loss restricted to life insurance business profit | Loss restricted to life insurance business profit | Loss restricted to life insurance business profit | Loss restricted to life insurance business profit | Loss restricted to life insurance business profit |
| Finance Leasing Business | Deductible from business or investment income | Loss restricted to finance leasing profit | Loss restricted to finance leasing profit | Loss restricted to finance leasing profit | Loss restricted to finance leasing profit | Loss restricted to finance leasing profit |
| Other business losses | No limitation 100% from business or Investment income | 35% of total statutory income | 35% of total statutory income | 35% of total statutory income | 35% of total statutory income | 35% of total statutory income |
| Investment loss | Restricted to investment income | N/A | N/A | N/A | N/A | N/A |
| Value Added Tax | | | | | | |
| Standard Rate | 15 | 15 | 11,15 (A) | 11 | 12 | 12 |
| Zero Rate | 0 | 0 | 0 | 0 | 0 | 0 |
| Nation Building Tax (NBT) | | | | | | |
| Standard | 2 | 2 | 2 | 2 | 2 | 2 |
| Retail & Wholesale Business | 2% on 50% of turnover | 2% on 50% of turnover | 2% on 50 % of turnover | 2% on 50 % of turnover | 2% on 50% of turnover | 2% on 50 % of turnover |
| Distributors | 2% on 25% of turnover | 2% on 25% of turnover | 2% on 25 % of turnover | 2% on 25% of turnover | 2% on 25 % of turnover | 2% on 25% of turnover |

Note:

| | | |
|-----|-------------------------|-------|
| (A) | 14.01.2016 - 01.05.2016 | - 11% |
| | 02.05.2016 - 11.07-2016 | - 15% |
| | 12.07.2016 - 31.10.2016 | - 11% |
| | 01.11.2016 to date | - 15% |

APPENDIX B**COMPARISON OF CURRENT CORPORATE TAX RATES, WITHHOLDING TAXES, INDIRECT TAXES etc., Y/A 2018/2019**

| | Sri Lanka % | India % | Bangladesh % | Singapore % | Malaysia % | Pakistan % |
|---|-----------------------|-----------------------------------|------------------------|---|--|----------------------------------|
| Corporate Tax | | | | | | |
| Company | 14, 28 40, | 25- 40 | 25 - 45 | 17 | 20 - 24 | 25 - 35 |
| Clubs and Associations | 14 | - | - | 17 | 0 - 28 | 0 - 30 |
| Foreign Dividends | Exempt | 15 or 30 | - | Exempt | Exempt | 7.5 - 25 |
| Remittance Tax (Non-resident company) | 14 | - | - | Nil | N/A | N/A (treated as dividend tax) |
| Capital Gains | 10 | 0 to 40 | 15 | Nil | 5 - 30 (real property/sale of shares in a real property company) | 0 to 20 |
| Partnership Tax | N/A | 30 | - | 0 to 22 | N/A | 0 to 35 |
| Withholding Tax | | | | | | |
| Interest | 5 | 5 or 20 | 10 - 20 | 15 (non residents) | 15 | 10 to 17.5 |
| Royalty | 14 | 10 | 10 - 20 | 10 (non residents) | 10 | 15 |
| Dividends | 14 | 15 (Dividend distribution tax) | 10 to 30 | Nil | - | 7.5 to 25 |
| Rent | 10 14 | - | 5 (Office) | 15 (moveable property for non- residents) | 10 (moveable property) | - |
| Technical Services | 14 | 10 | - | 17 | 10 | 15 or 20 |
| Management Fee | N/A | 10 | - | 17 (non residents) | 10 | 8 to 17.5 |
| Directors Fee | N/A | - | - | 22 (non residents) | N/A | 20 |

