



# **BUDGET SPEECH**

**2007**

**Mahinda Rajapaksa**

**President and Minister of Finance and Planning**

## **Budget Speech 2007**

### *Section I*

1. Mr. Speaker, I am presenting this Budget having completed one year of implementation of economic policies based on Mahinda Chinthana, which is designed to empower ourselves through our own initiatives, based on our own strengths. It aims at increasing the income of the poor and the regions at a far more rapid pace than that achieved in the past, and places its thrust on building a strong economy with social justice. Many of our commitments and development initiatives were put into practice through the 2006 Budget. However, right from the inception our Government confronted many challenges affecting our performance.
2. In spite of our sincere commitment to pursue a negotiated political settlement, the LTTE resorted to increased violence a few days after I was elected and continued to engage in provocative actions including the killing of over 70 civilians in Kabitigollawe, many suicide attacks, forcible closure of the Mavill Aru anicut and attacks on security forces. Although these acts warranted calibrated defensive responses to protect civilian lives, public property and national security, we have remained steadfast to our commitment to peace. We have successfully persuaded all democratic political parties to work together towards addressing genuine grievances of the Tamil people of our country. The political consensus reached with the opposition on common concerns pertaining to our country has given new hopes to our people. It is only the LTTE which has still not entered this process that respects human rights and democracy. Therefore, I once again request the LTTE to give up violence altogether, surrender arms, and restore the mutual trust that our communities enjoyed and work towards promoting peace, democracy and development, in the interest of building a new Sri Lanka. Our Government values the efforts of the international community to endeavouring to pursue the LTTE in this direction and we are ready to reciprocate and continue with a dialogue to solve national problems.
3. Increased violence compelled the Government to channel more resources for security and humanitarian relief operations. Construction of houses, water supply schemes, power lines, roads, bridges, schools, hospitals and many entrepreneurial activities has been denied in the conflict affected areas including Jaffna, Kilinochchi, Mannar, Mulativu, Batticaloa and Trincomallee. Government officials and security forces have faced many difficulties in

sending humanitarian assistance and regular supplies of food and medicine to the innocent people in the affected areas due to hostilities by the LTTE, denying basic needs and human rights of the affected.

4. Mr. Speaker, economic challenges were too formidable. International oil prices escalated far beyond the affordability of our nation, which was struggling to recover from the effects of the Tsunami. The continued increase in oil prices which exceeded US\$ 70/bbl by early this year put our economy on a great strain. The foreign exchange cost of petroleum imports alone is estimated to be around US\$ 2.2 billion – an increase of US\$ 550 million in 2006 alone. The Government also spent Rs. 25 billion for the fuel subsidy in 2005 and a further Rs. 12 billion up to June 2006. In this background the Government ultimately had no choice but to remove the VAT on diesel and kerosene and adopt cost recovery pricing in order to reduce unmanageable losses. Regrettably, people had to pay much higher prices for their energy needs, escalating the cost-of- living.
5. Another major challenge that our economy had to manage was the adjustment towards global competition. The apparel industry is in the post Multi-Fiber Agreement (MFA) transition and the impact of removal of restrictions is already felt. The challenges will be greater when restrictions on China and Vietnam expire over the next 2 years. Many other industries are facing similar difficulties in sustaining industrial competition due to domestic cost of fuel, electricity, transport and low productivity. Our country has also deepened its commitment to free trade arrangements with India and Pakistan, requiring our entrepreneurs to adjust to severe competition. Our industries are also under threat from under-invoicing, dumping and cheap imports. All these have made a severe transitional burden to our economy.
6. Mr. Speaker, against all these odds there is a silver lining. Our people have collectively contributed towards generating over 7 percent growth in our economy this year, demonstrating resilience. This has been realized after 1978, generating from agriculture, livestock, fisheries, manufacturing, construction and a wide range of service activities. Growth is wide spread in the country, including regions which are lagging behind. Benefiting from favourable weather, the increased fertilizer subsidy, removal of the flour subsidy and better farm-gate prices, framers have made our country self-sufficient in rice. Fruit, vegetable, poultry and fresh

milk, have also shown a similar trend reflecting prospects of being able to reduce imports of such commodities whilst also ensuring food security.

7. The manufacturing sector has generated around 6 percent growth. Production of food, beverages, chemicals, rubber, plastic and leather goods has grown over 6 percent. Exports have increased by 9 percent. Exports represent many diversified sources such as value added tea, fruit and vegetable, gem and jewellery, ceramics, high value garments, leather products, software and a range of new export goods and services. Total exports this year is expected to reach US\$ 6.9 billion. Machinery, equipment, construction material, other investment goods and intermediate goods imports have increased considerably in support of high economic growth. Expansion of telecommunication, tourism, trade, transport, construction and financial services and a high growth in agricultural and industrial activities have reinforced each other to boost the service sector growth to over 6 percent.
8. Mr. Speaker, all three revenue departments have made commendable progress. Improved tax administration, better compliance and significant success in curtailing illicit liquor, cigarettes, smuggling and under invoicing have contributed to increase revenue by 22 percent by September this year. We have embarked on a modernization programme of the revenue departments to strengthen the tax administration and sustain the high revenue growth. Investigations are in progress with regard to the scandalous VAT fraud which has taken place during 2002 – 2004. The suspects have been brought to justice and proceedings will be concluded expeditiously.
9. Timely action on investment decision making is important to encourage investment. A cabinet sub-committee has been setup under my chairmanship to facilitate this process. I have also set up a high level committee to resolve investment disputes expeditiously. Sri Lankan Missions abroad are being restructured and strengthened to promote economic activities, trade, investment and foreign employment. Foreign investment is expected to exceed US\$ 600 million during this year. Total earnings from tourism are expected to exceed US\$ 400 million. Our aim is to exceed US\$ 1 billion per annum from each of these two areas, within the next 2 years. Remittances from overseas employment would reach US\$ 2.4 billion, this year. The overall investment to GDP is expected to reach 28 percent, a further improvement from 26.5 percent in 2005. Country's inflows and outflows of foreign exchange

transactions are expected to generate a surplus of about US\$ 200 million in the Balance of Payments. The Central Bank commands US\$ 2.5 billion reserves as at present.

10. A salutary feature in the present trend of development is that unemployment has declined to around 6 percent. Recent figures indicate that creation of employment during this year in the domestic agriculture, industry, construction and service sectors is over 250,000. Moreover, around 200,000 people have secured overseas employment. We propose to increase the skills of those who are leaving for overseas employment and to provide incentives for professionals providing services for foreign currency, so that our economy can become stronger, based on our own skills.
11. Mr. Speaker, Randora - the Government's mega infrastructure initiative is our priority. In this effort we have made arrangements to commence the construction of the Puttalam coal power plant, Trincomallee coal power plant, Kerawalapitiya power plant and related infrastructure to transform all fuel based plants to generate LNG based power. Several hydro power plants and renewable energy sources have also been encouraged. We are working with our development partners to accelerate early completion of the four lane Southern Expressway and have begun the construction of the outer-circular expressway with three townships in Kadawatha, Kottawa and Kaduwela, expansion of the Colombo port capacity and the construction of a new port, the second International Airport and an International Convention Centre. The Government is committed to build a Northern Expressway and several other main roads and bridges in districts in the North and East to promote Trincomalee as an investment and Tourism Zone. The reconstruction of the Tsunami affected coastal highway from Katukurunda to Pothuvil and several other highways connecting major townships are also in progress.
12. The Government also spent about Rs.12,000 million, the highest ever for rural infrastructure development programmes such as Maga Naguma, Dahasak Maha Wav, new irrigation schemes and rural electrification programmes. The fertilizer subsidy of Rs. 11,000 million, paddy purchases of Rs. 2,900 million, pharmaceuticals of Rs. 8,000 million, assistance to school children of Rs. 3,600 million are also highest ever expenditure provided by any Government. The government had to provide funds to complete unattended and underperformed post-Tsunami reconstruction activities by certain NGOs. As of date 62,000

houses have been completed and about 43,000 houses are under construction. The total expenditure for post-Tsunami activities is around Rs. 9,200 million. These programmes were not compromised although pressure was high due to increased expenditure on security and humanitarian work, salaries, pensions and the fuel subsidy.

13. Amidst several adversities and increased terrorist threats, we were able to successfully complete the South Asian Games and the Commonwealth Finance Ministers Meeting in August and September this year. It was for the first time that such a meeting was held in Sri Lanka since the Commonwealth was formed. These events demonstrated our capacity to host such events despite great difficulties in our country and also reflected our deep commitment to consolidate a democratic environment to promote development and peace. Nevertheless, we should not be complacent.
14. Cost-of-living Index has increased by an annual average of 12 percent. This is largely due to increased fuel prices and consequential changes in the cost of transport and electricity. Increased salaries for government employees and pensioners, the large credit expansion by the banking system to the private sector, increased taxation on wheat flour and several imported agricultural products and the expansion in construction activities caused increased demand for material, labour and domestically produced agricultural commodities, resulting in high prices. Some of these changes were necessary to encourage domestic production in place of imports and build a national economy. However, credit expansion on non-essential consumer items and demand pressure on prices need to be kept under close surveillance.
15. In dealing with inflationary pressures, the Central Bank increased its policy rates by 2.625 percent and tightened the monetary policy. Treasury Bill rates were increased to sustain savings and curtail consumption demands. Many domestic banks have not balanced their credit expansion parallel with deposit mobilization. Some banks are engaged in the unethical practice of maintaining higher spreads and margins. Having observed a rapid and uneven credit growth, the Central Bank increased capital provisions for market risks, particularly for non-priority retail lending and imports. Imposition of a deposit margin on selected non priority items is a short term measure taken to reduce the import demand as well as the unwarranted credit expansion in the banking system.

16. In the absence of a proper institutional mechanism for government intervention, market manipulations and anti-competitive practices have widespread. The closure of the CWE and the Paddy Marketing Board and the rundown in the cooperative system are reflected adversely in our market structure. The new “Budget Shop” concept which is based on a private-public partnership arrangement was implemented to provide infrastructure facilities for suppliers to be able to offer essential commodities at wholesale prices. LakSathosa outlets are also been setup in several densely populated areas to promote competition. Taking the advantage of the downward trend in international oil prices the Government also reduced the prices of petrol and diesel by Rs. 7 - 9 per/ltr. The Government would continue to allow monthly adjustments to retail prices of petroleum products in line with international prices, under the supervision of the Public Utilities Commission.

## ***Section II***

### **A 10 Year Horizon - National Development Strategy**

17. Mr. Speaker, this is a decade that a global commitment has been made to achieve Millennium Development Goals (MDGs) – a commitment to eradicate poverty. This requires us to formulate a long-term strategy based on a clear vision. When I presented the Mahinda Chinthana to the people, my vision was to create a new Sri Lanka - a country with modern roads, ports and airports, water supply and irrigation, townships and community facilities, transport services, technology, skills and knowledge. Such physical and human infrastructure is essential to build a diversified economy that will take development beyond the Western Province, eliminate poverty and promote a caring society with law and order and an eco-friendly environment. (*nille piruna kethak, bathen bulethen pirez ratak*).
18. Mr. Speaker, we must look at hard economic, political and social realities in our country. Most of our provinces remain poor. Agriculture predominantly remains at subsistence level and needs considerable diversification and modernization. Plantation sector needs productivity improvements and high value addition. Many production and service activities perform at suboptimum efficiency requiring technological infusion, new skills, practical policy strategies and infrastructure support. Educated youths are still not capable of securing gainful employment, compelling a reorientation of our education system to meet diversified

skills demands of our economy. Poverty is concentrated in 8 districts in the North and East, 6 districts in the South and 3 districts in the plantation area. Colombo lacks infrastructure essential for a modern capital city. We must therefore formulate a more meaningful development strategy with local ownership to make a change.

19. The centerpiece of this new strategy will be the development of modern infrastructure throughout the country to provide a basis for development of agriculture, industry, construction, tourism, trade, financial and transport services that will bring about new earning avenues and gainful employment to our people. Over the next four years, our public investment strategy will provide about 5 percent of GDP per annum for infrastructure development. Private - public partnerships must be exploited in all sectors as this is not sufficient. Our development strategy will aim at positioning Sri Lanka to initiate providing a wide range of value added international services. Prospects of promoting insurance, shipping, entrepôt trade, many logistic industries and petroleum exploration are particularly encouraging. The Government is in the process of preparing relevant agreements and regulations on environmental, production and geo-physical aspects relating to petroleum exploration, to proceed with oil exploration by early 2007.
20. Empowering people at grass root level is equally important, if we are to succeed in poverty reduction. The Mahinda Chinthana proposed "Gama Naguma" - an initiative to empower the community. This is an initiative to adopt bottom-up programmes originating from communities, reflecting their needs. All such activities will relate to "Jana Saba" which will navigate rural development. A series of rural development initiatives that are currently in operation need to be refocused permitting the community to prioritize their needs objectively without political considerations. These initiatives will be monitored by community leaders to ensure that a larger volume of resources are productively used for the betterment of the rural community. Re-balancing the allocation of resources towards the development of lagging districts can also be achieved through this process.
21. Sri Lanka has traveled a long way towards creating a globally integrated export oriented liberal economy. However, this process has brought about a combination of positive and negative results. The Mahinda Chinthana became an alternative development strategy mainly due to the failures of certain policies followed during the past 30 years. Therefore, while

recognizing the strengths of a globally integrated economy, we need to re-engineer certain policies and create an incentive structure conducive for our country to be built on the strength of local resources and skills, in a competitive environment.

22. Mr. Speaker, the government spends approximately 1/10<sup>th</sup> of the revenue for salaries alone of the education service. While our country has achieved commendable progress in human resources development, the contribution of education for economic development is challenged when degrees and other qualifications awarded through our education system often do not meet national employment needs. As a Government, it is our responsibility to ensure that students in learning centers pass out with skills required to be able to contribute to the national development process as well as to further their own carrier. Therefore, we need to change our curricula and engage university undergraduates in internships for skills acquisition. Universities need to be improved and made partners in implementing development programmes by using their research skills and talent. Technical and vocational education need to focus on providing skills demanded by the domestic as well as the global economy.
23. We need a people friendly administration. About 15 percent of Government revenue is spent to provide administrative, regulatory and other extension services by ministries and departments. The public service delivery programme in agriculture, industry, livestock, fisheries and several other areas should be repositioned to be able to respond to public needs. The e-governance structure needs to integrate the public service delivery mechanism. Legal infrastructure and the judicial structure should be geared to address law delays and transaction costs associated with dispute resolution. All state enterprises should be compelled to perform at maximum capacity and contribute towards development. The trade unions and the management hierarchy should work together towards a total transformation in railways, petroleum, electricity, water supply, postal and port services and bank to strengthen performance.
24. Sri Lanka has a vibrant and diverse private sector. It consists of small farmers, fishermen, SMEs and the large corporate sector. While almost all commercial and production activities are open to the private sector, their expansion is constrained by inadequate infrastructure, limited access to capital and the high cost of finance. The success of private sector and government sector development initiatives depends on savings available for investment. A 10

year strategy for the promotion of the capital market and other financial innovations has been formulated to generate more capital for investment. The Government needs to increase revenue to provide infrastructure, develop human resources and other support services, reduce poverty and stabilize the economy. Towards this objective we have committed to a fiscal transformation within a medium term budgetary framework to raise revenue to around 19 percent, reduce the deficit to 5 percent and national debt below 85 percent of GDP, by 2009.

25. In summary Mr. Speaker, our long-term road map for Sri Lanka is to create an economy that will sustain over 8 percent annual growth over the next 10 years and raise income of our people to around US\$ 3,000 per capita level. It is an economy that will reflect a corresponding level of income even in the poor districts. The economy will have strong connectivity within the country as well as across the global economy, particularly in the region. Through this development process, Sri Lanka will be transformed into a knowledge based economy. The country will not only be economically advanced, but will also create a society that is religious and respects its culture, environment and the value system, when it climbs the ladder of economic progress.
26. Underpinning this overall vision, line ministries and the Ministry of Finance and Planning have together formulated a discussion paper on the long-term development strategy to stimulate a wider debate on our development framework. I am tabling this document so that Members of Parliament can use the Budget debate to address related issues constructively. I request the professionals, private sector, Trade Unions and the civil society also to devote their time and make a contribution to refine this strategy. Mr. Speaker, this is the first time that we are formulating a development strategy through such a consultative process.

