



Budget Proposals – 2018

10th November 2017

To Clients of PricewaterhouseCoopers

Dear Client

We are pleased to forward you a Summary and Analysis of the Budget Proposals for 2018, presented in the Parliament on 9th November 2017, by Hon Mangala Samaraweera, Minister of Finance and Media.

We are also forwarding –

- “Tax facts at a Glance”, together with a “Tax Calendar”,
- Booklet on “Tax Update”

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

Yours truly

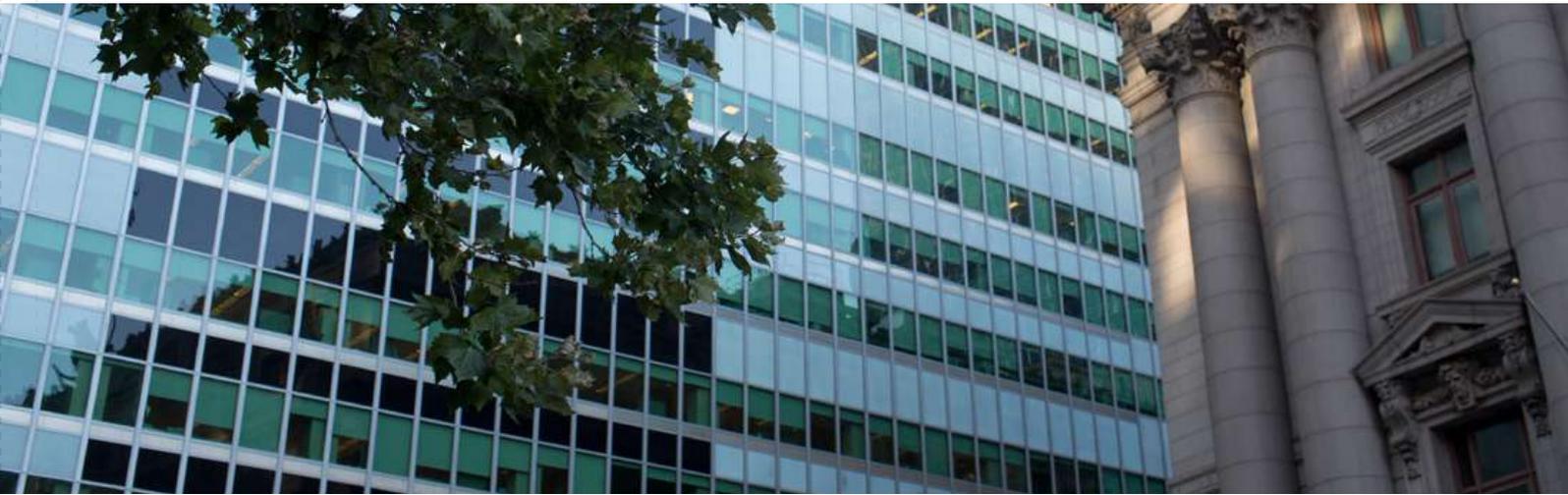
A handwritten signature in black ink, enclosed in a hand-drawn oval. The signature appears to read 'Hiranthi Ratnayake'.

Hiranthi Ratnayake
Director – Tax Services
For and on behalf of PricewaterhouseCoopers (Private) Ltd

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2018

Budget Proposals

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Sri Lanka Budget Focus – 2018

Budget for the year 2018, presented in Parliament by the Hon. Minister of Finance and Media is based on the theme of “Blue-Green” Budget, targeted at generating an environmentally sustainable economic growth by

- utilizing the under-utilized ocean resources, thereby facilitating the diversification of the economy, and
- adopting new sustainable technologies in the agriculture, fisheries and manufacturing sectors,

all of which would contribute to reducing environmental risks and ecological imbalances.

Budget 2018 is also targeted at overcoming the major challenges that Sri Lanka currently encounter by way of

- rapidly and continuously falling government revenue,
- mounting public debt,
- severe balance of payment difficulties,

as well as the challenges arising from the recent prolonged droughts, frequent floods and landslides.

Budget 2018 is further aimed at supporting the achievement of medium term targets, such as

- per capita income of USD 5,000,
- one million new jobs,
- FDI inflows of USD5Bn,
- doubling exports to USD20Bn,
- GDP growth of 5%,
- reducing inflation to around 6%, and

to achieve a primary surplus of 1% of GDP and Budget deficit of 4.5% of GDP.

Overview of Key Taxation Proposals

1. Corporate Income Tax

(Effective from April 1, 2018)

New concession

1.1 New concession

Qualifying criteria	Proposed for 2018
<ul style="list-style-type: none"> Backward integrated activities related to agriculture 	14%

1.2 Other

RAMIS to be updated to facilitate the implementation of the new Inland Revenue Act.

