



# BUDGET Speech 2011

Supporting documents and technical notes

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## Documents connected to the Budget 2011



### Documents:

1. Fiscal Management Report 2011 - The Ministry of Finance and Planning (The Department of Fiscal Policy)
2. Budget Estimates (Volume 1.2.3) 2011 - The Ministry of Finance and Planning (The Department of National Budget)
3. Development Policy Framework of the Government of Sri Lanka - The Ministry of Finance and Planning (The Department of National Planning)
4. Development Partnership Towards an Emerging Economy - The Ministry of Finance and Planning (The Department of External Resources)
5. Recent Economic Development - The Central Bank of Sri Lanka

### Technical Explanations:

6. Statistical Tables - (Department of Fiscal Policy and the Department of National Budget)
  - i. The Impact of Revenue Proposals - 2011 (Table I)
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  - iii. Gross Borrowing Requirements (Provisions for Accounting Transactions) (Table III)
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  - ii. Value added - Value Added Tax No. 9 of 2009
  - iii. Nation Building Tax - Nation Building Tax Act No. 9 of 2009
  - iv. Economic Service Charges - Economic Service Charge Act No. 13 of 2006
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  - vii. Construction Industry Guarantee Fund Levy
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  - xii. Motor Vehicle Concession under PART 1 of the Finance Act No. 11 of 2006
  - xiii. Cellular Mobile Subscribers' Levy
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  - xv. A Levy on Telecom Industry
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  - xviii. CESS
  - xix. Custom Duty
  - xx. Levy on Tele-dramas, Films and Television Commercials
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  - xxiii. Tax treatments of Islamic Finance Instruments
  - xxiv. Independent Appeal Commission
  - xxv. Recovery Courts
  - xxvi. Write off of Taxes of SME sectors
  - xxvii. Policy decisions implemented subject to formal amendments being made to the respective Acts
  - xxviii. Modernizations of Customs
  - xxix. Exchange Control Facilitation to promote exports and develop local capital market
8. Salary Revision to Public Servants (Annex 2)

Table 1 The Impact of Revenue Proposals - 2011

	Rs. Mn
<b>Income Tax</b>	
Base expansion and rate reduction in the export sector (including non-renewal of tax holidays)	neutral
Rates reduction (construction, tourism, SMEs, aviation, shipping, petroleum etc.)	(2,000)
Financial sector (partly set-off by unifying off shore and on shore operations)	(2,000)
Revision of depreciation for capital formation	(500)
Increasing the tax rate for liquor, cigarettes and on Casinos	1,200
Revision of PAYE tax	(4,500)
Revision of ESC	(2,000)
Revision of Withholding Tax	(2,000)
Non renewal of tax holidays	1,500
Reducing VAT on financial services and exempting VAT on petroleum and others	(19,558)
Excise Tax	
Liquor	6,824
Tobacco	3,600
Other (absorb the regional infrastructure development levy)	4,459
Transfer of the stamp duty collection to Provincial Councils (revenue sharing)	(5,986)
Revision of fees on motor vehicle registration, transfer and the Luxury Motor Vehicle Tax (30/70 revenue sharing)	540
Imposition of Rs. 2 per minute for out-going IDD calls	1,000
Communication of levies with the introduction of a composite Telecommunications Levy (VAT+NBT+Cellular Mobile Subscriber's Levy + ECI)	15,500
Removal of the Social Responsibility Levy	(3,300)
Removal of the Regional Infrastructure Development Levy - (absorbed by Excise Tax)	(3,000)
Revision of the Share Transaction Levy	1,000
Expansion of the tax base of NBT	12,000
Removal of Debit Tax	(11,988)
Changes in Import Duty - re-classification of Petroleum Products and the introduction of a list to rearrange BOI/ Non BOI incentives	15,000
Imposition/revision of Export and Import CESS	6,463
Transfer of surplus funds	18,831
Changes in administrative charges (Pass port Fees, Embarkation Fee, Botanical Garden - Entrance Fee and such other Fees)	4,200
The Bed Tax on Tourist Hotel	500