### *Section III*

#### **The 2007 Budget**

27. Mr. Speaker, the 2007 Budget has been formulated within the 2006 – 2009 medium term framework, having recognized sectoral priorities, needs of lagging regions and resource constraints. The entire regional development strategy, national infrastructure and human resource development programmes and other sectoral programmes have been incorporated into this framework. However, multiple regional development initiatives will be consolidated within five priority areas namely; rural roads, electricity, water supply and irrigation, housing and livelihood development. These programmes will be implemented by the relevant agencies under the overall coordination and monitoring so that provisions can be productively used while eliminating waste and duplication. Priority will be given to complete activities which have been already initiated by spending agencies, before venturing into new work. The unspent provisions will be rolled over to the ensuing year to facilitate effective implementation of our development programme.
  
28. Mr. Speaker, let me also mention that the present position of each of the proposals in the 2006 Budget is explained in Annexure I hereto. Several of these proposals have been successfully implemented but some have shown slow progress. They will be completed on a priority basis in 2007. The overall fiscal performance of 2006 and related issues are explained in the 2007 Fiscal Management Report, which I present to the Parliament today.

## ***Section IV***

### **Proposals**

29. Mr. Speaker, Government revenue in 2007 is estimated at Rs. 584 billion against a total sum of Rs. 597 billion for current expenditure. Therefore, there is a deficit of Rs. 13 billion in the revenue account. This is not desirable and must be eliminated.

#### **I. Proposals to Reduce Expenditure**

- Mr. Speaker, the provision of salaries for education, health, important public services and national security cannot be avoided. However, expenditure incurred on account of telephone and water bills, fuel, vehicle repairs and maintenance, furniture and equipment are far from satisfactory. Therefore, I propose a 2 percent cut on such provisions.
- The losses of underperforming enterprises are far beyond what the Government can afford. The relevant agencies must use their own assets to generate revenue and cut down 5 percent of the provisions made for them from the Treasury in 2007.
- Mr. Speaker, I propose to impose strict audits on procurements relating to food, pharmaceuticals and fertilizer which cost over Rs. 30 billion. A special audit unit will be setup under the supervision of the Auditor General's Department to undertake risk based audits.
- ⊖ Several people and the media have drawn attention to many unfinished, part completed and substandard work connected with roads, rural tanks, market places, housing projects etc. Therefore, line agencies responsible will be required to complete such work first and ensure the full utilization of related provisions before embarking on new projects. Release of funds for new projects will be made only upon the completion of such work.
- Rural level development work needs closer supervision to ensure that projects implemented by Government agencies, provincial councils and local authorities are done in the interest of the community. I propose to set up Peoples' Vigilance

Committees consisting of persons with high integrity and respect recognized by the people within the relevant local area, to monitor all such projects.

- The main development expenditure of each Divisional Secretariat area has been identified to enable Divisional Secretaries and local Provincial Councils to steer development activities. All such projects will be implemented with community participation to ensure that funds are used productively. Members of Parliament are requested to use 50 percent of their decentralized budgets on roads, as rural development is our priority in 2007.
- I also count on around 8 percent under expenditure in capital votes in 2007 on account of duplication and rollover provisions to the next year.

## **II. Revenue Proposals**

### **1. Port and Airport Development Levy**

Mr. Speaker, Government has committed for a rapid development of Ports and Airports over the next three years. I propose to increase the Port and Airport Development Levy from 2.5 percent to 3 percent so that local expenditure of these projects can be financed. However, I propose to create a concessionary rate of 2.0 percent for selected plant and machinery imported for high value adding industries and for pharmaceuticals.

### **2. Value Added Tax and Excise Special Provision Tax**

These two taxes are expected to generate over Rs. 306 billion in 2007. We have already closed several loopholes that prevailed in the VAT system. In order to curtail leakages further, I propose to limit credit for input tax to actual input tax or to 85 percent of the output tax paid or allowable input tax, whichever is lower. VAT paid on motor vehicles will not be allowed as input credit. I also propose that all government agencies will withhold 1/3 of the VAT payable to contractors and other service providers. Small suppliers operating below the VAT threshold turnover will not be liable for this withholding tax.

In order to mitigate the impact of undervaluation, I propose to raise the markup applicable in the computation of VAT and Excise (Special Provisions) Tax to 10

percent. The same markup will also be prescribed for the computation of the CESS. Carbonated drinks and paints will be liable to a 5 percent Excise Tax.

In order to broaden the VAT base, any small or medium business which is on the border of the VAT threshold of Rs. 1.8 million and has not registered for VAT purposes and continues to expand, I propose to introduce a 5 percent non-refundable VAT on its turnover for a period of 3 years or until turnover reaches Rs. 2.5 million, whichever occurs earlier.

### **3. Income Taxation**

This year, we have seen an increase in income tax revenue to 2.7 percent of GDP from 2.2 percent of GDP in 2005. We will aim at raising this ratio to around 4 percent to reach the South East Asian level of income taxation. Therefore, I propose the following;

- a. At present insurance companies set off their losses from life insurance business against the profits from general insurance business. I propose that these two operations be treated separately for tax purposes.
- b. In the interest of capital market development, I consider that every company should aim at a dividend payout of 50 percent of profit available for distribution. In order to encourage all companies to move in this direction I propose that any company with a dividend payout of less than 1/3 should be taxed at 15 percent for the difference between such 1/3 and the dividend paid out.
- c. In the 2006 Budget, I lowered the tax rate for small companies generating a taxable profit of less than Rs. 5 million, to 15 percent. However, I propose that the applicable tax rate would be the normal rate, if the company is a subsidiary or an associate company.
- d. The Government losses about Rs. 4 billion by allowing income tax relief for specific loan loss provisions in banking and financial institutions. I propose that loan loss provisions be limited to 1 percent of outstanding loan amounts at the end of the tax year or to the actual provision for losses, whichever is lower.

- e. ESC can be setoff against income tax. In order to expand the tax base further, I propose to reduce the threshold liability for ESC from Rs. 40 million to Rs. 30 million. The 3 year non chargeability of ESC will apply only in respect of manufacturing industries. However, the setoff duration of ESC increased from 3 years to 5 years to provide further relief. ESC charged on wholesale and retail trade will be reduced to 0.25 percent other than on motor vehicle and liquor. ESC charged on retail level distributors will be reduced to 0.05 percent.
- f. A tax free threshold of Rs. 600,000 will be introduced to provide relief particularly for medium scale partnerships.
- g. In order to promote Unit Trusts, stamp duty on transactions involving units will be removed and income from sale of shares will be exempt from income tax. ESC charged on Unit Trusts will be reduced to 0.5 percent.

#### **4. Passport and Visa Fees**

The Department of Immigration and Emigration has expanded its regional offices for the convenience of applicants in outstations and in the normal course a passport can be obtained within 10 days. Therefore, the normal passport fee will be reduced from Rs. 3,500 to Rs. 2,500. Considering the cost involved with fast processing and scrutinizing documents, the fee on passports issued within one working day will be fixed at Rs. 7,500.

A visa fee of US\$ 10 per tourist visiting Sri Lanka will be imposed at the time of purchase of the air ticket and penalties for violation of visa regulations will be increased. The fee charged on Dual Citizenship Certificates for Sri Lankans living abroad will be reduced from about Rs. 400,000 to Rs. 200,000 per family, provided a 3 year fixed deposit in foreign currency to a value exceeding US\$ 25,000 is made in a bank in Sri Lanka. No fee will be charged if the value of a 3 year fixed deposit exceeds US\$ 50,000.

## **5. Provincial Council Revenue**

The average revenue generated by Provincial Councils during the last several years is around 0.5 percent of GDP. In 2007 the related Government transfers are estimated at around Rs. 100 billion as compared to their estimated revenue of about Rs. 20 billion. The devolved taxes and duties have not been fully exploited at provincial level. A realistic valuation needs to be applied for the computation of rent for residential and business premises by local authorities. The collection of Turnover Tax by Provincial Councils needs to be improved. I propose to set up a close coordination mechanism between the Provincial Councils, the Finance Commission and the Treasury to assist Provincial Councils to raise revenue to at least 1 percent of GDP over the next two years. I target additional revenue of at least Rs. 2 billion in the next year itself.

## **6. Collection of Tax in Default**

Mr. Speaker, recognizing the difficulties faced particularly by the small and medium business sector, I propose to waive all penalties accrued on any tax in default for the past 5 years and give a period of 3 years to settle all such arrears in installments. Any party who fails to comply with this arrangement, will be liable to pay the full amount with penalties.

## **7. Regional Infrastructure Development Levy**

In the context of serious infrastructure deficiencies we need to allocate more funds for to the development of lagging regions. Therefore, I propose to impose a 2.5 percent levy under the Finance Act in respect of motor vehicles on their value inclusive of all taxes and duties levied at the point of Customs. Transfer of money from those who can afford to purchase a motor car to those who cannot at least find even a day's livelihood, is our social responsibility. An annual declaration will be made mandatory from all vehicle owners who have imported a vehicle on concession or duty free basis.

### **III. Incentives for Savings & Investment**

#### **1. Withholding Tax on Interest from Banks and Financial Institutions**

Mr. Speaker, at present interest income of Rs. 108,000 and above is subject to a 10 percent withholding tax on individual deposits. I propose to raise this to Rs. 300,000 and reduce the tax rate to 5 percent on interest where the total income is between Rs.

300,000 – 600,000, If the total income is in excess of Rs. 600,000. a 10 percent withholding tax will apply on the interest in excess of Rs. 300,000 to give relief to those who are dependent on interest income.

## **2. Taxation of Terminal Benefits of Retiring Employees**

In order to provide relief for those who retire after 20 years of service, I propose to raise the tax free threshold for terminal benefits from Rs. 2 million to Rs. 5.0 million. The tax threshold for others will be raised from Rs. 1 million to Rs. 2.0 million, the tax slab will also be increased to ease the tax burden.

## **3. Tax relief to Employees Shares**

At present capital gains and employment benefits from shares owned by employees through Employee Share Options are taxed. I propose to remove tax on both capital gains and employment benefits to encourage employers-employees partnerships in their business development.

## **4. Incentives for Professionals**

In my last Budget, I offered a tax concession for professionals to engage in foreign currency earnings. Exchange control regulations have been issued enabling professionals earning in foreign currency to open foreign currency accounts in our banks. I propose that expenditure incurred in acquiring international accreditations over and above standard professional qualifications be allowed as a deductible expenditure to further enhance the international standing of our professionals.

## **5. Bus Transportation**

Private bus operators provide nearly 70 percent of bus transportation services to commuters. I propose to exempt from duty and VAT, the importation of a bus by any bus owner with a route permit to replace the bus being used. VAT on ticket machines will be reduced to 5 percent.

## **6. Housing**

I propose to grant title and take steps to write-off loans of about 5,000 low income householders who have obtained such loan from the NHDA. The 60,000 housing development initiative to increase the number of houses for shanty dwellers in Colombo

will be continued over the next three years. Shanty dwelling is also a common problem in several other municipal areas. Therefore, UN agencies, donors and non governmental agencies will be invited to resolve housing constraints of shanty dwellers in such areas. A contribution from shanty dwellers is also expected, to reflect their involvement. A scheme to rebate VAT and other local taxes in relation to construction of social housing will be formulated to encourage the private sector, donors and NGOs to participate in this process.

#### **7. Health**

Mr. Speaker in order to promote the availability of advanced medical facilities within our country, I propose to reduce the VAT on high tech medical equipment and machinery to 5 percent. .

#### **8. Establishment of SPMC / SPC managed drug stores**

The cost of providing medicinal drugs to government hospitals is around Rs. 12 billion and is expected to rise each year. It is therefore proposed to set up SPMC/SPC managed drug stores to provide drug requirements of large hospitals. Such stores can also serve as pharmacies to the general public to obtain essential drugs at competitive prices. The capacity of SPMC to supply essential drugs to hospitals will be increased to reduce associated imports.

#### **9. Imposition of Standards**

The SLSI “Import Certification Scheme” will be expanded to ensure that substandard products will not enter the country. Regulations will also be put in place by the Food Advisory Committee of the Ministry of Health relating to food items including all confectionary, chocolate based products, fish, meat etc. and products nearing the expiry date. A 5 percent Excise Tax will be imposed on environmentally harmful polythene bags to discourage the use of such products.

#### **10. Promotion of Local Value Added Industries**

Mr. Speaker, we encourage a high content of value addition in local businesses. In this regards BOI approvals in the future will be granted on the basis that duty free imports of project related material will be limited for material which are not available locally in

adequate quantities or in the required quality. Such BOI projects will be granted a VAT deferment facility for the purchase of material from local industries. A special foreign currency account will be opened by the Central Bank to facilitate BOI companies to purchase inputs from local companies for payments in foreign currency.

### **11. Construction Industry**

The construction of flyovers in Colombo, and townships with 10,000 houses on a DBT basis have been assigned to the local construction industry, placing trust on its capabilities. I propose to increase the depreciation allowance on machinery used in the construction industry from 12.5 percent to 25 percent and to reduce the withholding tax on their construction fee from 5 percent to 1 percent so as to improve their cash flow. Licensing requirements for the importation of used construction machinery and equipment will be relaxed. The CESS imposed on construction will be collected together with withholding tax on construction fees in order to simplify the collection procedure and strengthen the Construction Industry Guarantee Fund. A joint skills enhancement programme will be implemented through the vocational training institutes and construction industry associations, to fill skills shortages. Construction companies engaged in Government projects will be given duty concessions to import cement

### **12. Consolidation of Lankaputra Development Bank**

Mr. Speaker, in order to build a premier development bank, I propose to amalgamate by an Act of Parliament, all regional development banks and the SME Bank with the Lankaputra Development Bank to ensure that the bank will have a capital in excess of Rs. 5 billion. My vision is to raise its capital to Rs. 10 billion within the next 5 years. The existing branch networks of the SME bank and regional development banks and their employees will be absorbed into the Lankaputra Development Bank. Credit facilities provided by the National Budget to Government agencies will be channeled to beneficiaries through this bank network.

### **13. National Wealth Corporation**

Mr. Speaker, prime Government properties are not fully utilized in the development efforts of the country. Valuable lands are being allocated for various projects without getting proper value. Government stake in privatized enterprises are not well managed.

On the other hand opportunities have not been created to secure income earning avenues for a majority of our rural people and for those who retire from Government as well as from the private sector. I therefore propose to set up a National Wealth Corporation which will own prime land and other assets belonging to the Government and use such assets to generate income. Sri Lankans will be permitted to buy income units of this corporation with a minimum deposit of Rs.500 that can be increased. A regular annual income in excess of prevailing Treasury Bill rate will be guaranteed by the Government on such investments.

#### **14. National Insurance Trust Fund**

Mr. Speaker, the National Insurance Trust Fund has been set up by an Act of Parliament. This Fund will develop the public hospital system in the country to provide best medical assistance to public servants. Trust Fund has also absorbed the Civil Riots and Civil Commotions Fund to provide risk insurance for affected properties. This fund has the potential to develop a reinsurance market. Therefore I propose to make it mandatory that 50 percent of reinsurance business be done by all insurance companies with the National Insurance Trust Fund, which is fully owned by the Government.

#### **15. Taxes on Electricity and Industrial Fuel**

Many of our industries are fast losing their competitiveness due to high tariff on electricity and industrial fuel. While new power plants will reduce long-term cost of electricity, it is necessary to provide competitive inputs to promote the manufacturing and value addition processes in the near term, in the context of acute competition. Therefore I propose to exempt heavy fuel oil, furnace oil and electricity from VAT. Machinery and equipment imported by the Ceylon Electricity Board will also be exempt from VAT, to reduce its cash flow burden. A new electricity tariff schedule reflecting these changes and reducing industrial tariff to around US\$ 0.07 cent equivalent, will be issued accordingly.

#### **16. Local Film Industry**

Mr. Speaker, I propose to exempt from VAT, producers, distributors, exhibitors and suppliers of laboratory facilities for film production. Customs Duty on items imported to be used in the film industry will be removed. VAT on such items will be reduced to

5 percent. Films or teledrams sent abroad for further processing will not be liable for PAL, Customs Duty or VAT. A 10 year tax holiday will be granted for cinemas to be newly constructed with advanced technological facilities. A 5 year tax holiday will be granted to any existing cinema, if upgraded with advanced technological facilities. The tax relief by way of a deduction in respect of cost production of any film will be increased from Rs. 5 million to Rs. 25 million.