| | Sri Lanka % | India % | Bangladesh % | Singapore % | Malaysia % | Pakistan % |
|-------------------------------|------------------------|--|-----------------------------|------------------------|-------------------------|-------------------------|
| Capital Allowance | | | | | | |
| Buildings | 5 | 5 -10 | 10 (Office) 20 (Factory) | 25 Initial 5 Annual | 10 Initial 3 Annual | 15 Initial 10 Annual |
| Plant and Machinery | 20 | 15 | 20 | 33 1/3 | 20 Initial 14 Annual | 25 Initial 15 Annual |
| Furniture | 20 | 10 | 10 | 33 1/3 | 20 Initial 10 Annual | 15 |
| Motor Vehicles | 20 | 15 - 30 | 20 | 33 1/3 | 20 Initial 20 Annual | 15 |
| Computers | 25 | 60 | 30 | 100 | 20 Initial 80 Annual | 25 Initial 30 Annual |
| Indirect Taxes | | | | | | |
| Value Added Tax (VAT) | 15 | GST 0 – 18 Demerit rate/luxury items 28 | 15 | 7 | GST 6 | 13 – 17 (Sales Tax) |
| Nation Building Tax (NBT) | 2 | - | - | - | - | - |
| Economic Service Charge (ESC) | 0.5 | - | - | - | - | - |
| Customs Duty | 0-30 | 10-40 | 0-25 | - | - | - |
| Excise Duty | 0-22 | 12.5 | - | - | - | - |

APPENDIX C**COMPARISON OF EFFECTIVE TAX RATES FOR RESIDENT INDIVIDUALS****Y/A 2009/2010 – 2018/2019**

An employee whose salary is Rs. 100,000 per month (1)

Rs. 150,000 per month (2)

Rs. 500,000 per month (3)

| Y/A | Personal Allowance | Taxable Income | | Income Tax | | | Average Effective Rate % | |
|----------|--------------------|----------------|--------|------------|-------|-------|--------------------------|------------|
| | | 2 | | | | | | |
| | s.000 | s.000 | Rs.000 | s.000 | s.000 | s.000 | s.000 | |
| 009/2010 | 00 | 00 | 1,500 | ,700 | 5 | 80 | ,545 | .2 0.0 5.8 |
| 010/2011 | 00 | 00 | 1,500 | ,700 | 5 | 80 | ,545 | .2 0.0 5.8 |
| 011/2012 | 00 | 00 | 1,200 | ,400 | 8 | 4 | 76 | .3 .6 6.2 |
| 012/2013 | 00 | 00 | 1,200 | ,400 | 8 | 4 | 76 | .3 .6 6.2 |
| 013/2014 | 00 | 00 | 1,200 | ,400 | 8 | 4 | 76 | .3 .6 6.2 |
| 014/2015 | 00 | 00 | 1,200 | ,400 | 8 | 4 | 76 | .3 .6 6.2 |
| 015/2016 | 50 | 50 | 1,050 | ,250 | 8 | 6 | 20 | .5 .6 2 |
| 016/2017 | 50 | 50 | 1,050 | ,250 | 8 | 6 | 20 | .5 .6 2 |
| 017/2018 | 50 | 50 | 1,050 | ,250 | 8 | 6 | 20 | .5 .6 2 |
| 018/2019 | ,200 | | 600 | ,800 | | 4 | 92 | .3 3.2 |

APPENDIX D**Taxation of Terminal Benefits (Retiring benefits)**

Terminal benefits includes, gratuity, commutation of pension, compensation for loss of employment and ETF withdrawals.

Tax Rate

Where the period of contribution or employment is;

| <u>20 years or less</u> | | <u>More than 20 years</u> | |
|-------------------------|------|---------------------------|------|
| | Rate | | Rate |
| First Rs.2Mn | Nil | First Rs.5Mn | Nil |
| Next Rs.1Mn | 5% | Next Rs.1Mn | 5% |
| Balance | 10% | Balance | 10% |

Exemptions

- Retiring benefit from Government
- Provident Fund withdrawals after 01.04.2011
- The share of investment income which represents the amount received by the Employees Trust Fund (ETF) after 01.04.1987.



About SJMS Associates

SJMS Associates is a multi-disciplinary professional services firm providing audit and assurance, business solutions, tax services, management consulting, financial advisory services and corporate risk services to a wide range of clients. SJMS Associates is an affiliate to Deloitte Touche Tohmatsu, a global leader in professional services with over 245,000 people in 150 countries / territories.

Our practice is one of the long standing accounting and auditing firms in Sri Lanka, with eight partners and 300 staff. Our clients operate in diverse industries such as advertising, apparel, retail, financial services, manufacturing to hospitality and leisure. The firm has over 42 years presence in Sri Lanka and has been associated with Deloitte Touche Tohmatsu since 1997.