2. Value Added Tax

(Effective from April 1, 2018)

A VAT refund scheme at the Airports and Seaports

2.1 Revisions to exemptions

New exemptions	Removal of exemptions
Solar tracker (specified HS code)	Import or supply of imported; <ul style="list-style-type: none"> Plants & Flowers Plastic Beads Yarn /Fabrics Wood & Articles Dyes Glass Beads
-	<ul style="list-style-type: none"> Plant and Machinery/ Industrial racks Electronic goods Aeroplanes & Parts Spectacles Cameras & Projectors Watches
-	Sale of condominium housing units

2.2 Other

A VAT refund scheme for foreign passport holders to be implemented at the Airports and Sea Ports. (effective from 01st May 2018)

3. Nation Building Tax

(Effective from April 1, 2018)

Exemption on liquor to be removed

3.1 Revisions to exemptions

New exemptions	Removal of current exemption
Importation of non-motorized equipment and accessories for water sports	Liquor
Importation of non-powered equipment and accessories for aero sports	-
Importation of gem stones for cutting and re-export purposes	-
Importation of equipment that enables advanced technology agriculture practices	-
Upfront payment of NBT and PAL applicable on the sale of yachts built by BOI companies to the local BOI charter companies	-
Domestic coconut oil and kernal products (for 1 year)	-
Machines and equipment imported for the establishment of solar charging stations	

4. Economic Service Charge

(Effective from 01 April 2018)

4.1 Revision of ESC base

ESC base for imported motor vehicles will be amended as follows:

- Motor vehicles liable for Excise duty - Payable Excise Duty
- Motor vehicles not liable for Excise duty - CIF value

(Assumed refers to Excise (Special Provisions) Duty)

5. Duties and Fiscal levies on imports

5.1 Customs Duty

(With immediate effect)

New exemptions	Revisions
Importation of Crust (semi processed) leather for further processing	Importation of selected goods
Supply of raw materials for leather products industry	-
Importation of machinery, equipment, accessories and raw materials or intermediate materials, to be used only for manufacturing of biodegradable packaging products and materials	-

5.2 CESS

(Effective date to be announced)

New exemptions	Revisions
253 items facilitating the emerging sectors namely, tourism, value adding industries etc.	22 items facilitating the availability of goods for value addition and consumption purposes

5.3 Ports and Airports Development Levy

(Effective date to be announced)

New exemptions	Revisions	Prohibitions
253 items, including importation of non-powered equipment and accessories for aero sports	Importation of non-motorized equipment and accessories for water sports	Importation of Motor Vehicles below the Emission Standard of the EURO 4 or its equivalent (effective from January 01, 2018)
Para-Tariffs applicable on importation of sports shoes	Items classified under specified HS Codes (refer detailed Chapter on PAL)	Importation of Motor Vehicles, which are not complied with the safety measures (effective from January 01, 2018)
Machines and equipment imported for the establishment of solar charging stations	-	-

New exemptions	Revisions	Prohibitions
Upfront payment of NBT and PAL applicable on the sale of yachts built by BOI companies to the local BOI charter companies	-	-

- Sri Lanka to revise and adopt HS System 2017 Version
(Effective from 10 November 2017)
- Tariff Liberalization Programme (Phase II) of the SAFTA to be implemented
(Effective from 10 November 2017)

5.4 Excise Duty

(With immediate effect)

Removal of exemptions	Proposed rate
Hard liquor	LKR3,300 per litre
Beer	LKR2,400 per litre
Wine	LKR2,400 per litre
Non-potable alcohol	LKR15 per Kg
Toddy (for manufacturing of ethanol)	LKR5 per litre
Molasses/ Maize/ Rice/ Fruits (for manufacturing of ethanol)	LKR10 per Kg

5.5 Excise (Special Provisions) Duty

(With immediate effect)

Removal of exemptions	Proposed rate
Canned Beer	To be announced
Sweetened beverages (Sugar Tax) (specified HS Code)	LKR0.5 per gram of sugar
Plastic resin (specified HS Codes)	LKR10 per Kg

- Revision of Excise (Special Provisions) Duty rates on:
 - petrol fuel & petrol hybrid motor cars
 - diesel fuel & diesel hybrid motor cars
 - electric vehicles
 - three wheelers
 - off-road electric sports vehicles

(Refer detailed Chapter on Excise (Special Provisions) Duty)

- Ad-valorem rate of Excise (Special Provisions) Duty on motor vehicles to be removed

6. Revisions to Finance Act

(Effective date to be announced)