#### **17. “KRUSHI NAVODAYA”**

Mr. speaker, we have restored duties on the importation of flour, sugar, rice, onion, chilli and potato but we still have a duty waiver on milk powder. As a policy, I propose to remove these waivers gradually to encourage local production to encourage our farmers to achieve self-sufficiency and ensure food security. In order to promote high value agriculture and processing activities, I propose to implement a comprehensive package providing credit and tax rebate for machinery, equipment and extension services for farmers engaged in such activities. This package will be available for agriculture, livestock, inland fisheries, prawn farming, fruit, vegetable and organic fertilizer production, floriculture, seed development etc. I propose to earmark Rs. 2 billion each year over the next 3 years for loans to be granted under this package. I propose to divert Rs. 300 million from the CESS to assist in the cost-sharing operation with banks, to provide such loans at 8 percent interest. In order to increase rice flour processing, rice millers will also be given additional incentives under this package. Identified machinery which are not manufactured locally will be exempt from VAT and import duties to modernize rice mills. Nucleus farms will be encouraged through tax and other incentives to develop fruit and vegetable cultivation base on out grower system.

#### **18. Plantation Agriculture**

Agricultural income including income from agricultural processing and value addition has been exempt from income tax. I propose further incentives for processing of tea, rubber and coconut.

- The Economic Service Charge applicable to tea, rubber and coconut processing industries will be reduced from 0.5 percent to 0.25 percent.
- Machinery imported for the modernization of tea, rubber and coconut processing factories will be exempt from VAT and Custom Duties.

- The reduction of VAT on electricity will also be beneficial for these industries.

### **19. Fisheries**

The Construction of a state of the art fish market complex including facilities for an inland fish and ornamental fish exchange proposed in the last Budget has commenced. Funds have been allocated to complete the “Diyawara” housing projects. I propose to implement an insurance scheme for fisherman as well as for their boats and vessels to insure their risks. A natural disaster relief fund will also be setup by the National Insurance Trust Fund, on a contributory basis for the benefit of the fishing community.

### **20. Prawn Farming**

Since a large number of small farmers are engaged in prawn farming, I propose to exempt from VAT the supply of prawns. In order to support local farmers a CESS will be imposed on the importation of prawns and fish to regulate such imports particularly to ensure health requirements. The Dutch canal rehabilitation programme and disease control measures for the benefit of prawn farmers in the Puttalam district, will be completed in 2007.

### **21. Livestock**

Mr. Speaker, enhanced availability of animals with genetic potential is necessary to improve livestock production. Therefore, the importation of cattle, buffalos, goats, and other animals, semen and embryo to be used in livestock breeding will be exempt from VAT and duty.

### **22. SME Sector Development**

There is a surge in local value addition due to assistance extended by the Government for locally manufactured or processed products. In order to provide required local assistance including research, extensions and quality assurances and to support food processing, an additional CESS will be imposed on meat and poultry, jewellery, shoe manufacturing, ayurvedic products, strawboards, cosmetics and toilet perpetrations, diaries, envelopes, telephone and trade directories etc. To support the acquisition of advance machinery and equipment: exclusively used for the manufacturing and processing of high value products from tea, rubber and coconut, and for animal

husbandry, pharmaceutical and giftware production import duty on such machinery and equipment will be removed and additional credit facilities will be provided.

### **23. Entrepôt Trade**

In our effort to promote various service activities originating from Sri Lanka, profit from offshore trading activities are exempt from income tax. I now propose that offshore activities will also be exempt from the Economic Service Charge. The spectrum of articles coming within onshore entrepôt trade would be widened to embrace any article in place of the few selected articles now specified in the law. Profit from onshore activities will continue to be liable at 10 percent. Liability to ESC will be on FOB at 0.1 percent rate.

### **24. Jewellery Industry**

The taxation strategy has to be reformulated to transform the gem and jewellery industry to generate high value addition, employment, foreign exchange earning and government revenue. Therefore, the Port and Airport Levy (PAL) on gems, diamond and gold will be removed. VAT on jewellery will be reduced from 20 percent to 5 percent. A 15 percent CESS will be imposed on importation of jewellery. An annual registration fee of Rs. 5,000 will be imposed on jewellery manufacturers in order to support technology development for the manufacture of high value items. ESC of 1 percent will be applicable for local jewellery manufacturers. In the case of exporters of gems, diamond and jewellery, the 1 percent ESC will apply only on the value addition.

### **25. Apparel Industry**

Sri Lanka's apparel industry is expected to raise its exports to US\$ 5 billion by 2010. Further, there is a considerable potential to establish backward linkages to textile processing and thereby increase domestic value addition. Two large Textile Processing Zones at Thulhiriya and Horana targeting investments of about US\$ 300 million in textile processing are now being developed. In order to boost this industry further, I propose to reduce the ESC in respect of all textiles, apparel manufacturers and trading houses to 0.1 percent. In order to discourage unnecessary and poor quality imports of garments, local sales by garment manufactures will be encouraged subject to a payment of a consolidated duty inclusive of CESS, of Rs. 25 per piece on their local sales.

## **26. Leather Industry**

Local leather industry has a vast export potential and enjoys same prospects that the apparel industry enjoys in the global market. Therefore in order to encourage leather and related industries in Sri Lanka, all material imported for processing and manufacturing of leather and leather products will be exempt from import duty and VAT. Further, advanced machinery and equipment identified for this industry will also be made duty free. In order to overcome under-invoicing problems and channel funds for required research and other services to the industry, the CESS on imported shoes will be raised to Rs.300 per pair.

## **27. Reopening of Closed Factories**

Due to variety of difficulties, several private factories located in backward areas have remained closed for the past several years. Approximately about 30 - 40 of such factories can be revived and enabled to provide about 10,000 jobs in such areas. In order to revive these factories, I propose to grant Rs. 2,000 million to Lankaputra Development Bank which will in turn provide either equity or debt to such factories on the basis of a solid restructuring plan. Their tax liabilities, provident fund and gratuity payments should be settled first. Financial assistance will be provided for immediate working capital requirements. Existing debt will be restructured to provide debt relief. Such industries will also be given a 3 year tax-holiday and an exemption from ESC for the same period. The land title of these factories will be suitably converted into long-term leases so that such factories could commence operations with a clear title. Priority will be given to revive all closed garment factories with employment potential in excess of 200 in each factory.

## **28. Shipping Industry**

Sri Lanka being an island nation and depending heavily on international trade has prospects to promote shipping as a thrust industry to generate foreign exchange earnings, employment and promotion of logistic services. Therefore, I propose to remove import duty applicable for ships registered under the Sri Lankan flag. VAT and other

levies on chartering of vessels will also be removed. Stamp duty on ship mortgages will be removed. Remuneration of Sri Lankan seafarers will be exempt from income tax. Depreciation allowance for ships will be increased to 1/3 and restrictions on offshore borrowings will be removed.

### **29. Promotion of Nanotechnology**

The application of nanotechnology will improve competitiveness in textiles, rubber, ayurvedic medicine, electronics, minerals and raw material. Therefore, a nanotechnology institute and an associated nano-science park will be set up as a public-private partnership project under the overall supervision of the National Research Council. The Government spends about Rs. 2 billion for research and development through various research institutes. Allocations have been increased in the 2007 Budget to promote research and development in the country. National Research Council will coordinate all these research institutes and supervise their budgets to ensure that funds allocated for research will be utilized on national priorities.

### **30. Stipulated minimum Salaries for Overseas Employment**

Minimum salaries prescribed for Sri Lankans leaving for overseas employment for the first time remain grossly inadequate. Foreign Employment Bureau together with vocational training institutes and other skills development agencies will be required to accelerate skills development programmes for those Sri Lankans leaving for overseas jobs to ensure that they will secure employment with a minimum monthly income of Rs. 50,000 (US\$500), within the next three years. As a first step the minimum stipulated salary for employment abroad next year will be fixed at Rs. 25,000 (US\$250). All employment agencies will be required to comply with this requirement.

### **31. Provincial High Court Infrastructure**

The government proposes to expand provincial high courts with appellate jurisdiction. Accordingly, 3 model high courts with modern technology will be setup in Homagama, Nuwera Eliaya and Dambulla to give expeditious redress to litigants and avoid laws delays. Phase II of the Legal Reforms Project is being finalized to sustain extensive legal reforms.

### **32. Presidential Task Force on National Productivity Improvement**

Sri Lanka's economic development requires considerable improvement in productivity. In order to address various factors lowering productivity of our people, I propose to set up a Presidential Task Force for National Productivity Improvement. This task force will first identify the obvious constraints and address them on a priority basis. The task force which will work closely with Trade Unions industry representatives, will be given full authority to remove impediments on productivity improvements.

### **33. Negenahira and Ruhunu Reawakening**

Mr. Speaker, we all know that development since 1977 has been concentrated in the Western Province. We need to change this. Urban Development Authority and the Board of Investment (BOI) have already finalized an infrastructure development plan for Trincomalee as an Investment and Tourist Zone and will provide risk guarantees, tax exemptions, foreign exchange and other incentives to attract investment. Trincomalee harbour will be used for activities associated with domestic commercial cargo to ease the pressure on the Colombo Port. A new coal power plant has already been negotiated as a joint venture between India and Sri Lanka. Civil work of the Greater Dambulla Township programme is ready to commence. A new dedicated economic centre with all marketing and storage facilities will be setup in Vavuniya and be linked with the Dambulle dedicated economic center. The Weerawila Air Port, Hambantota port, International Convention Centre, Southern Expressway, the new railway line and investment zone will provide required impetus to Ruhunu Reawakening.

## **IV. Public Service**

### **1. National Salaries Policy**

The absence of a national wages policy has led to anomalies and discrepancies in salaries, causing disputes. In order to resolve these issues, in 2006 initial steps were taken towards introducing a new national salary structure on a 1: 4.2 ratio to the public service. Salary scales were regrouped and reduced from 126 to 37. A performance based promotion procedure has also been worked out. Work is in progress in respect of

resolving remaining discrepancies including the problem of stagnation at maximum salary points. Anomalies in the increments structure are also being addressed to ensure that the salary ratio of 1: 4.2 will not be distorted. A comprehensive salaries policy based on a standard occupation classification and linked to the growth of GDP is being worked out. A recruitment policy based on examinations will be formulated in order to have a uniform system of recruitment at national as well as provincial levels. Human resource capacity of salaries and cadre committee will be increased to be able to resolve issues expeditiously.

## **2. Salaries to Public Servants**

Mr. Speaker, I offered a generous package for public servants including employees in Armed Forces and the Police, in the last Budget. The package included a Rs. 1,000 per month initial cost-of-living allowance and consequential adjustments subject to a limit of Rs 375 for each six month period and an incentive payment equivalent to a maximum of one month's salary for unutilized leave. 50 percent of the proposed increase, based on the new salary structure was granted. Salary revisions of statutory agencies will also be done by December 2006. I now propose to implement the balance increase effective from January 2007. Cost-of-living adjustment for the second half of 2006 and the first half of 2007, and leave encashment subject to stipulated limits will also be granted in 2007. Budget estimates have provided for these increases and accordingly the total cost of wages will increase to Rs. 196.7 billion and pensions to Rs. 68.2 billion.

## **3. Distress Loans to Public Servants**

Under the present system, distress loans are given on the basis of the 2004 salary structure. However as a matter of policy, starting from 2007, distress loans will be granted on the basis of the salary structure of the respective year. However, in order to ensure that the lower ranking employees as well as first time applicants will get benefits, I propose that distress loans be given to those employees who have not got any distress loans before and subject to a maximum limit that Government can afford. I also propose that a fresh distress loan should be given only after 2/3<sup>rd</sup> of the existing loan is settled. Employees in security forces, Police, education and health will be given priority since a large number of employees in such institutions have not so far benefited from distress loans.

#### **4. Pensioners**

I granted a allowance of Rs. 500 to all pensioners with adjustments every six months. Accordingly, they are now getting a cost-of-living allowance of Rs. 687.50 per month. This will be increased again by Rs. 375 in January and July next year. The balance arrears payments to those who retired before 01.01.1997 will also be given in 2007.

#### **5. Graduate Employment**

The last year Budget proposed to recruit 10,000 graduates to fill vacancies in various Government agencies. Out of this 3,000 graduates have been recruited through a proper recruitment procedure to Government agencies such as the Inland Revenue Department. The Government has also identified about 8,000 vacant positions in teaching, planning and in extension services available in schools and divisional secretariats located in remote areas. Area specified appointments will be given in 2007 as trainees for a period of 2 years at a Rs. 7,500 monthly salary and confirmation will be made on the basis of the normal salary. They are required to complete 5 years of services in the appointed place. Unemployed university graduates will be given priority.

### **V. Welfare**

#### **1. Estate Community Welfare**

Mr. Speaker, in my last Budget, I proposed to improve estate roads and housing. These programmes will be expanded in 2007. The proposed vocational training college at Nuwara Eliya will be operationalized in 2007. In order to upgrade estate community health conditions, I propose to upgrade all health centers in the estate sector as a special project under the Ministry of Health. I also propose to distribute rice flour at a subsidized price to the estate community.

#### **2. Welfare of Displaced Persons in Unsafe Areas**

Special programmes focusing health and nutritional standards of displaced persons in unsafe areas, particularly targeting women and children will also be implemented.

#### **3. E-villages**

I propose to develop e-villages in selected rural locations as a pilot project to popularize computer usage to promote access to information to people living in distance locations.

## **VI. Religion & Culture**

### **Promoting Religious Values**

Mr. Speaker I have dealt with the economy, business and finance so far. No economic development will be meaningful unless we preserve and promote our religious and cultural values. While the Government has taken drastic measures to curtail the consumption of liquor and the use of narcotics, the ultimate success of such measures depends on public awareness. Therefore I propose to select 1,000 temples as nucleus to promote awareness in the community to discourage such habits. The enhancement of communication and teaching skills of teachers providing religious education will be undertaken to promote religious education through in-service training. .

Mr. Speaker there is quite a large number of Buddhist Tamils living in and out of Sri Lanka particularly in India. Teaching of Buddhism will be extended to such communities and promoted among Buddhists in other ethnic groups. I also propose to setup an International Institute for Buddhist Studies to promote international interest on Buddhism and Buddhist culture, with the assistance of donor funding. Land and local logistics will be provided by the Government. Sri Lankan heritage will be preserved through special programs.

30. Mr. Speaker, revenue and expenditure implications of my proposals are given in Annexure II and the technical details of revenue proposals which will be incorporated into the relevant statutes through enabling amendments are given in Annexure III. A list of documents that I am tabling with my speech today is given in Annexure IV. Final Budget Outturn is given in Annexure V. A resolution will be submitted to the Parliament to recognize the Post-Tsunami medium term fiscal framework. The final budget outcome indicates that there is a small surplus in the revenue account and confines the deficit to 7.2 percent of GDP. With special DBT projects, we must attempt to have at least 8 percent of GDP for overall public investment in 2007. The country at present is blessed with favorable weather and all reservoirs are spilling. These are indications of another year of successful agriculture. I have also offered several incentives through this Budget to provide a further stimulus to SMEs, industries and services. Several large infrastructure projects are under construction. They will pave way for

rapid development. Budget itself has been designed to reduce inflation to around 9 percent and sustain a growth in GDP at 7.5 percent.

