BUDGET PROPOSAL-2015

We are pleased to forward you this summary and analysis of the budget proposals 2015 presented in the parliament on November 24, 2014 by His Excellency, President Mahinda Rajapaksa, in his capacity as the Minister of Finance, and we trust this information will be useful to you.

These notes are indented only for our client’s general information and are not intended to address the circumstances if any particular individuals or entity.

We wish to remind you that these notes should not be used or quoted as authority and it would be necessary that a thorough examination of the relevant Law should be carried out before acting on the information provided.

If you would like further information on any of the taxation changes and other measures announced in the budget, please do not hesitate to get in touch with us.

Yours Faithfully,

PONNAMPERUMA & CO.
Chartered Accountants
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Sri Lanka National Budget Focus – 2015

- Strengthening public finance to meet the increasingly high revenue commitments of the Government,
- Achieving the development goals, with measures aimed at promoting development of various sectors of the economy, with primary emphasis on export industries, and including the setting up of industries outside the Western Province,
- Promoting the welfare of the people through various social security and support services, and uplifting the living standards of the people,
- Achieving an employment goal of 97% of the labour force by year 2020,
- Advancing the Health Services, Secondary and Higher Education, Skills Education as well developing the Research Environment in the country,
INCOME TAXATION

1 Income Tax (Amendments to the Inland Revenue Act No.10 of 2006)

1.1 Exemptions/Taxation at Concessionary Rates

1.1.1 Exemptions

1.1.1.1 Investments made by Unit Trust
Profits and income arising or accruing to any Unit Trust from investments made on or after January 1, 2015, in US Dollar deposits or US Dollar denominated securities listed in any foreign Stock Exchange.

1.1.1.2 Royalty payment on IT/BPO Company
Profits and income arising or accruing to any company, partnership or body of persons outside Sri Lanka from any payment made by way of royalty as a specific requirement of any IT/BPO Company in Sri Lanka for a period of 2 years from the commencement of such IT/BPO Company.

1.1.1.3 Investment as Corporate Debt Security
The interest or discount accruing or arising to any person from any investment made on or after January 1, 2015 in any Corporate Debt Security, issued by the Urban Development Authority.

1.1.2 Concessionary Rates

1.1.2.1 Pioneering Industries
A deduction of 10% of income tax payable by any local manufacturer who has commenced the business of manufacturing during 1970’s and sustained competitiveness with imports, on the profits and income from the sale of such manufactured products in the local market.

1.1.2.2 Concessionary tax rate for Employees
The concessionary tax rate of maximum 16% applicable for certain categories of employment (Professionals) will be expanded to cover the other employment categories as well.

1.1.2.3 Local Sugar Industry
Concessionary tax rate of 12% applicable for agricultural sector will be extended to the local sugar industry.
1.1.2.4 Undertakings having the annual turnover less than Rs.750 Mn
The annual turnover limit of Rs.500Mn referred to in section 59B will be increased to Rs.750 Mn. (Income tax rate @12%)

1.1.2.5 Profits and income from the production of films or dramas
One half of the profits and income from the production of films or dramas of any individual who produces an award winning cinema or a drama at an international film/drama festival will be exempt for a period of 5 years from the year in which such award is received.

1.2 Tax concessions for new investments

1.2.1 Extensions of the time limit given to new investments
The time limit to complete investments (Investment date from 01.04.2015- 01.04.2016) and to commence the commercial operations (Commence the commercial operation from 01.04.2016 to 01.04.2017) by new undertakings which have been approved under Section 17A of the Act has been extended.

The tax holiday period will be rationalized depending on the nature of the activity approved to carry out by such undertaking.

1.2.2 New undertakings
Any new undertaking with an investment of not less than US $ 2 Mn will be granted a front loaded depreciation allowance, on the acquisition of any fixed asset on which depreciation allowance is claimable within the provisions of Section 25, manufacture of products for export and the exemption will be granted on the dividend distributed out of such profits or from deemed dividend tax, for a period of 5 years from the commencement of commercial operations of the new undertaking.

1.2.3 Expansion of existing enterprise
The applicable tax rate on the profits and income of an existing enterprise carrying on a business of manufacture of products (other than liquor or tobacco), will be reduced by 50% up to a maximum not exceeding Rs.500 Mn for a period of 5 years, if such enterprise is liable for income tax at the rate of 28% and expands such enterprise in any province other than the Western Province by investing not less than Rs.300 Mn on or after 01.04.2015 but prior to 01.04.2017 by the acquisition of any fixed asset on which depreciation allowance is claimable within the provisions of Section 25.
1.2.4 New Investment of Rs 500 Mn

Any company which registers with the Inland Revenue Department for tax purposes on or before December 31, 2015 with a committed investment in excess of Rs.500 Mn, to be made in any manufacturing business (other than liquor or tobacco) within a specified period as approved by the Commissioner General of Inland Revenue will be entitled for a reduction of 50% of the applicable tax rate for a period of 7 years from the commencement of commercial operations.