New Levy/Tax	Proposed rate
Cellular Tower Levy	LKR200,000 per month per tower (payable monthly by the mobile tower operator)
SMS Advertising Levy (for bulk SMS advertisements)	LKR0.25 per SMS (payable by the advertiser)
Carbon Tax on motor vehicles based on the engine capacity, other than electric vehicles	Based on age and fuel type of vehicle
Debt Repayment Levy on cash transactions by financial institutions	LKR2 per LKR10,000 cash transaction (0.02%) (payable by financial institutions)
One time payment Luxury Tax on Motor Vehicles	Based on band of engine capacity or motor power of the vehicle
Molasses/Maize/Rice/Fruits (for manufacturing of ethanol)	LKR10 per Kg

- One-time payment of Luxury Tax on Motor Vehicles to be introduced in lieu of the present system of payment over 7 years. Tax rate to be based on the band of engine capacity or motor power.

7. Miscellaneous

(Effective date to be announced)

Foreign ownership restrictions to be lifted

7.1 Restrictions on foreign ownership

- Restrictions on the foreign ownership to be removed;
 - on the shipping and the freight forwarding agencies
 - of land by listed companies
- Restrictions on foreigners' purchasing condominiums below the fourth floor to be removed.

7.2 e-Commerce Transactions

BOI and the Customs Department to establish a procedure to facilitate Business to Consumer e-commerce transactions (B to C).

(Effective from 01 January 2018)

7.3 Business registration

- Establishment of a One Stop Shop for business registration through the introduction of a single identification system
- Introduction of a system to scan and digitize company records, create a database of trademarks, etc. using its own funds.

Chapter 1 – Income Taxation

1. Tax Incentives

1.1 Concessional income tax rate

- Profits and income arising from backward integrated activities relating to agriculture will be taxed at the rate 14%

Backward integrated activities include developing fertilizer, soil management practices and storage of agricultural produce.

(Effective from 01 April 2018)

1.2 Limited tax concessions

Inland Revenue Act No 24 of 2017 provides the following tax concessions for a limited period:

- New investments up to USD 3 Million in depreciable assets (other than intangible assets) during the year of assessment within 04 years from 01/04/2018 are eligible for an enhanced depreciation allowance. Income tax concessions for such investment in Northern Province is at 200% while for other provinces are at 100%.
- 50% tax concession for surplus fund distribution to life insurance policy holders who shares profits, for 03-year period.
- Businesses of information Technology are allowed to claim a deduction of 135% of the amount paid to employees (other than directors) against taxable income for the 03 years.
- 200% tax deduction is granted on Research and Development expenditure for 03 years.
- 100% tax exemption is granted for relocation of Headquarters of institutions in International Network for 03 years.
- Renewable energy is granted 50% tax concession for 04 years.

1.3 Qualified expenditure

Any capital expenditure incurred in construction of a flood protection wall will be a deductible expense in ascertaining the profits and income of any private sector entity or NGO working in partnership with the Government.

Chapter 2 – Value Added Tax (VAT)

8. Withdrawal of Exemptions

- Import or supply of goods set out below will be liable for VAT:

Description	HS Code
Plants & Flowers	06.01, 06.02.10, 06.02.20, 06.02.30, 06.02.40, 06.02.90.90
Plastic Beads	39.26.90.70
Yarn /Fabrics	50.01, 50.02, 50.03, 50.04, 50.05, 50.06, 50.07, 51.11, 51.12, 51.13, 52.01, 52.03, 52.05, 52.06, 52.08, 52.09, 52.10, 52.11, 52.12, 53.09, 53.10, 54.02, 54.03, 54.07, 54.08, 55.09, 55.10, 55.12, 55.13, 55.14, 55.15, 55.16, 58.01, 58.02, 58.04.21, 58.04.29, 58.04.30, 58.06, 58.09, 58.11, 60.01, 60.02, 60.03, 60.04, 60.05, 60.06, 62.15
Wood & Articles	44.03, 44.07, 44.08, 44.09
Dyes	32.04.11, 32.04.12, 32.04.13, 32.04.14, 32.04.15, 32.04.16, 32.04.17
Glass Beads	70.18.10
Plant and Machinery/ Industrial racks	84.07, 84.11.91, 84.13.40, 84.43.19.10, 84.43.32.30, 84.43.32.40, 84.43.39.20, 84.43.99.30, 84.44, 84.45, 84.46, 84.47, 84.48, 84.51.40.10, 84.51.50, 84.51.80.10, 84.51.90, 84.70.10, 84.79.89.10, 84.79.89.20, 84.79.89.30, 84.79.89.40
Electronic goods	85.16.40, 85.16.72, 85.27.21, 85.27.29, 85.27.91, 85.27.92, 85.39.31.20, 85.43.70.30, 85.43.70.90, 85.43.90
Aeroplanes & Parts	88.02, 88.03.30, 88.05.21, 88.05.29
Spectacles	90.01, 90.02, 90.03, 90.04, 90.05
Cameras & Projectors	90.06, 90.07, 90.08, 90.10
Watches	91.01, 91.02, 91.05