#### *Section IV*

#### **Conclusion**

31. Mr. Speaker, our challenges are formidable. The global economic environment is volatile. The oil prices remain vulnerable and risks are high. Inflation is high. National security cannot be compromised. The development of much needed infrastructure can no longer be delayed. Therefore the Government, the private sector and the Trade Unions must make some sacrifices to overcome these challenges. I recall the day that I laid the foundation stone of the international stadium at Homagam. When I mentioned that the cost-of-living is high, the spontaneous response from the crowd was that they would bare it, and that I should look after the county. I believe that this is the shared view of the majority of our people. The message is that the majority is ready to make sacrifices in the interest of the country. I make a special request from Sri Lankans living abroad to make their contribution too, to the motherland at least by choosing Sri Lanka as a destination for their savings. As meant by Gama Naguma - *Gathe Saviya, Mage Rate Nangweema Sandaha, Gunagaruka Samajayakata Mangpeth Vivarakaramu*; is our way forward.
32. Mr. Speaker, many people contributed to formulate this Budget. Instead of engaging in mere criticism, several political parties also submitted their proposals. People from various parts of the country as well as several organizations expressed their views. Trade Unions, Trade Chambers and professionals not only submitted written proposals but also participated in intensive discussions to exchange views. I thank each one of them for their participation in this consultative process. I thank the entire team of officials who worked hard in preparing comprehensive material for the presentation of this Budget. I thank my Deputy Minister and the Secretary to the Treasury for their wholehearted assistance, to discharge my responsibilities as the Minister of Finance at a most difficult and challenging time of our history. Mr. Speaker I thank you, and your staff, for providing the necessary facilities to present this Budget

◀~ Thank you ~▶

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## Progress on the Implementation of Budget Proposals - 2006

### (1) Revenue Proposals

Proposal	Implementing Agency	Progress
<b>Value Added Tax</b>		
<b>VAT exemption on:</b> milk processing machinery, machinery and technology for handloom manufactures ,yarn and dyes, construction machinery and equipment , rice milling machinery, plant and machinery by a company setting up a new undertaking in any districts other than Colombo, fulfilling the criteria specified in section 20 of IR Act ,ships registered under Sri Lanka flag, computers and accessories, services provided by Tower hall foundation and central cultural Fund, high protein high energy agro foods manufactured in Sri Lanka out of grain cultivated in Sri Lanka, unprocessed timber logs, supply of goods imported under VAT 5% rate ,media equipment or motor bicycles for the use of media personnel,	Ministry of Finance and Planning	Implemented
<b>Ø VAT rate reduction on:</b> locally manufactured medicated soft drinks from 20% to 15%,	Ministry of Finance and Planning	Implemented
<b>VAT rate increase on:</b> financial services from 15% to 20%, Markup on the CIF for charging VAT at customs from 5% to 7%,	Ministry of Finance and Planning	Implemented
<b>Ø</b> Maintain a dedicated account with Central Bank to 10% VAT on inputs will be regulate credit.	Ministry of Finance and Planning	Implemented
<b>Ø</b> Reduce the exporters VAT refundable period from 30 days to 15 days in relation to those who back their refund claims with a bank guarantee/ an insurance bond for others increased to 45 days	Ministry of Finance and Planning	Implemented
<b>Ø</b> Establish a VAT refund system at the B.I.A. (if claim is in excess of US\$. 100)	Ministry of Finance and Planning	Not implemented
<b>Ø</b> Require all registered persons to pay VAT on a monthly basis subject to final adjustment being made with the return at the end of the relevant taxable period.	Ministry of Finance and Planning	Implemented
<b>Ø</b> Input and intermediate goods manufacturers supplying to non traditional exports oriented companies including apparel manufacturers registered with the Textile Quota Board/EDB be brought under the suspended VAT scheme with a facility to import raw materials as well as capital goods on a deferred VAT basis. Capital goods received by exporters will also be subject to the deferment of VAT at the point of import.	Ministry of Finance and Planning	Implemented
<b>Income Tax</b>		
<b>Ø Income Tax Exemption on :</b> The Tower hall foundation, Central Cultural Fund, Charitable organizations managing elderly homes, children's homes and homes for differently able persons, from all income taxes including withholding tax on interest income; profits from processing agricultural primary produce, Removal of 15% tax on income from export of processed agriculture products such as fruits, vegetable, rice cut flowers, foliage plants and organic agricultural produces, income of a new undertaking by a company in any districts other than	Ministry of Finance and Planning	Implemented

Proposal	Implementing Agency	Progress
Colombo, Gampaha fulfilling the criteria specified in section 20 of IR Act, any establishment in Colombo and Gampaha district if relocated in any other district, annuities purchase by retirees, Professional services extended by Sri Lanka professionals outside or inside Sri Lanka for foreign currency, foreign currency earnings from investing on medium term treasury bonds by professionals, International events		
Ø <b>Income Tax Rate Reduction:</b> Corporate income tax rate on corporative societies from 20% to 5% and on SME s of which taxable income does not exceed Rs. 5 Mn. from 20% to 15%, 15% income tax on companies offering professional service for foreign currencies, 15% rate for profits from transshipment agency fees received in foreign currency by shipping agents approved by Director of Merchant of Shipping	Ministry of Finance and Planning	Implemented
Ø <b>Income Tax Rate Increase:</b> Corporate income tax rate on companies which taxable income exceeds Rs 5 Mn. to be increase to 35% while newly quoted companies will be 33 1/3 for first 5 years, Corporate income tax rate on income and profit from the businesses of gaming and auto lotteries will be fixed at 40%, personal income tax new slab of Rs.500,000 for 30% rate band and the balance income taxed at 35%, Changes introduced with respect to personal income tax for non citizen employees employed in Sri Lankan companies	Ministry of Finance and Planning	Implemented
Ø <b>Other Measures :</b> Incorporating a legal basis to enforce the arms lengths principle and adjustments to reduce thin capitalization, Taxation of certain non resident companies, 10 % tax on interest income for an individual treated as a final tax ,Treating the interest from corporate debt securities similarly to interest from bank	Ministry of Finance and Planning	Implemented
Ø <b>Tax Administration :</b> Delegation of Authority, Time Bar on Income Tax, Acknowledgement of Appeals	Ministry of Finance and Planning	Implemented
Ø <b>Tax Compliance :</b> Acceptance of Returns, Incentives for good Tax payers, Rewarding Compliant Taxpayers	Ministry of Finance and Planning	Implemented
Ø <b>Enactment of a new Inland Revenue Act</b>	Ministry of Finance and Planning	Implemented
Ø <b>Establishment of a Tax Academy</b>	Ministry of Finance and Planning	Several locations have been identified for prequalification
<b>Import Duty</b>		
Ø <b>Import Duty exemption on:</b> machinery and technology for handloom manufactures, media equipment/motor bicycles for the use of media personnel, milk processing machinery, all categories of paper under 15% duty, construction machinery and equipment, rice milling machinery, plant and machinery by a company setting up a new undertaking in any districts other than Colombo, Gampaha fulfilling the criteria specified in section 20 of IR Act,. artificial limbs crutches, hearing aids and other appliances use in the case of disability	Ministry of Finance and Planning	Implemented
Ø <b>Import Duty reduction on:</b> musical instruments, Three wheelers tyres and Imported Cans , removing anomalies by reducing duty on printing material, Investment limit under advanced technology package for duty waivers reduced to Rs.2 Mn.	Ministry of Finance and Planning	Implemented

Proposal	Implementing Agency	Progress
Ø <b>Other Measures</b> : Introduction of specific duties for selected items	Ministry of Finance and Planning	Implemented
<b>Economic Service Charge</b>		
Ø <b>ESC Exemption</b> : Government institutions	Ministry of Finance and Planning	Implemented
Ø <b>ESC Reduction on:</b> tea, rubber and coconut processing factories from 1% to 0.25%	Ministry of Finance and Planning	Implemented
Ø <b>ESC Increase on:</b> Ceiling on total ESC payable by any entity increase from Rs. 50 Mn. to Rs. 60 Mn. , Reduction of threshold for liable turn over to Rs.40 Mn.	Ministry of Finance and Planning	Implemented
Ø Changing the base of liable turn over to current year, permitting to setoff ESC against any Income Tax,	Ministry of Finance and Planning	Implemented
<b>Social Responsibility Levy</b>		
Ø Increase SRL from 0.25% to 1%	Ministry of Finance and Planning	Implemented
<b>Film Levy</b>		
Ø Imposition of levy on foreign tele-drama/foreign film other than documentaries of educational interest and foreign commercials	Ministry of Finance and Planning / Ministry of Media	Implemented
<b>Port and Airport Development Levy</b>		
Ø <b>PAL exemption on</b> : Import of items used for exports.	Ministry of Finance and Planning	Implemented
Ø <b>PAL increase on</b> : Import of items other than imports used for exports from 1.5 % to 2.5%	Ministry of Finance and Planning	Implemented
<b>Stamp Duty</b>		
Ø Re-introduction of stamp duty in respect of certain instruments and documents	Ministry of Finance and Planning	Implemented
<b>Betting and Gaming Levy</b>		
Ø Increase of Betting and Gaming Levy on live telecast centers to pay Rs. 300,000 each and non-live telecast centers to pay Rs. 50,000 each.	Ministry of Finance and Planning	Implemented
Ø Relocation of gaming centers in designated areas within a period of 3 years	Ministry of Finance and Planning	The Bill has been placed before the Parliament
<b>Excise Taxes</b>		
Ø <b>Excise Tax increase on</b> : Hard liquor by Rs.15/ proof Ltr., Malt liquor by Rs.5/ Ltr., increase in the annual license fee applicable for outlets engaged in retail trade of liquor,	Ministry of Finance and Planning	Implemented
<b>Excise ( Special Provision) Tax reduction on :</b>		
Ø <b>Excise ( Special Provision) Tax reduction on</b> : Mobile phones , motor bicycles , locally assembled new motor vehicles which will qualify under FTA arrangements and ensure 30 % domestic Value addition.	Ministry of Finance and Planning	Implemented
<b>Ø Excise ( Special Provision) Tax increase on : cigarettes</b>		
<b>Cess</b>		
Ø Rate revisions on certain imported commodities	Ministry of Finance and Planning	Implemented

*Source: Fiscal Policy Department*

## (2) Development Proposals

Budget Proposal	Implementing Agency	Present Status
<b>Religious Development</b>		
* Annual book allowance to every religious/dhamma school teacher	My.of Religious Affairs	Book allowance is being scheduled to be granted for 75,000 dhamma school teachers by end November 2006. Rs. 61 Mn. is allocated.
* Conservation and rehabilitation of temples, kovils, mosques and churches of significance.	My.of Religious Affairs	83 temples and 12 churches have been rehabilitated at a cost of Rs. 50 Mn.
<b>Art &amp; Culture</b>		
* Setting up of a Kala Nikethanaya	My.of Cultural Affairs & National Heritage	Department of National Planning has recommended the project proposal and architectural design is to be finalized.
* Construction of National Film Academy with UNESCO assistance	My.of Cultural Affairs & National Heritage	Ministry has to submit the revised project proposal to the My.of Finance and Planning to seek Donor assistance.
* Modern Performing Arts Theatre in Colombo with assistance from the Government of China	My.of Cultural Affairs & National Heritage	Final design has been submitted to the Designing Committee for approval.
<b>Media Personnel</b>		
* Concessionary credit facilities for media personnel to purchase computers, media equipments, motor bicycles	My.of Media & Information	Arrangements through the People's Bank are being made to provide concessionary credit facilities to purchase computers, media equipments, motor bicycles for media personnel .
* Financial assistance for young journalists to develop their professional skills	My.of Media & Information	7 workshops were conducted with the participation of 1,200 journalists. Eligible journalists have been selected for the long term training.
<b>Nutritional Meal Programme for Mothers &amp; Children</b>		
* Free nutritional food (Poshana Malla) to expectant mothers	My.of Samurdhi & Poverty Alleviation (with direction of the My.of Healthcare & Nutrition)	Poshana Malla' worth of Rs. 500 in being provided to 79,800 expectant mothers in 119 DS divisions.
* Medical advice and related services at rural hospitals for expectant mothers	My.of Samurdhi & Poverty Alleviation	Steps have been taken to print 100,000 leaflets with relevant medical advice at a cost of Rs. 10 Mn.
* Monthly allowance of Rs. 200 to purchase milk for children up to 5 years of age	My.of Samurdhi & Poverty Alleviation	Programme has been formulated to provide a glass of milk to children aged is between 2 to 5 years. 10 DS Divisions are covered by the programme targeting 40,000 beneficiaries. The Department of Samurdhi has already issued stamps among the identified beneficiaries.
* School meal programme for children in less advantaged schools	My.of Education	Implemented in 6287 schools covering 301,578 children in Grade 1 & 2 and schools with less than 100 students. Rs. 463 Mn has been spent.
* 'Senehasa' bank account	My.of Child Development and Women's Empowerment	683 accounts have been opened at People's Bank and Rs. 8 Mn has been credited to the accounts.
<b>Concessions for Homes for Children/Elderly and Differently able Persons</b>		
* Financial aid to assist elderly homes and homes for differently able persons to be refurbished	My.of Social Services and Social Welfare	Tenders awarded and construction work has been started in 7 elderly homes. Tenders awarded for 15 homes for differently abled persons and 7 homes are under construction. Rs. 13 Mn. has been spent.

Budget Proposal	Implementing Agency	Present Status
* Establishment of 'Rakawarana Niwasa'	My.of Social Services and Social Welfare	Rs. 10 Mn. has been reallocated to implement the project in Jaffna.
* Increase of allowance granted to differently able persons	My.of Social Services and Social Welfare	Rs. 5 Mn. has been reallocated to implement the project in Jaffna.
* Financial aid to assist children's homes to be refurbished	My.of Child Development and Women's Empowerment	Construction work completed in 2 children's homes in Western Province. 9 children's homes in other provinces are under construction. Rs. 5 Mn. has been spent.
<b>Quality health system</b>	My.of Healthcare & Nutrition	Out of 17 identified hospitals construction work of 15 have been started. Tenders have been called to procure 10 vehicles. Rs. 520 Mn. has been spent.
<b>Livelihood development through Samurdhi</b>		
* Provision of Rs. 10 million per Divisional Secretariat area		6,567 rural infrastructure development projects are being implemented under this programme. Out of them, 707 projects have been completed at a cost of Rs. 1503 Mn.
* Concessionary loan to Samurdhi Development Officers (SDO) to purchase motorcycles	My.of Samurdhi & Poverty Alleviation	Motor bicycle loans at a concessionary interest rate, are being provided to 23,000 SDOs through the People's Bank and Bank of Ceylon.
* Increase of Samurdhi monthly allowance by 50%		The increased allowance is being paid in 113 DS divisions. Rs. 8,089 Mn has been paid.
* Increase death assistance & child birth allowance and strengthen Samurdhi Sahana Arakshana Fund		Proposals are being smoothly implemented from December 2005 under the "Social Security Fund".
<b>Yovun Diriya</b>		
* Recruit 10,000 graduates during 2006 to fill expected vacancies in skills categories in various Government organizations	Entire Public Sector	250 officers have been recruited to the Sri Lanka Administrative Service. 536 Assessors and 544 Tax Officers are to be recruited to the Department of Inland Revenue. 116 Statistical Officers, 14 Statisticians and 21 Senior Statisticians are to be recruited to the Department of Census and Statistics.
* Accredite skills providers	My.of Vocational & Technical Training	A scheme has been implemented to accredit skills providers in masonry, carpentry, electrical, plumbing and other technical fields. Action has been taken to compile a directory that provides information of accredited skills providers. Steps are now being taken to upgrade Beliatta and Weeravila Technical Colleges and to establish Vocational Training Centers at Mirijjawila, Katuwana, Gannoruwa, and Padukka . Rs. 53 Mn. has been spent.
<b>Foreign Employment</b>		
* Special training programmes in nursing and shipping for foreign employment	My.of Labour Relations & Foreign Employment My.of Healthcare and Nutrition	The Ministry has planned to commence the nursing training for the first batch of 100 students at the temporary training center at Nugegoda from Mid December , 2006. Training modules have been developed. The practical training is to be provided at the Colombo South Teaching Hospital at Kalubowila.
* Special training programmes in computer science for foreign employment	My. Labour Relations and Foreign Employment	Foreign Employment Bureau (FEB) has discussed with the National Apprenticeship and Industrial Training Authority (NAITA), Vocational Training Authority and the National Institute of Business Management about conducting of a suitable course in IT for the youth targeting foreign employment.