1.3 Withholding Tax on Interest Income from Deposits

The present withholding tax regime applicable to individuals and charitable institutions will be revised by introducing a single withholding tax rate of 2.5% irrespective of the amount of interest.

Exemption on interest income of senior citizens will be expanded by removing the exempt threshold presently applicable on interest income.

(Sections 9 and 133 of the Inland Revenue Act will be amended)

1.4 Deductibility of Expenses

A tripled education will be granted, to any person registered with the Tertiary Vocational Education Commission (TVEC) on expenditure incurred on standard skill development training (e.g. NVQ Level) provided to trainees. (Section 25 of the Inland Revenue Act will be amended)
VALUE ADDED TAX (VAT)

2 Value Added Tax (VAT) [Amendments to Value Added Tax Act No.14 of 2002]

2.1 Reduction of Tax Rate

The present rate of VAT of 12% will be reduced to 11%.

2.2 Exemptions

2.2.1 Import of machinery, equipment and spare parts by Sri Lanka Ports Authority (SLPA) to be used exclusively within specified ports (Paragraph(c) of PARTII of the First Schedule will be amended)

2.2.2 Current limit of the sample value for the exemption from VAT of Rs.25,000/- will be expanded to Rs.50,000/- (Item (xxx) of Paragraph(c) of PARTII of the First Schedule will be amended)

2.3 VAT on wholesale and retail trade

The present threshold of value of supplies for a consecutive period of three months of any calendar year of any person or partnership carrying on a business of wholesale or retail trade for the charge ability to VAT will be reduced to Rs.100

2.4 Registration Threshold

Threshold of liable supplies for the registration for VAT purpose will be increased to Rs.15 Mn per annum.
NATION BUILDING TAX (NBT)

3 Nation Building Tax (NBT) [Amendments to NBT Act No. 9 of 2009]

3.1 Exemptions

3.1.1 Threshold of liable turnover of NBT will be increased to Rs. 3.75 Mn per quarter.

3.1.2 Import of machinery, equipment and spare parts by SLPA to be used exclusively within specified ports

3.1.3 Current limit of the sample value for exemption from NBT of Rs.25, 000/-will be expanded to Rs.50, 000/-
BETTING AND GAMING LEVY

4  Betting and Gaming Levy (Amendments to Betting and Gaming Levy Act No.40 of 1988)

4.1  Tax rate applicable for gross collection will be revised to 10%

4.2  An entry fee of US$ 100 will be charged per person who enters casino entertainment.
CUSTOMS, EXCISE AND CESS

5 Customs, Excise and Cess

5.1 To encourage the modernization, disposal of machinery used for more than 10 years in a BOI Company will be exempt from duty.

5.2 Cess and Customs Duty rates will be revised to strengthen the domestic value addition.

5.3 Consolidation of taxes to further simplification of tax system-

5.3.1 Excise (Special Provisions) Duty will be charged in lieu of VAT, NBT, Cess, Customs Duty and Ports and Airport Development Levy (PAL) on certain articles specified under Chapter 87 of the Customs Tariff Guide;

5.3.2 In lieu of VAT and NBT:-

(a) Excise (Ordinance) Duty will be charged on the manufacture of liquor,
(b) Customs Duty and Cess will be charged on the import of liquor, and
(c) Excise (Special Provisions) Duty will be charged on the Manufacture or import of cigarettes,

At the rates and in the manner specified in the relevant Gazettes, published for that purpose.

(Relevant provisions of the VAT Act and NBT Act will be amended with immediate effect)
6 Recovery of Tax in Arrears

A special refinance facility scheme which is re-payable within 5 years will be provided at 6% interest rate to facilitate the settlement of arrears in EPF/ETF and arrears in taxes up to 31.12.2010.

(Default Tax Recovery (Special Provisions) Act No.16 of 2010 will be amended)

7 Technical Rectifications and Administrative provisions


8 Amendments to Appropriation Act No. 36 of 2013 for the Financial Year 2014

The maximum borrowing limit specified in the Appropriation Act No. 36 of 2013 is increased by Rs. 200 Bn., which includes the bonds issued for the capitalization of state enterprises and recording foreign debt disbursements. Consequential amendments will be made to Section 2 (1) and Section 2 (2) of the said Act. These amendments are incorporated in the Printed Estimates for 2015 which are now under submission to Parliament. There required amendments will be introduced at the Committee Stage of the Appropriation (Amendment) Bill.
9 Bond Issued for Capital Infusion, Liquidity Improvements and Debt
Capitalization of State Owned Business Enterprises

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<td>SL. Consumer Co-operative Socialists Federation Ltd.</td>
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<td>Colombo Commercial Fertilizer Ltd</td>
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Further allocation of Rs.60 Bn recording of foreign debt disbursements is also included in 2014 figures.
10 Effective Dates of Proposals

Unless stated otherwise, the proposals in relation to:

(i) Income Tax will take effect commencing from April 1, 2015,

(ii) Value Added Tax and Nation Building Tax will be implemented with effect from January 1, 2015,

(iii) Cess, Ports and Airport Development Levy, Custom Duty, Excise (Special Provisions) and Special Commodity Levy will take effect immediately.