- Sale of condominium housing units will be liable for VAT

(Effective from 01 April 2018)

9. New Exemptions

- Solar tracker classified under HS Code 84.79.89.50

(Effective from 01 April 2018)

10. VAT Refund Mechanism

- VAT refund scheme for foreign passport holders will be implemented at the Airports and Sea Ports.

(Effective from 01 May 2018)

Chapter 3 – Nation Building Tax (NBT)

1. New Exemptions

NBT will be exempted on-

- the import of non-motorized water sports equipment such as Kayaks, Canoes, Kite Surfing Equipment etc. and it is proposed to reduce the import taxes applicable on off road electric sports vehicles,
- importation of non-powered equipment and accessories for aero sports such as Hang Gliding, Ballooning, Dirigibles, Parachutes and Para-Gliders,
- gem stones imported for service cutting and to re-export,
- importation of equipment that enables advanced technology agriculture practices, including greenhouses, poly tunnels and materials for the construction of greenhouses, by any grower,
- upfront payment on the sale of yachts built by BOI companies to the local BOI charter companies,
- domestic coconut oil and kernal products for a period of 1 year,
- machines and equipment including solar panels and, storage batteries which will be imported for the establishment of solar charging stations.

(With effect from 1st April 2018)

2. Removal Exemptions

- NBT will be imposed on liquor.

(With effect from 1st April 2018)

3. Fiscal policy implementation

- It is proposed to further rationalise the exemptions on NBT in order to implement various policy measures of broadening the tax base and minimizing the tax expenditure.

Chapter 4 – Economic Service Charge (ESC)

1. ESC base for imported motor vehicles

ESC base for imported motor vehicles will be amended as follows:-

Motor vehicle category	Proposed base	Current base
Liable for Excise duty *	Payable Excise Duty	CIF Value
Not liable for Excise duty *	CIF Value	CIF Value

* Assumed that this refers to Excise (Special Provisions) Duty

- Base for Excise (Special Provisions Duty)
= (CIF Value (V) +15%V + Customs duty +Cess +PAL) x Rate
- ESC paid can be set off against the income tax payable by the importer.

Chapter 5 – Customs, Excise and Cess

1. Excise Duty under Excise Ordinance

Excise Duty to be amended as follows:

- On Liquor:

Type of Liquor	Duty (LKR per liter)
Hard liquor	3,300
Beer	2,400
Wine	2,400

- On import of non-potable alcohol at LKR15 per Kg.
- On raw materials used for manufacturing of ethanol:

Type of raw material	Duty LKR
Toddy	5 per liter
Molasses/ Maize/ Rice/ Fruits	10 per Kg

(With immediate effect)

2. Excise (Special Provisions) Duty

- Sugar tax on sweetened beverages
 - An excise duty of LKR0.50 per gram of sugar contained, to be imposed on sweetened beverages under HS code 22.02.
- Canned Beer
 - Duty applicable on canned beer to be removed.
- Plastic resin
 - To discourage the use of Polythene and Plastic products, a duty of LKR10 per Kg will be introduced on plastic resin items under HS codes 3901.10, 3901.20, 3902.10, 3903.11 and 3904.10.
- Motor Vehicles
 - Taxes on the importation of electric vehicles including electric three wheelers, cars and buses to be reduced while rationalizing the import taxes on vehicles powered by fossil fuel. Accordingly;
 - the import taxes on an electric car will be reduced by at least LKR1Mn;

- the import taxes on a diesel three wheeler will be increased by around LKR50,000 in order to encourage the transition into environmentally friendly electric three wheelers.
- Ad-valorem duty rate on motor vehicles will be removed to minimise revenue leakages. Instead duty will be imposed on the Engine Capacity (cubic centimetre (cm³)) for petrol and diesel motor vehicles. Further Excise duty base for electric vehicles will be the motor power of the engine (kilowatt (kW)).
- Accordingly, Excise (Special Provisions) Duty rates based on engine capacity will revised as follows;