Budget Proposal	Implementing Agency	Present Status
<b>Estate Infrastructure Development</b>		
* Rehabilitation of estate roads (8000 km)	My.of Estate Infrastructure & Livestock Development	Tenders have been awarded for rehabilitation 614km roads. Work is in progress. Rs. 420 Mn. has been spent.
* Development of 50,000 housing units in the estate sector (of which 4800 houses in 2006)	My.of Estate Infrastructure & Livestock Development	Construction of 10,530 houses has been started 4,132 houses were completed at a cost of Rs. 470 Mn.
* Setting up of vocational training college in Nuwara Eliya	My.of Vocational & Technical Training	Part of the N'Eliya old Kachcheri building has been taken for this purpose.
* Feasibility of setting up a University in Estate Sector	My.of Estate Infrastructure & Livestock Development	to be implemented
<b>Urban Housing Development</b>		
*Setting up of an Urban Housing Development Corporation and implementation of dedicated housing development programme for urban shanty dwellers (60,000)	My.of Finance & Planning	Established the project unit. Issued tender documents. Project work is in progress. Rs. 15 Mn. has been spent.
<b>Agriculture</b>		
* Fertilizer Subsidy - Provide fertilizer of all varieties at Rs. 350/- per 50 kg bag. Provide Uria at a subsidies rates for small holding plantation sector.	My.of Agrarian Services & Dev.of Farmer Communities & Dept.of Agricultural Development	Rs. 10,620 Mn. has been spent. 114,327 MT of fertilizer has been issued during the Yala season.
* Seeds - Development of Horana, Seetha Eliya, Girandurukotte and Labuduwa seed farms and Maha-Illuppallama Field Crop Research Institute	Dept.of Agricultural Development	Purchased 40,000 Bu of seed paddy, 64 tons of seeds of Other Field Crops & 10 tons of vegetable seeds. Rs. 20 Mn. has been spent.
* Re-establishment of Paddy Marketing Board (PMB)- Revolving Fund	Dept. of Treasury Operations	Revolving Fund was established on 13th September 2006. Rs 680 Mn. has been spent.
* Establishment of dedicated agricultural product zones for Mangustin, Orange, Durian, Papaya, Rambutan and Pineapple	Dept.of Agricultural Development	Crop zones have been started to develop for Durian, Mangos teen, Rambutan, Banana, Pineapple, Kiriala. Jack processing programme has been started at the Food Research Unit, Gannoruwa. Rs. 8 Mn. has been spent.
*Quality Improvement in Agriculture		
- Multi Purpose Irradiator Plant	My.of Science & Technology	Tender Committees have been appointed, Contract awarding letter has been issued for site clearance. Geological Survey Beareau does soil testing.
- Promote packaging methods and transportation for the reduction of post harvest losses	Dept.of Agricultural Development	Introduced 4,750 plastic crates. Established 10 vegetable/fruit processing villages. Established field extension centers on post havest technology at Keppetipola & Walawe Left River Bank. Rs. 2 Mn. has been spent.
- Implementation of a National Organic Standards and Certification Programme	Dept.of Agricultural Development Export Development Board	Monitoring of organically grown vegetables for pesticide residues is in progress. Two validation methods have been developed and two sampling sites have been identified. Action has been taken to improve pesticide testing laboratory. Rs. 6 Mn. has been spent. Project Commenced on 01 May 2006. Preliminary visits by consultant completed. Baseline survey completed. Project Advisory Council and Steering Committee appointed. Two awareness programmes were conductd in Kandy and one workshop held at Lunuwila .

Budget Proposal	Implementing Agency	Present Status
<b>Plantation Industry</b>		
* Set up a Rs. 10 billion revolving fund for plantation agriculture	My.of Plantation Industries	Department of Public Finance has directed the Ministry to prepare a proposal regarding the revolving fund to form a trust fund. Draft Trust Deed has been distributed among the stakeholders for comments.
* Develop excess urban land and property owned by the Plantation Ministry on a commercial basis, to ensure a regular flow of funds to the revolving fund	My.of Plantation Industries	Attorney General's opinion was requested on the current lease agreement with Janatha Estate Development Board and the lease holders.
* Development of Coconut Cultivation in Mahaweli areas, Galle, Matara, Hambantota, Gampaha, K'negala & Puttlam Districts	My.of Cocunut Development	Issuing of seedlings was completed. Cultivated extent is 4,370 AC. 16,757 M.T. of fertilizer has been issued. Rs. 25 Mn. has been spent.
* Development of 20,000 hectares of rubber plantation in the Monaragala district	My.of Plantation Industries	Applications were received for 1,375 ha. Tender is in progress for construction of nursery building & Monaragala office. Land preparation for budwood nursery was completed. Rs. 14 Mn. has been spent.
* Commence work at Kantale and Hingurana Sugar Factories.	My.of Plantation Industries	Cabinet Sub Committee is at Non Functional State Enterprises has decided to hand over Kanthale Sugar Industries Limited to Sri Lanka Army for development. PERC is expected to proceed on these lines.
* Establishment of High Yield seed clone gardens in Maha Oya, Anuradhapura, Moneragala and Introduce new auctions in Puttlam and Vavuniya	My.of Plantation Industries	Lands have been identified for seed gardens. Survey on Maha Oya lands was completed and discussion is going on with the Department of Forest Conservation regarding land ownership. Contract of the survey on Monaragala lands has been awarded. Clearing was started on lands at Nalanda. Earth work was completed on Mahawillachchiya. Auction scheme has been prepared. Rs. 14 Mn. has been spent.
<b>The Mahaweli Economy</b>		
* Implementation of a special SME credit scheme dedicated to 500 SMEs in the Mahaweli area to create high-tech export oriented agro-processing industries including high quality rice milling	My.of Agriculture, Irrigation and Mahaweli Dev.	An agreement has been signed between Mahaweli Authority of Sri Lanka (MASL) and the SME Bank on 10.11.2006. Out of selected 11 entrepreneurs by MASL, 7 have been selected by SME Bank to offer loans. Rs. 50 Mn. has been spent.
* Greater Dambulla Township Development Programme	My.of Urban Development	Development Plans are prepared for the five towns of Galewela, Madatugama, Habarana, Naula & Seegiriya. The Overall Greater Dambulla Development Plan is developed. Site is cleared for the 'Gammedda', community center and the construction of collecting centers & stores are to be done by the village committee. Access road (7 km) improvement is being done and will be constructed 3 culverts. The parallel access roads to the proposed BOI cold stores project issues are cleared.
<b>Fisheries Sector Development</b>		
* Shifting of St. Jons Fishing Market Complex to Peliyagoda	My.of Fisheries & Aquatic Resources	Soil testing has been done. Design & supervisory part was submitted to a architectural company. Land acquisition is going on. Rs. 62 Mn. has been spent.

Budget Proposal	Implementing Agency	Present Status
* Establishment of Fishing Promotion Fund	My.of Fisheries & Aquatic Resources	Under the Deep Sea Boats Programme 37 multi day boats have been constructed. 140 boats are being constructed. Under the Mother Vessels Programme. Tenders are called for 02 mother vessels. Technical Evaluation is in progress . Rs. 17 Mn. has been spent.

Budget Proposal	Implementing Agency	Present Status
* Setup an Ornamental Fish Exchange	My.of Fisheries & Aquatic Resources	The Ornamental Fish Exchange Centre opened on 3rd November 2006. Rs. 22 Mn. has been spent.
* Improvement of infrastructure in Puttlam district for shrimp farming and expand the industry in Batticaloa district	My.of Fisheries & Aquatic Resources	Out of the 18 km length of highly silted canal area at Mundalama North to Palaviya, 14 km work has been completed. Out of 7.5 km alternative canal from Madurankuliya to Palaviya, 500 m length is completed. Rs. 35 Mn. has been utilized.
<b>Textile Processing Industry</b>		
* Complete the ongoing textile industry debt-restructuring programme	Dept. of Development Finance	Textile loans of domestic textile manufacturing and processing companies transferred to the Textile Debt Recovery Fund of the Treasury, have been written off as a relief measure to the textile industry.
* Develop Thulhiriya as a dedicated textile processing zone	My. of Enterprise Development and Investment Promotion	An investment agreement between the MAS Capital Holdings & BOI was signed on 07.07.2006. The land lease agreement between the MAS Capital Holdings and BOI was signed on 30.07.2006.
* Develop Horana as a dedicated textile processing zone	My. of Enterprise Development and Investment Promotion	University of Moratuwa has been engaged in preparing the feasibility study. Re-construction activities are being done by BOI.
<b>College of Textile and Clothing</b>		
	My. of Enterprise Development and Investment Promotion	Thulhiriya site is being handed over to the MAS Capital Holdings Ltd. The Company will establish the Training Institute. Asian Apparel has taken over the complex and commenced development works. One company has signed agreement to set up an investment project.
<b>Set up a Regional Apparel Hub at Katunayake</b>	My. of Enterprise Development and Investment Promotion	A local architectural company has been requested to prepare the conceptual design proposal to call investment proposals.
<b>'Kantha Diriya' – Giftware and handloom Industry</b>		
* Handloom Industry	My.of Textile Development	466 handloom machines have been distributed and 842 machines have been reactivated. 465 trainees are undergoing training programme of weaving. 76 trainees have been attached to private sector. Rs.14 mn. has been spent.
* Giftware Industry	My.of Enterprise Development and Investment Promotion	Applications received were short listed and selected 60. Project visits and interviews were held. 30 SMEs were selected for the programme a Consultant was appointed. The first inaugural session to outline the programme is scheduled to be held in November.
<b>Promotion of Up-market Tourism</b>	My.of Tourism	To be implemented
<b>Printing and Packaging Industry</b>		
* Establishment of a packaging development center	Export Development Board	Action has been taken to strengthen the existing Packaging Center in place of establishing a new packaging development unit.
<b>Implementation of a concessionary credit scheme for private bus operators</b>	National Transport Commission	400 applications have been received by the National Transport Commission and those requests are under process.
<b>Gama Nagma – Community Based Development</b>	My.of Rural Livelihood Development	Two phases of the programme have been implemented in 46 villages giving priority for the 119 DS divisions. Third phase will be commenced in near future. Rs. 392 Mn. has been spent on roads & electricity development, and construction of buildings for Nenasala and Janasabha secretariats.

Budget Proposal	Implementing Agency	Present Status
<b>Renewable Energy for Rural Electrification</b>		
* Provide a Rs. 10,000 subsidy in respect of each new renewable energy connection provided to rural households	My. of Power and Energy	Energy Conservation Fund has submitted the project proposal to the National Planning Department for appraisal, after a number of discussions held with the relevant agencies.
* Float Renewable Energy Support Bond	My. of Power and Energy	Possibilities are being explored.
<b>Modernization of the Construction Industry</b>		
* Implantation of a Credit Guarantee Scheme to assist Construction Companies	My.of Finance & Planning	The proposal will be implemented through Lanka Puthra Development Bank.
<b>Set up “Lanka Puthra” Bank</b>	My.of Finance & Planning	The bank has been established and it is in operation. Treasury has provided the Initial Capital of Rs. 1500 Mn.
<b>Innovation Facilitation and Research and Development Network</b>		
* Set up a innovation facilitation network	My.of Enterprise Development & Investment Promotion	60 proto-type products were handed over to University of Moratuwa to make them at marketable level.3,300 Young Inventors Clubs have been formed. 112 awareness programmes were conducted. District exhibitions for schools were held covering all Districts except North & East. Rs. 21 Mn. has been spent.
* Promote scientific research and develop a network with other research institutions	President Office	Rs. 100 Mn. has been distributed among 30 researchers for research activities.
<b>Institute for international relations and strategic studies</b>	My.of Foreign Affairs	An institute has been established which is named after Hon. Lakshman Kadirgamar for this purpose. Training programmes are being conducted to improve the knowledge on diplomatic relations.
<b>Academy of Labour Relations</b>	My.of Labour Relations & Foreign Employment	The Ministry of Labour has finalized legislative and administrative arrangements to start the work of this center, linking it with the Workers Education Division of the Department of Labour. Academic and training modules have been prepared for certificate and diploma level courses. Ministry is looking for a suitable building at present to locate the Institute.
<b>Salaries of Public Servants</b>		
* Cost of Living Allowance	My.of Public Administration	Cost of living allowance (COL) is in operation for public servants under the P.A. Circular No. 06/2006 dated 25.04.2006 issued by the Ministry of Public Administration. This is subject to ammdments. Corporation sector employees are granted the COL by the Circular No. 27 & 29 issued by the Department of. Management services. In operation subject to change.
* Salary increase	My.of Public Administration	Public Servants' salaries have been increased by the Circular No. 06/2006 dated 25.04.2006 issued by the Ministry of Public Administration. Department of Management Services issued Circular No. 30 for Corporation Sector in this regard.
* En-cash a maximum of 30 days of unaveiled leave	My.of Public Administration	Leave encashment for public servants have been introduced by the Circular No. 10/2006 dated 06.06.2006 issued by the Ministry of Public Administration.
* Paternity leave	My.of Public Administration	Paternity leave has been granted by the Circular No. 06/2006 dated 25.04.2006 issued by the Ministry of Public Administration.

Budget Proposal	Implementing Agency	Present Status
Risk Insurance Scheme for specific categories of employees	My. of Health & Nutrition, Dept. of Wild Life Conservation, Dept. of Forests, Dept. of Railways	Relevant agencies has to implement the proposal.
* Formulate a Public Sector Occupational Classification	My.of Public Administration	Initial steps have been taken to formulate a Public Sector Occupational Classification.
* Setup dedicated wards in Government hospitals for public servants	My.of Healthcare & Nutrition	6 hospitals have been identified and the programme will be commenced in early 2007.
* Provide medical benefits for pensioners under the 'Agrahara' Insurance scheme	Dept.of National Budget	National Insurance Trust Fund Act, No. 28 of 2006 has provided necessary provisions.
* Housing loans to Police and armed forces	My.of Public Administration	In operation as per the P.A. Circular No. 08/2005 dated 24.01.2006 issued by the Ministry of Public Administration and amendment to the said circular No. 08/2005(iv) dated 26.04.2006.
* Raise public service housing loan to 7 years a level of salary	My.of Public Administration	Housing loan scheme is being implemented under the Circular No. 08/2005 dated 24.01.2006 issued by the Ministry of Public Administration.
* Implement a public servants' vehicle loan scheme through the banking system	My.of Public Administration	Vehicle Loan scheme is being implemented under the Circular No. 13/2006 dated 07.08.2006 issued by the Ministry of Public Administration.
* Vehicle permit	My.of Finance & Planning	Not yet finalized.
<b>Pensions</b>		
* Cost of Living Allowance for pensioners	Dept. of Pensions	In operation.
* Consolidation of the Interim Allowance to the pension and a 10 percent increase of the pension payment	Dept. of Pensions	Consolidation of the Interim allowance and the increase of pension payment have been made.
* Extend benefits provided through Pension Circular 06/2004 to those who have retired before 01.01.1997	Dept. of Pensions	Implemented. Payments are being made in respect of files cleared.
* relevant amendments to the W&OP Act permitting widows who wish to re-marry to continue to be eligible to receive their W&OP allowance	Dept. of Pensions	Action is being taken to effect this amendment
<b>Crime Prevention</b>		
* Promote community policing		
* New Police stations near commercial centers with sophisticated communication equipment and mobile facilities	My.of Defence, Public Security, Law & Order	175 Three Wheelers, 4 Double Cabs, 7 Buses, 6 motor cars, 2 vans & 18 Single Cabs have been purchased to the Dept. of Police. Special units for crime prevention have been set up in all Police Stations. Rs. 250 Mn. has been spent.
* Install an Electronic surveillance system in Colombo		
* Sea surveillance mechanism		
* Install an automated finger printing system		
<b>Integrated Disaster Risk Management Programme</b>		
* Disaster Risk Management Programme	My.of Disaster Management and Human Rights	6 projects are being implemented. Rs. 20 Mn. has been spent.
* Meteorological Surveillance Radar System	Dept. of Meteorology	Cabinet Memorandum is being prepared to purchase of Doppler Radar through World Meteorology Organization.
<b>Agrahara Insurance Trust (AIT)</b>	My.of Finance & Planning	National Insurance Trust Fund Act has been passed by Parliament on 29.08.2006. Activities are being implemented. Rs. 116 Mn. has been spent.

**Revenue Measures**

	<b>Rs Mn</b>
Changes in Income tax	1,500
Changes in VAT	2,700
Adjustments in CESS	1,200
Adjustments in Customs Duty and Removal of Duty waivers	2,500
Adjustments in Excise (Special) Provision Tax	1,250
Port and Airport development Levy	4,000
Regional Infrastructure Development Levy	1,600
Visa fee and revision of passport fees	1,200

### Expenditure Measures

	Rs Mn
<b>Recurrent Expenditure</b>	
2 percent cut on selected recurrent expenditures (object codes 1202,1205,1301,1401,1402,1403)	-900
5 per cent cut from the provisions for under performing enterprises	-1,000
Strict enforcement of risk based auditing	-1,100
Salary anomalies and related contingent expenditures	2,000
Special Welfare for mothers and children in unsafe areas	150
Estate community welfare	150
<b>Capital Expenditure</b>	
Elimination of duplication of capital projects and rechanneling to roads ,housing, irrigation, electricity and livelihood	-16,000
Savings from under expenditure and rollover of unspent provisions to next year	-25,500
Advance account provisions for government servants	1,000
E-village pilot project	100
Batalegoda Rice Research Institute	100
Lanka Puthra Bank	2,000
Provincial high courts	100
Enhancement of religious programmes	150
Presidential Task force for productivity improvement	50

**GROSS BORROWING REQUIREMENT - 2007**

	<i>Rs. billion</i>
Total receipts other than Government Borrowings	646
Total Payments	1,281
Risk provision	20
Total Gross Borrowing Requirements to be recorded in government accounts	655
Of which total Debt Repayment	336

Accordingly, borrowing requirement mentioned in the Appropriation Bill will be reduced from Rs 695 billion to Rs 655 billion

## **I. VAT**

### **1. Claim of input credit**

The following restrictions will be introduced with effect from 01.01.2007.