Table II

The Impact of Expenditure Proposals - 2011	Rs. Mn
Food security system/Good Security Card for the Poor (subsidy)	750
Welfare payment for the elderly, the handicapped, the victims of terrorism and the vulnerable people	1,000
Expansion of the "Thripasha" Program for 1.1 Mn. lactating mothers	400
Contribution to promote pre schools in the rural areas	200
Expansion of the "Mathata Thitha" program	200
Salaries and Pension revisions including the correction of anomalies, the special allowances and for the new recruits	33,000
'English as a Life Skill' initiative	750
'Trilingual Sri Lanka' Initiative	100
The Innovation & Technology Development Fund for research and development	1,000
The Overseas Employees Pension Fund for migrant workers	1,000
The Citizen's Pension and Insurance Fund for the unorganized sector	1,000
Contribute to the proposed Performing Arts Trust	100
Upgrading the facilities of recently established Universities	1,000
For the promotion of National Universities towards international accreditation	600
Investment in the prevention of non-communicable diseases	900
Interest savings from replacing high cost debt	(1,200)
Tax savings from government expenditure	(4,250)
Long term welfare expenditure for the affected service personnel and their families and the Rs. 100,000 allowance for the birth of the third child in service personnel families	1,200
Rehabilitation of Abandoned/incomplete public assets	1,000
Early completion of the already initiated housing schemes and urgent rehabilitation of identified old housing scheme	200
Increased subsidies for new plantation and re-plantation	500
The three year accelerated seed farm development Initiative (Rs. 700 million)	200
Promotion of floriculture	100
Minor irrigation rehabilitation development initiatives	300
"Rannimittena Phase II" Program	200
Additional provision for the accelerated construction of the SARC Cultural Centre	250
Ten Year Development Initiative of all archaeological sites	300
Financial assistance for media personnel for the acquisition 50 of work related equipment and Computer	50
The three year initiative to facilitate Administration of Justice (Rs. 400 million)	20,000
Accelerated provincial road development Initiative Under Expenditure (11% of Capital Expenditure)	(38,045)

Table III

Gross Borrowing Requirements - 2011 (Provisioning for Accounting Transactions)	Rs. Mn
Total Receipts other than Government Borrowings	986.1
Total Payments including Debt Repayments	1,981.8
Provision for Advance Account	4.0
Risk Premium	25.0
Total Gross Borrowing Requirements to be Recorded in Government Accounts of which Total Debt Repayment	1,024.7

Table IV

Summary of the Budget, 2010-2011	2010 Revised	Rs. Bn 2011 Budget
Total Revenue and Grants	828.3	986.1
Total Revenue	812.1	963.5
Tax Revenue	720.0	862.1
Income Tax	155.0	154.9
Taxes on Goods and Services	429.5	495.5
Taxes on External Trade	155.5	211.8
Non Tax Revenue	92.0	101.4
Grants	16.2	22.6
Total Expenditure	1,275.0	1,419.9
Recurrent	926.0	1,017.0
Salaries and wages	295.3	344.0
Interest	350.3	353.9
Subsidies and Transfers	197.2	207.3
Other Goods and Services	183.2	111.7
Public Investment	359.0	413.7
Education and Health	29.4	54.0
Other Infrastructure Development	329.6	359.7
Other	(10.0)	(10.8)
Revenue surplus (+)/Deficit (-)	(113.9)	(53.4)
Budget Deficit	(446.7)	(433.7)
Total Financing	446.7	433.7
Total Foreign Financing	205.5	94.5
Net Foreign Borrowings	93.5	94.5
Gross Confessional Foreign Borrowings	172.5	189.5
Debt Repayments	79.0	115.0
Foreign Commercial	112.0	20.0
Total Domestic Financing	241.2	339.2
Non-Bank Borrowings	166.2	257.7
Foreign Owned T Bills and Bonds	40.0	39.6
Bank Borrowings	35.0	42.0
Revenue and Grants/GDP (%)	14.9	15.6
Revenue/GDP (%)	14.6	15.2
Tax/GDP (%)	13.0	13.6
Expenditure/GDP (%)	23.0	22.4
Current Expenditure/GDP (%)	16.7	16.1
Public Investment/GDP (%)	6.5	6.5
Revenue surplus (+)/Deficit (-)/GDP (%)	(2.1)	(0.8)
Budget Deficit/GDP (%) (Excluding Grants)	(8.0)	(6.8)

Source: Compiled by Department of Fiscal Policy

## 1. Income Tax (Inland Revenue Act No 10 of 2006)

### 1.1. Personal Income Tax

#### 1.1.1. Tax free allowance (applicable to individuals and charitable institutions)

The present tax free allowance of Rs 300,000 will be increased to Rs 500,000. This will be extended to non-residents who are citizens of Sri Lanka as well. (Section 33 of the Act will be amended).

### 1.1.2. Tax Slabs

PART I of the First Schedule will be amended to expand and revise the personal tax slabs as follows.