On petrol motor cars

Engine capacity (Cm ³)	Duty (LKR Per Cm ³)		
	Proposed for 2018	Current	Difference
≤ 1000	1,750	1,750	-
1000 < x ≤ 1300	2,750	2,750	-
1300 < x ≤ 1500	3,250	2,750	500
1500 < x ≤ 1600	4,000	4,000	-
1600 < x ≤ 1800	5,000	4,500	500
1800 < x ≤ 2000	6,000	5,500	500
2000 < x ≤ 2500	7,000	6,000	1,000
2500 < x ≤ 2750	8,000	6,000	2,000
2750 < x ≤ 3000	9,000	6,000	3,000
3000 < x ≤ 4000	10,000	6,000	4,000
4000 <	11,000	6,000	5,000

Examples:

No increase in excise duty for Maruti Suzuki Alto, Maruti Wagon R, Perodua Axia

Increase in excise duty for Toyota Allion (1790 cc) – approx. LKR895,000

Increase in excise duty for Toyota Premio & Nissan X-Trail (1990 cc) – approx. LKR995,000

Increase in excise duty for Toyota Prado (2800cc) – approx. LKR8, 400,000

On Petrol hybrid motor cars

Engine capacity (Cm ³)	Duty (LKR Per Cm ³)		
	Proposed for 2018	Current	<i>Difference</i>
≤ 1000	1,250	1,250	-
1000 < x ≤ 1300	2,000	2,000	-
1300 < x ≤ 1500	2,500	2,000	500
1500 < x ≤ 1600	3,000	3,500	(500)
1600 < x ≤ 1800	4,500	4,000	500
1800 < x ≤ 2000	5,000	4,500	500
2000 < x ≤ 2500	6,000	5,000	1,000
2500 < x ≤ 2750	7,000	5,000	2,000
2750 < x ≤ 3000	8,000	5,000	3,000
3000 < x ≤ 4000	9,000	5,500	3,500
4000 <	10,000	5,500	4,500

Examples:

Increase in duty for Toyota Aqua/Axio and Honda Vezel (1490 cc) – approx. LKR745,000

Increase in duty for Toyota Harrier (1986cc) – approx. LKR993,000

Increase in duty for Mercedes Benz E350 (2000cc) – approx. LKR1,000,000

Diesel motor cars

Engine Capacity (Cm ³)	Duty (LKR Per Cm ³)		
	Proposed for 2018	Current	<i>Difference</i>
≤ 1500	4,000	3,500	500
1500 < x ≤ 1600	5,000	4,500	500
1600 < x ≤ 1800	6,000	5,000	1,000
1800 < x ≤ 2000	7,000	6,000	1,000
2000 < x ≤ 2500	8,000	7,000	1,000
2500 < x ≤ 2750	9,000	7,000	2,000
2750 < x ≤ 3000	10,000	7,000	3,000
3000 < x ≤ 4000	11,000	7,000	4,000
4000 <	12,000	7,000	5,000

Examples:

Increase in duty for Mitsubishi Montero (3200cc) – approx. LKR12,800,000

Increase in duty for BMW 520D (2000 cc) – approx. LKR2,000,000

Diesel hybrid motor cars

Engine Capacity (Cm ³)	Duty (LKR Per Cm ³)		
	Proposed for 2018	Current	<i>Difference</i>
≤ 1500	3,000	3,000	-
1500 < x ≤ 1600	4,000	4,000	-
1600 < x ≤ 1800	5,000	4,500	500
1800 < x ≤ 2000	6,000	5,000	1,000
2000 < x ≤ 2500	7,000	5,000	2,000
2500 < x ≤ 2750	8,000	5,000	3,000
2750 < x ≤ 3000	9,000	5,000	4,000
3000 < x ≤ 4000	10,000	5,000	5,000
4000 <	11,000	5,000	6,000

Examples:

Increase in duty for Land Rover Range Rover Sport Hybrid (3300 cc) – approx. LKR16,500,000

Increase in duty for Mitsubishi Outlander PHEV (2200 cc) – approx. LKR4,400,000

Electric Motor Vehicles (Unregistered)

Motor power (kW)	Proposed for 2018	Current	Difference
≤ 50	7,500	15,000	(7,500)
50 < x ≤ 100	12,500	25,000	(12,500)
100 < x ≤ 200	25,000	40,000	(15,000)
200 <	40,000	55,000	(15,000)

Examples:

Decrease in excise duty for Nissan Leaf (80 Kw) – approx. LKR1,000,000

Decrease in excise duty for BMW i3 (130Kw) – approx. LKR1,950,000

Three wheelers;

Type	Duty (LKR)
Petrol	2,100 per Cm ³
Diesel	1,250 per Cm ³
Electric	
- Unregistered (brand new)	7,500 per Kw
- Registered (used)	10,000 per Kw