- (a) Input credit will be restricted to the input tax allowable for any taxable period or 85% of the output tax declared, for that taxable period whichever is lower.

The balance if any is allowed to be carried forward and claimed in the subsequent taxable periods subject to the same restriction.

However, the above restriction is not applicable

- to any supplier whose supplies are zero rated;
  - to any supplier who is registered with TQB or EDB for the supply of goods or certain services to exporters.
  - to any person who has registered under Section 22(7) of the VAT Act.
- (b) The 50% of credit for input tax now being allowed on motor vehicles used for travelling will be disallowed in full. The input tax on motor vehicles includes input tax on expenses such as purchase, insurance, repairs etc as well.
- (c) At present there is no time limitation for adjustments on 'Tax Debit Notes.' The adjustment of input tax on 'Tax Debit Notes' will be restricted to a 'Tax Debit Note' issued within 6 months from the date of the issue of the original Tax Invoice.

### **2. The following restrictions presently applicable to claim of input credit will be removed with effect from 01.01.2007.**

- (a) The restriction to 15% of the credit for input tax paid at the rate of 20%, will not apply in relation to raw-materials imported by any person for the manufacture of goods by such person if it is proved to the satisfaction of the Commissioner General that such goods so manufactured are exported by such person.
- (b) The present transitional adjustment of disallowing credit for input tax, already allowed on any taxable supply which subsequently becomes an exempt supply, will be removed.

3. Other Amendments:

- (i) The markup on CIF value on importation of goods will be increased from 7% to 10% with effect from 17.11.2006. The same markup is applicable to the calculation of Cess and Excise (Special Provisions) as well.
  
- (ii) Provisions will be made to withhold 1/3 of the VAT payable to contractors and any other service providers, on supplies made to government agencies.  
The amount withheld should be remitted directly to the Inland Revenue Department on the same day that the payment is made to the contractor. In this context Government agencies will include Ministries, Departments, Government Owned Business Undertakings, Public Corporations, Provincial Councils, Universities, the Board of Investment, State Banks, Projects funded by the Government and Institutions for which funds are provided from the Consolidated Fund.
  
- (iii) - Provisions will be made allowing every persons who is on the border of VAT threshold of Rs.1.8 m to pay 5% non-refundable VAT.
  - The scheme will operate on a voluntary basis.
  
  - Such persons can continue to pay 5% VAT until the turnover reaches Rs.2.5m or for a period of 3 years from the date of entering into this scheme, whichever occurs earlier.
  
  - Being a person not registered for normal VAT purposes, 'Tax Invoices' cannot be issued.
  
  - No input is allowed.
  
  - The option to enter the normal VAT system is available.
  
- (iv) Supply of locally manufactured handloom textile will be exempt from VAT.

(v) Lotteries

VAT Act will be amended to provide that any commission paid to any agent on the sale of tickets in respect of any lottery will be deducted when computing the value of supplies for the purpose of VAT.

The amendments [other than Item (i)] will take place with effect from 01.01.2007.

## **II. INSURANCE INDUSTRY**

1. When the profits and income of the business of insurance is ascertained, the life insurance and the other insurance will be treated as separate businesses. Any loss from one business of insurance can be set off only against the profits from that business.
2. It is mandatory for all insurance companies to do at least 50% of the re-insurance business with the National Insurance Trust Fund.

## **III. DISTRIBUTION OF CORPORATE PROFITS**

Where for any tax year commencing on or after April 1, 2007 the gross dividend distributed by any company is less than 25% of its distributable profits for that year, the company will be required to pay additional tax amounting to 15% of the excess of one-third of the distributable profits over the profits already distributed, if any.

The distributable profits for any year would in this context, be the after-tax profits for that year reduced by the excess of the cost incurred in that year, on the acquisition of land or other capital assets over the depreciation charged thereon.

## **IV. TAXATION OF SMALL COMPANIES**

1. Item 1 of Part B of the Second Schedule to the Inland Revenue Act will be amended to provide that the 15% rate specified therein will not apply in relation to any year of assessment commencing on or after 01.04.2007, if the company (referred to therein) is the holding company of any group of companies, of any subsidiary or any associated company of any group of companies. The 15% rate will continue to apply if the company is any other company.
2. ESC rate applicable to those Companies will be reduced from 1% to 0.5% effective from 01.04.2007.

## **V. BAD DEBTS AND SPECIFIC PROVISIONS FOR BAD DEBTS**

1. Income tax treatment on bad debts written off, will remain unchanged.
2. As regards provisions for specific debt of any Bank, Financial Institutions or any person providing services similar to such services provided by a Bank or Financial Institution, the Inland Revenue Act will be amended to provide that the deduction will be limited to the lesser of -
  - the actual amount of the provision, or
  - 1% of the loan debtor balance as at the end of the year.
3. As regards the provision for specific debts of other trades, businesses etc, the submission of a special audit report on such provisions will be made mandatory. When the Commissioner General makes his judgment as to the deductibility of the amount claimed, this report will also be taken into account, along with other relevant facts.

The amendments relating to that will be effective from April 1, 2007.

## **VI. ECONOMIC SERVICE CHARGE (ESC)**

The ESC Act No. 13 of 2006 will be amended to provide for the following:-

- (a) The threshold of relevant turnover at which chargeability arises, will be reduced from Rs.10 Mn to Rs. 7.5 Mn.
- (b) ESC is at present not chargeable in respect of turnover from certain trades, businesses etc, arising during the period of 3 years following the commencement of operation of such trade or businesses. Such 3-year non-chargeability will in the future apply only in relation to manufacturing industries.
- (c) The period for which any excess ESC paid, is deductible from income tax payable, will be extended from 3 tax years to 5 tax years.
- (d) The period available for making an ESC assessment for any quarter will be limited to 18 months from the end of that quarter.

(e) Where an assessment is issued without accepting the return furnished, the Assessor will be required to explain why the return is not accepted.

(f) Rate Changes

	<b>Turnover</b>	<b>Proposed Rate</b>	<b>Present Rate</b>
(i)	Exempt from income tax (including BOI enterprises)	0.25%	0.25%
(ii)	Liable at Concessionary rates (5 <sup>th</sup> Schedule)	0.5%	0.5%
(iii)	Wholesale and Retail		
	- other than distributors and traders of motor vehicles & liquor	0.25%	0.5%
	- traders of motor vehicles & liquor	0.5%	0.5%
(iv)	Distributor (as defined in the ESC Act)	0.05%	0.1%
(v)	Gem/Jewellery/Diamond (including BOI Companies)		
	(i) Manufacture and sale in Local Market	1%	1%
	(ii) Export	1%	.25%
	- Cutting & Polishing of Gems/Diamond	(on value addition)	(on the total value)
	- Jewellery	0.25%	0.25%
(vi)	Apparel (including BOI)		
	- apparel Exporters		
	- suppliers of locally manufactured textiles to apparel exporters		
	- trading houses approved by BOI and engaged in the export of apparel.		
	(i) If the turnover is FOB	0.1%	vary from 0.5% to 0.25% on the total turnover
	(ii) Other than FOB on the value addition (subject to Order published in Gazette)	1%	vary from 0.5% to 0.25% on the total turnover.
(vii)	Entrepot trade on FOB value of on-shore transaction	0.1%	0.5%
(viii)	Lottery, betting or gaming activity	1%	1%

(ix)	Liable to income tax on PART A and B (1) of the Second Schedule	0.5%	1%
(x)	Freight Forwarders on the value addition (as per the Gazette)	1%	1%
(xi)	From primary conversion of tea, rubber or coconut including desiccated coconut, coconut oil, coconut fibre, copra and sheet rubber excluding produce of any alcoholic beverages.	0.25%	vary from 0.5% to 1%
	Any other	1%	1%

(g) Exemptions

(i) Entrepot trade - Turnover from off-shore transactions.

(ii) Re-opening of closed factories - completion of 3 years from the re-opening.

These amendments will apply in relation to every quarter commencing on or after 01.04.2007.

## VII. TAXATION ON PARTNERSHIPS

1. Inland Revenue Act will be amended to provide a tax free threshold of Rs.600,000/- for partnerships.
2. If the divisible profit is more than Rs. 600,000/-, the 10% rate is applicable only on the amount in excess of Rs.600,000/-
3. When the divisible profit is distributed the full amount including the threshold be treated as the profit from the partnership.

## VIII. UNIT TRUST INDUSTRY

1. Section 13 {Paragraph (t) }of the Inland Revenue Act will be amended to enable unit trust to claim the exemption of profits from the sale of shares.
2. An Order under Section 5 of the Stamp Duty Act will be made to exempt documents for the issue or transfer of Units.
3. Amendments will be introduced to make unit trusts qualify for the 0.5% ESC rate.

## **IX. COLLECTION OF TAXES IN DEFAULT**

Section 173 of the Inland Revenue Act No. 10 of 2006 will be amended empowering the Commissioner General to waive the penalty accrued for non-payment of any amount of income tax for any tax year ending on or before March 31, 2005, if the defaulter pays that tax within a period of not more than 3 years in accordance with an installment plan to be agreed with the Commissioner General. Where the plan is not adhere to the tax with the penalty payable in full.

## **X. WITHHOLDING TAX ON INTEREST ACCRUING TO INDIVIDUALS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS**

The practice of withholding tax on interest from banks and other financial institutions has prevailed for nearly 20 years. Since of late, there has been some confusion both among the withholding agents and the depositors as to the circumstances in which deductions are to be made and more importantly on the tax threshold of Rs.300,000/-. Withholding agents also point out the need for simple procedure.

The Inland Revenue Act will be amended to provide the following -

If any deposit holder declares that his total income is;

- (i) less than Rs.300,000/-, no deduction will be made.
  - (ii) more than Rs.300,000/-, but not more than Rs.600,000/-, 5% will be withheld on the amount of interest in excess of Rs. 3,00,000 or on any higher amount specified by the depositor in the declaration.
  - (iii) more than Rs.600,000/- tax will be withheld at the rate of 10%, on the amount of interest in excess of Rs.600,000/-.
2. Every Bank or Financial Institution will obtain a declaration from every deposit holder, whose interest income is more than Rs.60,000/- per year in that bank or financial institutions.
  3. The interest accruing to any deposit holder who fails to make such declaration, is subject to withholding tax on the total interest or each deposit at the rate of 10%.

4. The declaration will only state whether the deposit holders' total income is less than Rs.300,000/- or less than Rs.600,000/- but more than Rs.600,000/- No other details will be requested through this declaration.

## **XI. TAXATION OF TERMINAL BENEFITS OF RETIRING EMPLOYERS**

It is observed that the present scheme of taxation of refunds from provident fund in the hands of retiring employees is too harsh even though the employee's contribution is taken out of the tax base.

Concessions, in the form of an increased slabs of the taxable income, will be granted, particularly, with regard to those who retire after 20 years.

Part IV of the First Schedule to the Inland Revenue Act will be amended to provide that where any year of assessment commencing on or after April 1, 2007, the period of service or contribution is

(a)	20 years or more -	
-	the first Rs.5,000,000/-	Nil
	Next Rs. 1,000,000/-	5%
	balance at	10%
(b)	less than 20 years	
-	the first Rs. 2,000,000/-	Nil
-	the next Rs. 1,000,000/-	5%
-	the balance	10%

## **XII. EMPLOYEES SHARE OPTION PLAN**

It is an accepted fact that an employee who is happy and content with the treatment he receives from his employer tends to reciprocate such treatment and contribute more effectively and willingly towards increasing the efficiency of the employer organization. Employee Share Option Plans will therefore be encouraged. Employees will be exempt in respect of their benefits from participation in such plans.

The Inland Revenue Act will be amended to provide for the exemption of the value of any benefit accruing on or after April 1, 2007 to any employee from participation in any

employee share option plan, where the plan applies uniformly to all employees employed by such employer

Provisions of the Inland Revenue Act relating to the tax treatment of the consequences of the disposal of such shares will remain unaffected.

### **XIII. BUS TRANSPORTATION**

#### **VAT**

The VAT Act will be amended to provide for the -

- Exemption of the importation of any bus by any bus owner holding a valid route permit.
  
- Reduction of 5%, of the rate applicable to the machines used for the manufacture of ticket issuing machines.

The amendments will take effect from 01.01.2007.

### **XIV. HEALTH**

#### **VAT**

The rate will be reduced from 15% to 5% on the following high-tec medical equipment with effect from 01.01.2007.

<b>HS Heading</b>	<b>HS Code</b>	<b>Description</b>
<b>90.18</b>		Electro-diagnostic apparatus (including apparatus for functional exploratory examination or for checking physiological parameters) :
	9018.11	Electro-cardiographs
	9018.12	Ultrasonic scanning apparatus
	9018.13	Magnetic resonance imaging apparatus
	9018.14	Scintigraphic apparatus
	9018.19	Other

## **XV. CONSTRUCTION INDUSTRY**

### **1. Income Tax**

At present

- (i) Profit of any resident company, partnership or an individual engaged in the construction work in Sri Lanka is taxed at a concessionary rate of 15%.
- (ii) Profit of any company or partnership engaged in the same work outside Sri Lanka is exempt.

Inland Revenue Act will be amended -

- (i) for exemption of the profits of any individual who is engaged in construction work outside Sri Lanka for which payment is made in foreign currency and which has been remitted to Sri Lanka through a bank.
  - (ii) to increase the depreciation allowance on machinery used in the construction industry from 12.5% to 25%.
  - (iii) to reduce the rate of withholding tax from 5% to 1% on consultation fees. The amendment will take effect from 01.04.2007.
2. Licensing requirement, for the importation of used construction machinery will be relaxed to enable the importation of the following heavy machinery over more than 7 years of age for use in the construction industry. The relaxation will be with effect from 17.11.2006.

Concrete pumps	under HS Code - 8413.40.02
Cranes	under HS Codes - 8426.41.02, 8426.49.02, 8426.49.05, 8426.91.02, 8426.99.02, 8426.99.05
Fork lift trucks	under HS Codes 8427.20.01, 8427.90.01
Self propelled Bulldozers	under HS Codes 8429.11., 8429.19.09, 8429.20.02, 8429.20.09, 8429.30.09, 8429.40.02, 8429.40.09, 8429.51.09, 8429.52.09, 8429.59.09,

Other moving, grading, leveling

under HS Codes 8430.10.02, 8430.20.02, 8430.31.02, 8430.39.02, 8430.41.02, 8430.49.02, 8430.50.02, 8430.50.05, 8430.61.02, 8430.69.02.

Machinery for sorting, screening

under HS Codes 8474.10.01, 8474.20.01, 8474.20.03, 8474.31.01, 8474.32.01, 8474.32.03, 8474.39.01, 8474.80.01, 8474.80.03, 8474.90.01

Machinery for public works, building or the like

under HS Code 8479.10.01

Crane lorries and concrete mixers

under HS Codes 8705.10.09, 8705.40.09

3. Cess will be scaled up on the following items to support manufacture of straw and similar boards with effect from 17.11.2006.

<i>HS Heading</i>	<i>HS Code</i>	<i>Description</i>	<i>Rate</i>
<b>68.08</b>	6808.00	Panels, boards, tiles, blocks and similar articles of vegetable fibre, of straw or of shavings, chips, particles, sawdust or other waste, of wood, agglomerated with cement, plaster or other mineral binders.	20% or Rs.25/-per Kg. whichever is higher
<b>68.09</b>		Articles of plaster or of compositions based on plaster.	
		Boards, sheets, panels, tiles and similar articles, not ornamented :	
	6809.11	Faced or reinforced with paper or paperboard only :	
	6809.11.01	Waste gypsum wallboard or plaster boading arising from the demolishing of building	35%
	6809.11.09	Other	35%
	6809.19	Other :	
	6809.19.01	Waste gypsum wallboard or laster board arising from the demolishing of building	35%
	6809.19.09	Other	35%
	6809.90	Other articles	35%

4. (i) Finance Act No. 5 of 2005 will be amended to empower the Commissioner General of Inland Revenue to administrate the Construction Industry Guarantee Fund Levy.
- (ii) This levy will be collected together with the withholding tax on construction fees. With effect from 01.04.2007.