Our service portfolio:

Audit & Assurance

- Financial Assurance
- Review Engagements
- Forensic Services
- Due Diligence

Tax Compliance & Advisory

- Corporate Tax Compliance
- VAT compliance and advisory
- Expatriate Tax Consulting
- International Taxation
- M & A Tax
- Tax Management Advisory
- Transfer Pricing

Business Solutions

- Outsourced Accounting Services
- Payroll & H.R.

Financial Advisory Services

Corporate Finance

-
- Business process outsourcing
 - Company formation

- Mergers and Acquisitions
- Corporate Finance & Private Capital
- Transaction Execution
- Valuations

Management Consulting

- General Management Consulting
- Business Strategy Consulting
- Foreign Investment Services
- Privatization Services
- Human Resources Consulting
- Systems and Solutions

Corporate Risk Services

- Corporate Governance Advisory
- Risk Management
- Internal Audit
- Information Systems Audit

Restructure & Corporate Recovery

- Restructuring / Reorganization Services
 - Corporate Closure Management
 - Liquidation Services
-

Contacts

SJMS Associates
11, Castle Lane
Colombo 04

Tel. + 94 11 5444400 / 5444408/09
Fax. + 94 11 2586068

sjmsa@sjmsassociates.com

Partners

Mr. M. B. Ismail

Tel. +94 11 5444400
(Ext. 100)/ 5444407 (D)

ibasheer@deloitte.com

Ms. S. Y. Kodagoda

Tel. +94 11 5444400
(Ext. 102)/ 5444410 (D)

skodagoda@deloitte.com

Director

Mr. P. Sivasubramaniam

Tel. + 94 11 5444400
(Ext. 104)/ 5444408/09

Tax Consultant

Mr. T. Gobalasingham

Tel. + 94 11 5444400
(Ext. 105)/ 5444408/09

Tax Compliance Services

Mr. M. C. Ratnayake

Tel. + 94 11 5444400
(Ext. 106)/ 5444408/09

cratnayake@deloitte.com

Ms. L. Fernando

Tel. + 94 11 5444400
(Ext. 107)/ 5444408/09

lfernando@deloitte.com

Mr. D. Wakishta

Tel. + 94 11 5444400
(Ext. 110)/ 5444408/09

dgayan@deloitte.com

Ms. Thilini Wijeratne

Tel. +94 11 5444400
Ext. 113)/ 5444408/09

twijeratne@deloitte.com

Ms. Eeshani Daluwatte

Tel. +94 11 5444400
(Ext. 112)/ 5444408/09

edaluwatte@deloitte.com

Transfer Pricing

Ms. D. Dahanayake

Tel. + 94 11 5444400
(Ext. 108)/ 5444408/09

ddahanayake@deloitte.com

International Tax Advisory

Ms. M. Abeysekera

Tel. + 94 11 5444400
(Ext. 109)/ 5444408/09

mabeysekera@deloitte.com

Global Employment Services

Ms. N. Sivanthaperumal

Tel. + 94 11 5444400
(Ext. 127)/ 5444408/09

nsivanthaperumal@deloitte.com

Deloitte.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

This material is prepared by SJMS Associates (SJMS) an affiliate of Deloitte Touche Tohmatsu India LLP (DTTILLP). This material (including any information contained in it) is intended to provide general information on a particular subject(s) and is not an exhaustive treatment of such subject(s) or a substitute to obtaining professional services or advice. This material may contain information sourced from publicly available information or other third party sources. SJMS and DTTILLP do not independently verify any such sources and are not responsible for any loss whatsoever caused due to reliance placed on information sourced from such sources. None of SJMS, DTTILLP, Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of this material, rendering any kind of investment, legal or other professional advice or services. You should seek specific advice of the relevant professional(s) for these kind of services. This material or information is not intended to be relied upon as the sole basis for any decision which may affect you or your business. Before making any decision or taking any action that might affect your personal finances or business, you should consult a qualified professional adviser.

No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person or entity by reason of access to, use of or reliance on, this material. By using this material or any information contained in it, the user accepts this entire notice and terms of use.

©2017 SJMS Associates