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

- **Vehicle Permits for public sector employees**

- Upper ceiling of excise duty concession of vehicle permits to be defined in rupee value without changing the existing concession rate.
- Upper ceiling of CIF value of imported vehicles to be removed.
- Restriction on transferability to be removed.
- Duty payable will be calculated as follows:

Authorization (I)	Transferability (II)	Upper limit for CIF (III)	Payable Excise duty higher of (IV)
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Trade and Investment Policy Circular No. 01/2016

	Transferable	No upper limit	duty after deducting LKR3Mn from payable duty (i.e. Payable duty – LKR3Mn) or 35% of the payable duty
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Authorization (I)	Transferability (II)	Upper limit for CIF (III)	Payable Excise duty higher of (IV)
Foreign Affairs Circular No.210(III)			
	Transferable	No upper limit	duty after deducting LKR3Mn from payable duty (i.e. Payable duty – LKR3Mn) or 30% of the payable duty
Public Administration Circular No. 22/99 – Employee Category			
Group I	Transferable	No upper limit	duty after deducting LKR9Mn from payable duty (i.e. Payable duty – LKR9Mn) or 20% of the payable duty
Group II	Transferable	No upper limit	duty after deducting LKR7.5Mn from payable duty (i.e. Payable duty – LKR7.5Mn) or 20% of the payable duty
Group III	Transferable	No upper limit	duty after deducting LKR6Mn from payable duty (i.e. Payable duty – LKR6Mn) or 20% of the payable duty

(Effective from 10 November 2017)

3. Customs Import Duty

- New Exemptions
 - Importation of Crust (semi processed) leather for further processing (Tanning Industry) and supply of raw materials for leather products industry.
 - Importation of machinery, equipment, accessories and raw materials or intermediate materials, to be used only for manufacturing of biodegradable packaging products and materials.
- Customs Duty will be revised on certain other selected goods which will be gazetted.

4. CESS

- Cess to be removed on 253 items facilitating the emerging sectors namely, tourism, value adding industries and other industries.
- Cess to be revised on 22 items classified under following HS Codes facilitating the availability of goods for value addition and consumption purposes.

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

5. Ports and Airports Development levy (PAL)

- PAL on the items classified under the below HS Codes to be reduced.

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

- PAL on 253 items classified under HS Codes including importation of non-powered equipment and accessories for aero sports such as Hang Gliding, Ballooning, dirigibles, Parachutes and Para-Gliders to be removed.
- PAL to be revised on the importation of non-motorized equipment and accessories for water sports such as Kayaks, Canoes, Kite Surfing, and diving.
- PAL to be exempted on machines and equipment including solar panels and, storage batteries which will be imported for the establishment of solar charging stations.

Other Provisions

- Harmonized System of Commodity Classification and Coding System (HS Codes) to be revised as per the World Customs Organization effective from November 10, 2017.
- Value Limit of Export Trade Sample (Selected Goods only) to be revised to US \$ 400 or its equivalent per shipment with effect from January 01, 2018.
- Next Stage of the Tariff Liberalization Programme (Phase II) of the South Asian Free Trade Agreement (SAFTA) will be implemented with effect from November 10, 2017.
- Pre-Shipment Inspection Certification for importation of used motor vehicles to be revised effective from January 01, 2018.
- Issuance of Usance Letter of Credit Facility for importation of motor vehicles to be cancelled effective from January 01, 2018.
- Importation of Motor Vehicles below the Emission Standard to be prohibited effective from January 01, 2018.
- Importation of Motor Vehicles, which have not complied with the safety measures to be prohibited effective from January 01, 2018.
- Para-Tariffs applicable on importation of sports shoes will be removed / exempted.

Chapter 6 – Miscellaneous Taxes and Levies

1. Cellular Tower Levy

- A levy will be introduced on mobile towers at LKR 200,000 per month per tower and will be payable by the mobile tower operator on a monthly basis.

(Effective from 01 April 2018)

2. Debt Repayment Levy (DRL)

- DRL will be introduced on all cash transactions by financial institutions at the rate of LKR 0.20 (i.e. 0.02%) per LKR 1,000 and payable by the financial institutions.