## **XVI. ELECTRICITY**

### **VAT**

- (i) Supply of electricity will be exempt from VAT with effect from 01.01.2007.

Accordingly

- (a) the generation of electricity,
  - (b) the distribution of electricity
- will be exempt.

- (ii) Machinery and equipment imported by the Ceylon Electricity Board will also be exempt with effect from 01.01.2007.

## **XVII. LOCAL FILM INDUSTRY**

In order to support the film industry, the following concessions will be granted.

### **(a) VAT**

#### **(i) Exemptions**

- Production distribution and exhibition, on or after 01.01.2007, of any film.
- Supply, on or after 01.01.2007, of laboratory facilities for production of a film.
- Importation, on or after 01.01.2007, of any film produced in Sri Lanka and taken abroad for further processing or printing with the approval of the National Film Corporation.

#### **(ii) Rate Reduction**

The importation with the approval of the National Film Corporation on or after 01.01.2007 of the following items, will be subject to a reduced VAT rate of 5%.

<b>H.SCode</b>	<b>Description</b>	<b>VAT (effective from 01.01.2007)</b>	<b>CustomDuty (effectivefrom 17.11.2006)</b>
3702.52.01,3702.53.01, 3702.55.01,3702.91.01, 3702.93.01, 3702.94.01	Cine films of 16mm and 35mm	5%	Exempt
3706.10	Cinematographic film, exposed and developed	5%	Exempt

8520.39.01	Magnetic cine sound recorders for 35mm sprocketed films	5%	Exempt
9007.19,9007.20.09, 9007.91, 9007.92	Cinematographic cameras and projectors; parts and accessories	5%	Exempt
9010.50.01	Apparatus and equipment for Cinematographic laboratories	5%	Exempt
9010.60	Projection screens	5%	Exempt

(b) Customs Duty

- (i) Importation, on or after 17.11.2006 of any item referred to in paragraph (a)(ii) will be exempt from Customs Duty.
- (ii) Importation on or after 17.11.2006 of any film (HS Code 3706.10) produced in Sri Lanka and taken abroad for further processing or printing with the approval of the National Film Corporation will be exempt from Customs Duty.

(c) Income Tax

(i) Tax Holiday

Cinema theatres equipped with digital technology, DTS and Dolby Sound Systems and other technologically advanced facilities, and approved by the Film Corporation.

10 year tax holiday for newly constructed cinemas;  
and

5 year tax holiday for existing cinemas upgraded with above facilities.

The tax holiday will commence from the date of commencement of operation.

(ii) Deduction from Income

The deduction from income, as a qualifying payment in respect of cost of production of a film, now prevailing at Rs.10 Mn. will be increased to Rs.25 Mn.

The deduction is available for productions completing on or after 01.04.2007.

(d) Port and Airport Development Levy

Importation on or after 01.01.07 of any film produced in Sri Lanka and taken abroad for further processing or printing with the approval of Film Corporation will be exempt from PAL.

## **XVIII. KRUSHI NAVODAYA Programme**

**Objective:** To empower the small farmers by providing access to agricultural inputs at an affordable cost.

**Beneficiaries:** About 50, 000 farmer families per year

**Credit Line:** Rs. 3000 million per annum will be disbursed by 14 Participatory Financial Institutions to the small farmers with loan amounts ranging from Rs. 10, 000 to Rs. 100, 000.

A grant of Rs. 100 mn will be provided to enhance research capabilities of Bathalagoda Rice Research Institute (BRRI) enabling them to develop high yielding rice varieties and encourage farmers to grow those under the supervision of BRRI.

**Eligible sectors:** Paddy, onion, potato, chillie, Other Food Crops such as maize, kurakkan, cowpea, green gram, black gram, soyabean, sesame (gingelly), etc., Export Agricultural Crops such as cinnamon, pepper, cardamom etc., sugarcane, fruits, vegetables, floriculture, cashew, livestock, fisheries, organic agriculture, agricultural inputs such as seed and planting material and development of organic fertilizer, technology for value added agro based products, storage facilities, processing of fruit & food, and rice flour milling.

**Eligible people:** Farmers, producers of minor export crops, chena cultivators, sugarcane growers, fruits and vegetable growers, cashew planters, growers of floriculture, livestock producers, fishermen, producers of organic agriculture, producers of seed, planting material, and organic fertilizer, processors of fruit and food, and rice flour millers.

**Package:** Credit, extension services, integrated pest management, duty/VAT relief on imported machinery and equipment (other than those produced locally), technical know-how, on-farm and off-farm post harvest handling, processing, research and development, agricultural commodity marketing.

### **Participatory Financial Institutions:**

Bank of Ceylon, People's Bank, Hatton National Bank, Commercial Bank, Seylan Bank, Sampath Bank, Sanasa Development Bank, Lankaputra Development Bank, Ruhuna Development Bank, Rajarata Development Bank, Wayamba Development Bank, Uva Development Bank, Sabaragamuwa Development Bank, and Kandurata Development Bank

**Implementing Agency:** Lankaputra Development Bank for and on behalf of the Ministry of Finance and Planning will coordinate and monitor the programme.

**Costs to be shared:** Government's contribution 9 percent per annum  
Borrower's contribution 8 percent per annum

**Facilitator:** Department of Development Finance

## **XIX. PLANTATION AGRICULTURE**

### **TEA RUBBER AND COCONUT**

#### **1. ESC**

Rate of ESC in respect of the following businesses will be reduced from 0.5% or 1% as the case may be, to 0.25% with effect from 01.04.2007.

Production or Manufacture of Tea, desiccated coconuts, coconut oil, coconut fibre, copra, sheet rubber or charcoal.

#### **2. VAT**

The VAT Act will be amended to provide exemption for the import or supply of furnace oil (fuel oil under HS Code 2710.19.06) and the supply of electricity with effect from 01.01.2007.

#### **3. CUSTOMS DUTY & VAT**

The importation of the following machinery for the modernization of factories will be exempt from Customs Duties with effect from 17.11.2006 and VAT with effect from 01.01.2007.

(i)

<b>HS Heading</b>	<b>HS Code</b>	<b>Description</b>
<b>84.22</b>	8422.30.02	Tea bag packaging machines producing tea bags made of filter paper to accommodate upto 4 g of tea
<b>84.38</b>		Machinery, not specified or included elsewhere in this Chapter, for the industrial preparation or manufacture of food or drink, other than machinery for the extraction or preparation of animal or fixed vegetable fats or oils.
	8438.80	Other machinery :
	8438.80.01	C.T.C. and L.T.P. tea machinery
	8438.80.02	Colour separators for the tea industry
	8438.80.03	Other tea machinery

(ii) HS Code No 8438.60.01 - Machinery for shelling coconut

(iii) Boilers under the following HS Codes.

<b>HS Headings</b>	<b>HS Code</b>	<b>Description</b>
<b>84.02</b>		Steam or other vapour generating boilers :
	8402.11	Watertube boilers with a steam production exceeding 45 t per hour
	8402.12	Watertube boilers with a steam production not exceeding 45 t per hour
	8402.19	Other vapour generating boilers, including hybrid boilers
	8402.20	Super-heated water boilers
	8402.90	Parts

(iv) Fruit & Vegetable HS Code No. 8422.30.03 - For canning fruit/vegetables  
8438.60.09 - Other

## **XX. PRAWN FARMING / POULTRY & LIVESTOCK**

### **(a) Prawns**

- i. The supply of prawns will be exempt from VAT, with effect from January 1, 2007.
- ii. Cess will be imposed on shrimps and prawns as categorized below at the rate of 20% or Rs.50/- per kilo whichever is higher with effect from 17.11.2006.

<b><i>HS Codes</i></b>	<b><i>Description</i></b>
0306.13	Frozen
0306.23.01	Dried
0306.23.02	Live, fresh or chilled
0306.23.09	Other

- iii. The importation on or after 17.11.2006 of the following equipment used in prawn farming will be exempt from customs duty.

<b><i>HS Codes</i></b>	<b><i>Description</i></b>
8479.82.01	Aerators used in the prawn farming industry
8424.89.01	Jet aerators used in the prawn farming industry

### **(b) Poultry**

- i. The following will be exempt from customs duty with effect from 17.11.2006.

	Poultry-keeping machinery; poultry incubators and brooders.
8436.21	Poultry incubators and brooders
8436.29	Other
8438.50	Machinery for the preparation of meat or poultry

(c) **Livestock Development**

Import Duty (with effect from 17.11.2006) and VAT (with effect from 01.01.2007) on breeding animals of cattle, buffalos, poultry, pigs, goats, sheep, and their semen and embryos.

Breeding animals and materials

<b>H. S. Code</b>	<b>Description</b>
0102.10	Pure bred breeding animals (cattle and buffaloes)
0103.10	Pure bred breeding animals (pigs)
0104.10.01	Pure bred breeding animals (sheep)
0104.20.01	Pure bred breeding animals ( goats)
0105.11.01	Day old chicks for breeding
0105.19.01	For breeding (other)
0105.12.01	For breeding (turkey)
0511.10	Bovine Semen
0511.99.22	Swine Semen
0511.99.03	Goat semen
0511.99.04	Embryo

(d) **Processed and un-processed meat products**

Cess will be imposed effective from 17.11.2006 at the rate of 20% or Rs.100/- per Kg. whichever is higher on all sub headings under the following HS Headings. 02.01, 02.02, 02.03, 02.04, 02.05, 02.06, 02.07, 02.08, 02.09 and 02.10.

## **XXI. SME Credit Package**

- Objective:** Facilitate the small and medium scale enterprises in providing credit.
- Beneficiaries:** About 100,000 small and medium scale entrepreneurs per year
- Credit Line:** Rs. 13,295 million will be allocated under the SME sector at concessionary rates of interest ranging between 6.5 percent and 14 percent per annum depending on the sector.
- Eligible Sectors:** Environment, agriculture, livestock, fisheries, aquaculture, community investment, renewable energy, livelihood development, leather & footwear, coconut coir, packaging, construction, mining, textiles, metal products, printing, wood and wood products, ornamental fish, trade, storage, communication, services
- Eligible people:** Farmers, livestock producers, fishermen, prawn farmers, renewable energy producers, manufacturers of footwear and leather items, manufacturers of coir based products, wood based products, packaging material, textile, and metal products, printers, ornamental fish breeders, traders, and other service providers.

- Eligibility criteria:**
- Asset value, (excluding land and buildings), should not exceed Rs. 50 million
  - Number of employees should not exceed 149 people
  - Those who have obtained credit facilities from the SME Bank do not qualify under the scheme

**Package:**

• Credit facilities to environmental pollution control	Rs. 1000 mn
• Credit facilities to income generating activities in agriculture, fisheries, livestock, and trade	Rs. 100 mn
• Credit facilities to establishment and expansion of agriculture related micro, small, and medium enterprises	Rs. 2700 mn
• Micro credit for small and medium enterprises	Rs. 300 mn
• Credit facilities to small and medium scale inland fisheries and aquaculture enterprises	Rs. 50 mn
• Credit facilities to small scale renewable energy projects; mini-hydro, solar, and biomass	Rs. 1890 mn
• Credit facilities for livelihood development of women	Rs. 80 mn
• Credit facilities for procurement of equipment and machinery	Rs. 850 mn
• Credit facilities to micro enterprises	Rs. 100 mn
• Credit facilities to small and micro entrepreneurs in North and East	Rs. 325 mn
• Credit facilities to enterprises directly affected by tsunami	Rs. 3900 mn
• Credit facilities to small and medium enterprises	Rs. 1600 mn
• Credit facilities to entrepreneurs in construction industry to purchase machinery and equipment	Rs. 400 mn

**Lending Institutions:** Bank of Ceylon, DFCC Bank, National Development Bank, Hatton National Bank, Commercial Bank, Sampath Bank, Seylan Bank, SANASA Development Bank, Ruhuna Development Bank, Wayamba Development Bank, Sabaragamuwa Development Bank, Uva Development Bank, Kandurata Development Bank, National Development Trust Fund, Sevalanka Foundation, and Women Development Fund

**Implementation:** The Lankaputra Development Bank (LPDB) for an on behalf of the Ministry of Finance and Planning will coordinate and monitor the programme.

**Facilitator:** Department of Development Finance

## **XXII. ENTREPOT TRADE**

- (a) Profits from entrepot trade, from offshore activities have been exempt for many years. Such activities will, effective from April 1, 2007, be exempt from ESC as well.
- (b) Section 42 of the Inland Revenue Act will be amended to expand, effective from the tax year commencing on April 1, 2007, the availability of the 10% tax rate to profits of any consignor or consignee, from the export of any article, in circumstances referred to in that section.
- (c) ESC on onshore transactions will be reduced, effective from 01.04.2007 to 0.1%.

## **XXIII. GOLD/GEM/DIAMOND AND JEWELLERY INDUSTRY**

The taxation of gold/gem/diamond and jewellery industries will be re-structured as follows:

### **1. Jewellery**

- (a) VAT rate on the supply of jewellery will be reduced from 20% to 5%, effective from January 1, 2007.
- (b) Credit will be given for VAT paid on acquisition on or after January 1, 2007, of plant, machinery or equipment for the local manufacture of jewellery.
- (c) Credit will be given for VAT paid on the importation on or after January 1, 2007, of raw materials for the manufacture of jewellery, if jewellery so manufactured is exported.
- (d) The rate of the Economic Service Charge (ESC) on the manufacture of jewellery will remain at 1.0%, but that on the export of jewellery will be at 1% on the value addition (Gazette Notification will be issued to this effect).
- (e) Jewellery manufacturers will be required to register themselves with the Gem and Jewellery Authority. An annual registration fee of Rs.5000/- will be imposed on them. Existing jewellery manufactures will have to be registered on or before 31.12.2006.

Jewellery in this context includes imitation jewellery as well.

- (f) 15% Cess will be imposed on importation on or after 17.11.2006 of the following items. The Cess paid on any item so imported will be refunded if that item is re-exported.

<b>HS Heading</b>	<b>Description</b>
	Articles of jewellery and parts thereof, of precious metal or of metal clad with precious metal.
	Of precious metal whether or not plated or clad with precious metal :
7113.11	Of silver, whether or not plated or clad with other precious metal :
7113.11.01	Articles
7113.11.09	Parts
7113.19	Of other precious metal, whether or not plated or clad with precious metal :
7113.19.01	Articles
7113.19.09	Parts
7113.20	Of base metal clad with precious metal :
7113.20.01	Articles
7113.20.09	Parts
	<b>Articles of goldsmiths' or silversmiths' wares and parts thereof, of precious metal or of metal clad with precious metal.</b>
	Of precious metal whether or not plated or clad with precious metal :
7114.11	Of silver, whether or not plated or clad with other precious metal
7114.19	Of other precious metal, whether or not plated or clad with precious metal
7114.20	Of base metal clad with precious metal
	<b>Other articles of precious metal or of metal clad with precious metal.</b>
7115.10	Catalysts in the form of wire cloth or grill, platinum
7115.90	Other
	<b>Articles of natural or cultured pearls, precious or semi-precious stones (natural, synthetic or reconstructed).</b>
7116.10	Of natural or cultured pearls
7116.20	Of precious or semi-precious stones (natural, synthetic or reconstructed)
	<b>Imitation Jewellery.</b>
	Of base metal, whether or not plated with precious metal :
7117.11	Cuff-links and studs
7117.19	Other
7117.90	Other

## 2. Gem/Diamond/ Gold

- (g) Port & Airport Development Levy (PAL) will be removed, on gem, diamond or gold imported and falling under the following HS Headings with effect from 01.01.2007.

<b>H.S. Headings</b>	<b>Description</b>
7101	Pearls, natural or cultured, whether or not worked or graded but not strung, mounted or set; pearls, natural or cultured, temporarily strung for convenience of transport.
7102	Diamonds, whether or not worked, but not mounted or set.
7103	Precious stones (other than diamonds) and semi-precious stones, whether or not worked or graded but not strung, mounted or set; ungraded precious stones (other than diamonds) and semi-precious stones, temporarily strung for convenience of transport.
7104	Synthetic or reconstructed precious or semi-precious stones, whether or not worked or graded but not strung, mounted or set; ungraded synthetic or reconstructed precious or semi-precious stones, temporarily strung for convenience of transport.
7105	Dust and powder of natural or synthetic precious or semi-precious stones.
7106	Silver (including silver plated with gold or platinum), unwrought or in semi-manufactured forms, or in powder form.
7107	Base metals clad with silver, not further worked than semi-manufactured.
7108	Gold (including gold plated with platinum) unwrought or in semi-manufactured forms, or in powder form.
7109	Base metals or silver, clad with gold, not further worked than semi-manufactured.
7110	Platinum, unwrought or in semi-manufactured forms, or in powder form.
7111	Base metals, silver or gold, clad with platinum not further worked than semi-manufactured.