Tax Slab (Rs.)	Rate (%)
First Rs 500,000 (of Taxable income) -	4%
Next Rs 500,000 -	8%
Next Rs 500,000 -	12%
Next Rs 500,000 -	16%
Next Rs 1,000,000 -	20%
Balance -	24%

### 1.1.3. Employment Income

(a) The tax deducted from employment income (of both Government and private sector employees), under the PAYE Scheme will be treated as final. Considering the deductions which they are entitled to from the statutory income and the assessable income, a tax free allowance or Rs 600,000 will be allowed in the computation of tax on the employment income. The facility of applying for directions or refunds will not be available in relation to the employment income. Accordingly, the requirement of filing returns by them will not arise unless they have any other source of income, the tax in respect of which is not treated as final. In the case of an individual employed under several employers, the normal PAYE table will be applicable only in respect of the income from the main employer and tax will be deducted at the rate of 16% from profits from other employers. Such income will be aggregated with the other income (if any) and tax is to be computed under normal rates. The employee is entitled to a credit for such tax deducted. The payments to Directors etc, referred to in section 117 will also be subject to WHT tax at 16%, if such payments received from an employer exceeds Rs 25,000 per month. Otherwise, the existing rate of 10% will be applicable. (Section 32 and section 117 of the Act will be amended)

### (b) Taxation of employment income from the Government sector -

(i) The present provisions referred to in section 132A of the Inland Revenue Act will be removed. Accordingly, the tax credit allowed on the tax on emoluments of employees and individuals in the public sector referred to in section 8 (1), (b) will not be applicable effective from April 1, 2011.

(ii) The following payments and benefits, however, will not be liable to tax: - Pension or any retiring benefits referred to in section 4(1)(c). - Motor vehicle provided or/and any vehicle allowance paid up to Rs. 50,000 per month. - Rental value of any Official Bangalore provided by the Government.

(iii) Any rewards or distribution of a share of fine received in the official capacity referred to in Section 157 of the Act) will continue to be taxed at the normal rates.

(iv) Tax will be deducted under PAYE and files will not be opened, where the employment is the only source of income.

(c) Taxation of the employment income of the private sector (i) Motor vehicle benefits - The benefits (as specified in the Gazette) under Section 4 (2), will be exempted from liability under employment income. If an allowance is paid instead of providing a motor vehicle, the exemption will be applicable up to a maximum limit of Rs 50,000 per month.

(ii) Allotment of Shares to employees - The present exemption of the benefit from Share allotment referred to in Section 8(1)(b) will be removed. (Section 8 of the Act will be amended)

(iii) Terminal benefits from employment - The sum paid from a Provident Fund referred to in Section 35(2)(d) and (e) of Section 35 of the Act, will be excluded from the liability. (Section 8 and Section 35 of the Act will be amended)

(d) The benefits from employment for PAYE purposes will be calculated subject to the above changes. The existing files of employees will be closed, if tax on other sources is also treated as final.

### 1.1.4. Interest Income

The present exemption on income from interest available to Senior Citizens on moneys deposited in State Banks referred to in paragraph (b) of Section 9 will be extended from Rs 200,000 to Rs 500,000. (Section 9 (b) of the Act will be amended)

### 1.1.5. Cancellation of existing files of Individuals

The existing files of individuals, whose taxes (paid at source) on all relevant sources are treated as final need not be maintained, and will be cancelled. (Section 106 of the Act will be amended and an administrative mechanism will be strengthened to cancel the existing non effective files)

## 1.2. Ascertainment of profits and income

### 1.2.1. Deductions (allowable under Sections 25 of the Act)

(a) Capital Allowances - Any plant or machinery acquired on or after April 1, 2011, at the rate of 33 1/3% on the cost of acquisition; and - Any new building constructed on or after April 1, 2011 for commercial uses at the rate of 10% on the cost of construction.

### (b) Research Expenditure

The expenditure, including capital expenditure incurred by a person in carrying on any scientific, industrial, agricultural or any other research for the upgrading of any trade or business carried on by such person which is allowable in terms of Section 25(i) of the Act will be extended by allowing a double deduction, so far as such research is conducted within Sri Lanka through an institution established for research purposes.

### (c) Listing Expenses

Expenses on listing a company will be deductible subject to a limit of 1% of the value of the Initial Public Offer. (Section 25 of the Act will be amended)

### 1.2.2. Deductions (limited under Section 26 of the Act)

(a) Advertisements - The present restriction of 50% will be reduced to 35%. Accordingly, 75% of advertisement expenses will be allowed. (b) Foreign Travel Expenses - The present restrictions referred to in paragraphs (c) and (d) of section 26 will be removed and the deduction of expenses on foreign travel will be allowed if incurred in the production of income, subject to the restrictions specified in paragraph (g) below.

### (c) Foreign Training Expenses

The present restrictions will be removed and the deduction will be allowed subject to the restriction specified in paragraph (g) below. (d) Management Fees - The present limit of, "Rs 1 million or 1% of the turnover whichever is less," will be increased to "Rs 2 million or 1% of the turnover whichever is less" The other conditions referred to in section 26 (1) (j) will remain unchanged.

### (e) Tax on Tax on Employment Income

The tax paid by an employer on behalf of an employee will not be a deduction for the employer.