(Effective from 01 April 2018)

3. Luxury Tax on Motor Vehicles

- One-time payment luxury tax will be introduced in lieu of the present system of payment over 7 years as follows:

Type	Tax		
	Super Luxury LKR	Luxury LKR	Semi Luxury LKR
Dual purpose (Petrol/diesel) 2200cm ³ < x			250,000
Motor Cars	Petrol 1800cm ³ < x ≤ 2500cm ³		
	Diesel 2200cm ³ < x ≤ 3000cm ³		500,000
	Electric 200kW < x ≤ 300kW		
	Petrol 2500cm ³ < x ≤ 3500cm ³		
	Diesel 3000cm ³ < x ≤ 4000cm ³		1,000,000
	Electric 300kW < x ≤ 400kW		
	Petrol 3500cm ³ < x		
Diesel 4000cm ³ < x	2,000,000		
Electric 500kW < x			

- The present system will continue for vehicles already registered.

(Effective from 01 April 2018)

4. SMS Advertising Levy

- A levy will be charged on bulk SMS advertisements at the rate of LKR 0.25 per SMS, payable by the advertiser.

(Effective from 01 April 2018)

5. Carbon Tax

- A Carbon tax will be imposed on motor vehicles based on the age and fuel type of vehicle as follows;

Type of Vehicle	Tax		
	Less than 5 years	5 to 10 years	Over 10 years
Hybrid (Petrol/Diesel)	LKR 0.25 per cm ³	LKR 0.50 per cm ³	LKR 1.00 per cm ³
Fuel (Petrol/Diesel)	LKR 0.50 per cm ³	LKR 1 per cm ³	LKR 1.50 per cm ³
Passenger Bus	LKR 1,000	LKR 2,000	LKR 3,000

- Clarification has not been provided on the payment procedures.
- Electric vehicles are exempted from the levy.

(Effective from 01 April 2018)

6. 1% Tax on Online Travel Agents (OTAs)

- OTAs in the tourism industry (both resident and non-resident) deriving their commission from businesses carried out in Sri Lanka will be liable for a tax of 1% on the commission derived from reservations in Sri Lanka.

7. Increase in Fees and Charges of Government Agencies

- Fees and charges of government agencies which have not been revised in the last 03 years will be increased by 15%.

Chapter 7 – Tax Administration

Customs

- New legislation is to be introduced to replace the existing Customs Ordinance.
- Acceptance of digital signatures for electronic documents, in line with ensuring a paperless clearing system, will be operative soon.
- 2017 version of Harmonised Commodity Description and Coding System (HS Codes), as published by the World Customs Organization, will be adopted, effective from 10 November 2017.
- Documentation processes for imports will be automated, effective 1st January 2018.
- Licencing scheme will be put in place for import of cigarettes and cigars in order clamp down smuggling.
- Usance LC facility will not be permitted for import of vehicles, effective from 1st January 2018.

Inland Revenue

- RAMIS will be appropriately changed to facilitate the implementation of the Inland Revenue Act No.24 of 2017.

Excise

- Excise Ordinance of 1912 would be revamped to meet present day requirements.
- Excise Revenue Management System (ERSL) will be introduced.

Tax Expenditure

- Typically, Tax Expenditure is taken to represent deviations from a benchmark tax system that reduces tax revenue.

The following tax expenditures have been set out in the Budget 2018.

Details of tax expenditure on income tax under 6th schedule of the Inland Revenue Act given in table I below:

Table I

	Turnover	Taxable profit	Tax expenditure
Life Insurance	120,000	8,000	1,120
Businesses of IT	18,000	2,000	2,000
Renewable energy	40,000	2,000	280
Research & Development	-	-	-
New investment less than USD 3 Mn	-	-	-
Relocation International Regional Headquarters	-	-	-
Total	178,000	12,000	3,400
Tax expenditure as a % of GDP			0.02%

Details of tax expenditure on VAT are given in table II below.

Table II

Item	Taxable value Base year 2016	Tax expenditure	
		2017	2018
Domestic	450,000	74,048	75,815
Electricity	200,000	32,910	36,102
Agriculture	80,000	13,164	14,441
Transport	60,000	9,873	10,831
Exempted Health services	40,000	6,582	7,220
Education	20,000	3,291	3,610
Food preparation	20,000	3,291	3,610
Sales of Condominium units	30,000	4,937	-
Imports		94,616	84,660
Crude oil	75,000	12,341	13,538
Yarn/Fabrics	65,000	10,696	-
Precious metals	60,000	9,873	10,831
LPG/Kerosene/Bitumen/Furnace oil	70,000	11,519	12,636
Agriculture/Dairy/medical/construction machinery	60,000	9,873	10,831
Pharmaceutical	60,000	9,873	10,831
Computer/Printed books	40,000	6,582	7,220
Fertilizer	20,000	3,291	3,610
Tractors/Passenger bus	16,000	2,633	2,888
Wheat Grain/Wheat Flour	35,000	5,759	6,318
Electronic goods	25,000	4,114	-
Wood & Articles	9,000	1,481	-
Agriculture /Aquaculture seeds	2,500	411	451
Dyes	2,000	329	-
Concrete mixture	2,000	329	361
Infant milk powder	1,500	247	271
LED-lamps	1,500	247	-
Sport items	1,500	247	-
Industrial racks	1,000	165	-
Aero planes & parts	1,000	165	-
Other	27,000	4,443	4,874
Total	1,025,000	168,664	160,475
As a % of GDP		1.3%	1.1%