- (h) The rate of ESC on the export of gem, gold or diamond will be 1% on the value addition with effect from 01.04.2007. Gazette Notification will be issued to this effect.

#### **XXIV. APPAREL AND TEXTILE INDUSTRY**

To help the garment industry, the following tax concessions will be granted.

1. E.S.C.
  - (a) ESC Act will be amended providing for the reduction to 0.1% of the rate applicable on the following, if the turnover on which the ESC is computed is the FOB value of the exports.

- apparel exporters
  - supply of textile as manufacturer thereof to apparel exporters, and
  - trading houses approved by the BOI and engaged in the export of apparel.
- (b) Where the turnover is not the FOB value, the applicable rate will be 1%, and the threshold will not apply. Appropriate regulations under Section 12 of the ESC Act will be made accordingly.

These changes will take effect from April 1, 2007.

2. Release of garments to the domestic market will be encouraged. Consolidated duty of. Rs. 25/- per piece inclusive of Cess will be imposed.
3. PAL will be reduced to 2%, on the importation, on or after January 1, 2007 of the following items.

<b>HS Heading</b>	<b>HS Code</b>	<b>Description</b>
<b>84.44</b>	8444.00	Machines for extruding, drawing, texturing or cutting man-made textile materials.
<b>84.45</b>		Machines for preparing textile, fibers; spinning, doubling or twisting machines and other machinery for producing textile yarns; textile reeling or winding (including weft-winding) machines and machines for preparing textile yarns for use on the machines of heading 84.46 or 84.47.
		Machines for preparing textile fibers :
	8445.11	Carding machines
	8445.12	Combing machines
	8445.13	Drawing or roving machines
	8445.19	Other
	8445.20	Textile spinning machines
	8445.30	Textile doubling or twisting machines
	8445.40	Textile winding (including weft-winding) or reeling machines
	8445.90	Other
<b>84.46</b>		Weaving machines (looms).
	8446.10	For weaving fabrics of a width not exceeding 30 cm
		For weaving fabrics of a width not exceeding 30 cm, shuttle type :
	8446.21	Power looms

	8446.29	Other
	8446.30	For weaving fabrics of a width exceeding 30 cm, shuttleless type
<b>84.47</b>		Knitting machines, stitch-bonding machines and machines for making gimped yarn, tulle, lace, embroidery, trimmings, braid or net and machines for tufting.
		Circular knitting machines :
	8447.11	With cylinder diameter not exceeding 165 mm
	8447.12	With cylinder diameter exceeding 165 mm
	8447.20	Flat knitting machines; stitch-bonding machines
	8447.90	Other
<b>84.51</b>		Machinery (other than machines of heading 84.50) for washing cleaning, wringing, drying, ironing, pressing (including fusing presses), bleaching, dyeing, dressing, finishing, coating or impregnating textile yarns, fabrics or made up textile articles and machines for applying the paste to the base fabric or other support used in the manufacture of floor coverings such as linoleum; machines for reeling, unreeling, folding, cutting or pinking textile fabrics.
	8451.30	Ironing machines and presses (including fusing presses)
	8451.40	Washing, bleaching or dyeing machines :
	8451.50	Machines for reeling, unreeling, folding, cutting or pinking textile fabrics
	8451.80	Other machinery :
	8451.80.01	For finishing textile fabrics
<b>84.52</b>		Sewing machines, other than book-sewing machines of heading 84.40; furniture, bases and covers specially designed for sewing machines; sewing machines; sewing machine needles.
		Other sewing machines :
	8452.21	Automatic units
	8452.29	Other

4. Supply of locally manufactured handloom textiles will be exempt from VAT with effect from 01.01.2007.

## XXV. LEATHER INDUSTRY

(a) Cess will be scaled up with effect from 17.11.2006 as follows:

(i) All footwear - 25% or Rs.300/- per pair whichever is higher.

(ii) Upper and Parts thereof 25% or Rs.300/- per unit whichever is higher.

HS Headings	HS Code		Description
<b>64.01</b>			Water proof footwear with outer soles and uppers of rubber or of plastics, the uppers of which are neither fixed to the sole nor assembled by stitching, reverting, nailing, screwing, plugging or similar processes.
	6401.10	-	Footwear incorporating a protective metal toe-cap
		-	Other footwear :
	6401.92	--	Covering the ankle but not covering the knee
	6401.99	--	Other
<b>64.02</b>			Other footwear with outer soles and uppers of rubber or plastics.
		-	Sports footwear :
	6402.12	--	Ski-boots, and cross-country ski footwear and snowboard boots
	6402.19	--	Other
	6402.20	-	Footwear with upper straps or thongs assembled to the sole by means of plugs
		-	Other footwear :
	6402.91	--	Covering the ankle
	6402.99	--	Other
<b>64.03</b>			Footwear with outer soles of rubber, plastics, leather or composition leather and uppers of leather.
		-	Sports footwear :
	6403.12	--	Ski-boots, cross-country ski footwear and snowboard boots
	6403.19	--	Other
	6403.20	-	Foot wear with outer soles of leather, and uppers which consist of leather straps across the instep and around

			the big toe
	6403.40	-	Other footwear, incorporating a protective metal toe-cap
		-	Other footwear with outer soles of leather :
	6403.51	--	Covering the ankle
	6403.59	--	Other
		-	Other footwear :
	6403.91	--	Covering the ankle
	6403.99	--	Other
<b>64.04</b>			Footwear with outer soles of rubber, plastics leather or composition leather and uppers of textile materials.
		-	Footwear with outer soles of rubber or plastics :
	6404.11	--	Sports footwear, tennis shoes, basketball shoes, gym shoes, training shoes and the like
	6404.19	--	Other
	6404.20	-	Footwear with outer soles of leather or composition leather
<b>64.05</b>			Other footwear.
	6405.10	-	With uppers of leather or composition leather
	6405.20	-	With uppers of textile materials
	6405.90	-	Other

(b) Cess will be imposed on outer soles and heels 20% or Rs 100/ per unit whichever is higher with effect from 17.11.2006.

<b>HS Headings</b>	<b>HS Code</b>	<b>Description</b>
<b>64.06</b>		Parts of footwear (including uppers whether or not attached to soles other than outer soles); removable in-soles, heel cushions and similar articles; gaiters, leggings and similar articles, and parts thereof.
	6406.10	Uppers and parts thereof, other than stiffeners
	6406.20	Outer soles and heels, of rubber or plastics
		Other :
	6406.91	Of wood
	6406.99	Of other materials

## **XXVI. SHIPPING INDUSTRY**

### **(a) Income Tax**

The Inland Revenue Act No. 10 of 2006 will be amended to provide for -

- Capital allowances at the rate of 33 1/3% in respect of any ship acquired on or after April 1, 2007,

and

- the exemption of the remuneration, for any period commencing on or after April 1, 2007, of any resident individual employed on any Sri Lanka ship.

### **(b) VAT**

- (i) The importation of ships to be registered under the Sri Lanka flag has already been exempt.

- (ii) VAT on chartering of vessels will be exempt effective from 01.01.2007.

### **(c) Stamp Duty**

Mortgages of any ship is already exempt in terms of Gazette Extraordinary No.1465/20 dated 05.10.2006.

### **(d) Other Levies**

Import duty will be removed on the importation of a ship, on or after 17.11.2006.

## **XXVII. EXCISE SPECIAL PROVISIONS**

1. The present markup of 5% will be increased to 10%.
2. Excise Duty at the rate of 5% will be imposed on paints (including enamels) under the following HS Code Nos. 3208.10.01, 3208.20.01, 3208.90.02, 3209.10.01, 3209.90.01, 3210.00.02.
3. Excise Duty at the rate of Rs.6/- per liter will be imposed on carbonated drinks under HS Code No.2201.10.09
4. Excise Duty at the rate of 5% will be imposed on Polythene bags less than 40 microns of thickness under the following HS Code Nos.
  - 3923.21 - of polymers of ethylene
  - 3923.21.01 - made of sheeting with thickness of 40 microns and below
  - 3923.29 - of other plastics
  - 3923.29.01 - made of sheeting with thickness of 40 microns and below.

With effect from 17.11.2006.

## XXVIII. CUSTOMS TARIFF

The 10% surcharge already applicable will be continued.

## XXIX. CESS

Cess will be scaled up on the following items with effect from 17.11.2006.

### i. Cosmetic & Toilet Preparations

HS Heading	HS Code	Description	Rate
33.04		Beauty or make-up preparations and preparations for the care of the skin (other than medicaments), including sunscreen or sun tan preparations; manicure or pedicure preparations.	30% or Rs.60/- whichever is higher
33.05		Preparations for use on the hair.	25% or Rs.50/- whichever is higher
33.06		Preparations for oral or dental hygiene, including denture fixative pastes and powders; yarn used to clean between the teeth (dental floss), in individual retail packages.	
	3306.10	Dentifrices	25% or Rs.50/- whichever is higher
33.07		Pre-shave, shaving or after-shave preparations, personal deodorants, bath preparations, depilatories and other perfumery, cosmetic or toilet preparations not elsewhere specified or included; prepared room deodorisers, whether or not perfumed or having disinfectant properties.	25% or Rs.50/- whichever is higher

- ii. Bulbs - Rs.10/- per bulb under HS Heading 8539.22
- iii. Soap - 15% or Rs.20/- per Kg. whichever is higher under HS Heading No. 3401.
- iv. Lubricant Based Oil - 6% under HS Code No. 2710.19.07
- v. Television & Radio - 5% under HS Codes:  
8527.12.09, 8527.13.09, 8527.19.09  
8527.21, 8527.29, 8527.31, 8527.32, 8527.39, 8527.90,  
8528.12.03, 8528.12.09, 8528.13.03, 8528.13.09, 8528.21.01

vi. Batteries - Rs.3/- under HS Code No. 8506.10.01

### **Imposition of Cess**

- i. Ayurvedic Preparations /Herbal Preparations - 25% on items under HS Code Nos. 3003.90.01 and 3004.90.01
- ii. Telephone & Trade Directories - 25% or Rs. 100/- per Kg. whichever is higher on items under HS Code No. 4901.99.02
- iii. Diaries - 20% or Rs.50/- per kg. on items under HS Heading 4820.10, 4820.30, 4820.40, 4820.50, 4820.90.

### **XXX. FEES LEVIED ON APPLICATION FOR DUAL CITIZENSHIP**

An Sri Lankan, who is presently a citizen of another country and who wishes to apply for dual citizenship is required to pay Rs. 200,000/- on an application and a further sum of Rs. 50,000 each for the spouse and children under 18 years of age. For an average family this application fee is in the range of Rs. 200,000/ to Rs. 400,000/.

A large number of such persons have expressed their desire to come back to Sri Lanka. As a mode of encouragement it is proposed to reduce the levy imposed when applying for dual citizenship to Rs. 200,000 per family unit, irrespective of the number of members in the family provided that the applicant makes a deposit exceeding U S \$ 25,000 for a three year period in a bank in Sri Lanka. A family which deposits US \$ 50,0000 and above for a period of three years will be exempt from this Levy. Age, educational and wealth criteria hitherto applied in granting dual citizenship will not be imposed in the future, if the above requirement is met. However, their applications for dual citizenship have to be scrutinized to ensure that only those who are having unblemished record will receive dual citizenship.

An order under the Citizenship Act No. 18 of 1948, giving effect to this proposal with effect from 01.12.2006, will be issued by the Hon. Minister of Internal Administration.

### **Imposition of a nominal Visa Fee**

As a tourism promotion measure tourists from 78 countries are being issued with 30 days visit visas, free of charge. They do not have to obtain prior visa before they enter the country. It is proposed, to take a general visa fee of US \$ 10 from each tourist, which will

be channeled to public expenditure on environmental protection and preservation of archeological sites.

A notification under the Citizenship Act No. 18 of 1948, giving effect to this proposal with effect from 01.12.2006, will be issued by the Hon. Minister of Internal Administration.

**LIST OF DOCUMENTS**

1. Mahinda Chinthana : Vision for a New Sri Lanka **(Tabled)**  
"A Ten Year Horizon" Development Framework 2006 – 2016  
Discussion Paper  
*Department of National Planning*
2. Fiscal Management Report – 2007 **(Tabled)**  
*Ministry of Financer and Planning*
3. Recent Economic Developments  
Highlights of 2006 and Prospects for 2007 **(Tabled)**  
*Central Bank of Sri Lanka*
4. Medium Term Budgetary Framework 2006-2009 **(Tabled)**  
*Department of National Budget*
5. Development Expenditure Identified by **(Tabled)**  
Divisional Secretary Division – 2006 – 2009  
*Department of National Planning*
6. Partnership Towards a New Sri Lanka **(Tabled)**  
*Department of External Resources*
7. Report of the Sri Lanka Financial Intelligence Unit **(Tabled)**  
*Financial Intelligence Unit – Central Bank of Sri Lanka*
8. Special Projects for Accelerated Development in Sri Lanka **(Circulated)**  
*Department of National Planning*

## Summery of the Budget

	Rs Mn			
	2005	2006	2006	2007
		Budget	Revised	Budget
<b>Total Revenue</b>	<b>379,746</b>	<b>484,376</b>	<b>482,174</b>	<b>599,817</b>
Tax Revenue	336,829	435,292	432,162	540,929
Income Tax	52,536	75,260	75,772	102,124
Taxes on Goods and Services	238,903	295,436	296,048	368,275
Taxes on External Trade	45,390	64,596	60,342	70,530
Non Tax Revenue	42,917	49,084	50,012	58,888
<b>Total Expenditure</b>	<b>555,013</b>	<b>710,051</b>	<b>700,358</b>	<b>834,855</b>
Recurrent	443,350	509,856	547,617	596,165
Salaries and Wages	138,603	168,570	176,285	198,743
Interest	120,159	151,259	151,591	169,122
Subsidies and Transfers	128,331	120,238	136,263	127,719
Other Goods and Services	56,257	69,789	83,478	100,581
Public Investments	118,812	203,705	162,242	240,422
Other	(7,149)	(3,510)	(9,501)	(1,732)
Revenue surplus/Deficit(-)	(63,604)	(25,480)	(65,443)	3,652
<b>Budget Deficit</b>	<b>(175,268)</b>	<b>(225,676)</b>	<b>(218,185)</b>	<b>(235,038)</b>
<b>Total Financing</b>	<b>175,268</b>	<b>225,676</b>	<b>218,185</b>	<b>235,038</b>
<b>Total Foreign Financing</b>	<b>50,644</b>	<b>102,633</b>	<b>61,489</b>	<b>78,826</b>
Net Foreign Borrowings	18,004	60,393	15,764	54,751
Foreign Borrowings	39,364	112,583	67,954	114,789
Debt Repayments	21,360	52,190	52,190	60,038
Foreign Grants	32,640	42,240	45,725	24,075
<b>Total Domestic Financing</b>	<b>118,304</b>	<b>123,043</b>	<b>156,696</b>	<b>156,212</b>
Non-Bank Borrowings	93,129	123,043	128,051	139,512
Bank Borrowings	26,195		(5,950)	8,000
Foreign currency domestic borrowings			34,595	8,700
Revenue/GDP (%)	16.1	17.8	17.4	18.5
Tax/GDP (%)	14.3	16.0	15.6	16.7
Expenditure/GDP (%)	23.5	26.1	25.3	25.8
Current Expenditure/GDP (%)	18.8	18.7	19.8	18.4
Public Investment/GDP (%)	5.0	7.5	5.9	7.4
Revenue Account/GDP (%)	(2.7)	(0.9)	(2.4)	0.1
<b>Budget Deficit/GDP (%)</b>	<b>(7.4)</b>	<b>(8.3)</b>	<b>(7.9)</b>	<b>(7.2)</b>
Fully Foreign Funded Development Projects of State Enterprises & Post Tsunami Projects	29,770	21,590	21,590	63,145
As a % of GDP	1.3	0.8	0.8	1.9