Chapter 8 – Economic, Social and Other Reforms

1. Fast Tracking Liberalization

- The following acts are to be enacted
 - Liability Management Act
 - Public Finance Management Act
 - National Audit Act
 - Demutualization Act
 - Securitization Act
 - National Pensions Fund Act
 - Development Bank Act
 - Public Enterprises Act
- The Revival of Underperforming Enterprises or Underutilized Assets Act, No. 43 of 2011 will be repealed.
- The following acts are to be amended
 - Public Contracts Act No 03 of 1987
 - Land (Restrictions and Alienation) Act, No. 38 of 2014
 - Rent Act, No. 7 of 1972
 - Tea and Rubber Estates (Control of Fragmentation) Act, No. 2 of 1958
 - Paddy Land Act, No. 01 of 1958 and the Agricultural Lands Act, No. 42 of 1973
 - Shop and Office Employees Act, No. 15 of 1954 and Wages Boards Ordinance, No. 27 of 1941
 - Bankruptcy laws
 - The Limited Liability Partnership (LLP) structure
 - Secured Transactions Act, No. 49 of 2009,
 - Recovery of Loans (Special Provisions) (Amendment) Act, 89 Nos. 1 and 19 of 2011,
 - Land Development Ordinance, No. 19 of 1935,

- Debt Recovery (Special Provisions) Act, No. 2 of 1990,
- Mortgage Act, No. 98 of 1981
- Mediation Board Act, No. 72 of 1992
- Monetary Law Act, No. 58 of 1949
- Banking Act, No. 30 of 1988

1.1 Blue-green economy

- It is proposed that all vehicles in the country to be powered by non-fossil fuel sources by 2040. To this end, all Government vehicles will be converted to hybrid or electric vehicles by 2025.
- A new formula for import taxes is proposed based on the engine capacity.
- import taxes on an electric car will be reduced by at least LKR1Mn while the import tax on the high end fossil fuelled cars will be increased by almost LKR2.5Mn.
- a special tax on super luxury vehicles with an engine capacity exceeding 2,500 cc.
- import taxes on a diesel three wheeler will be increased by around LKR50,000 in order to encourage the transition into environmentally friendly electric three wheelers.
- The loan to value ratio for the electric busses and three wheelers will be revised to 90/10.
- Emission and safety standards to be introduced together with the revisions in the pre-shipment certificates on vehicle imports
- LKR500Mn allocated for introducing 50 electric busses into the SLTB bus fleet and incentivizing private bus operators to go electric.
- LKR5,300Mn allocated for incentives to encourage the use of off-grid solar power in establishing electric car charging stations and in agriculture and agro processing.
- Proposed carbon tax where the applicable rates for a motor cycle, car and a passenger bus will be around 17 Cents, LKR1.78 and LKR2.74 per day, respectively.
- Imposition of an excise duty of LKR10 per kilogramme for Plastic resins.
- The private sector will be incentivised to convert to environmentally friendly alternatives and to engage in manufacturing bags, packing materials etc. out of biodegradable materials such as banana fibre, palm leaves, coir, bamboo etc. Allocation for this purpose LKR75Mn.
- Customs duties will be removed for all machinery, equipment, raw materials and intermediary goods used in manufacturing of bio degradable packaging material

- Allocation of LKR3,000Mn to fast track the establishment of the Aruwakkalu waste disposal and management site
- LKR50Mn allocated to support the Local Government bodies to address the solid waste issue together with the local communities and the Private sector
- Allocation of LKR4,900Mn for construction of flood protection wall in the Kelani basin and new multi-purpose reservoirs at Wee Oya, Nawatha, Holombuwa and Reucastle.
- Expenditure incurred by the private sector entities and NGO's to partner the Government in the construction of above will be treated as qualified expenditure. (It is not clear as to whether qualified expenditure denotes tax deductible expenditure)
- LKR1,500Mn allocated for ground water monitoring.
- Allocation of LKR750Mn for "Pavithra Ganga" project focus on ensuring zero disposal of waste by factories into waterways over time.
- LKR1,500Mn allocated for establishing the Haritha Udyana (Eco Friendly Parks) or a green lung with a jogging track in every Pradeshiya Saba Division.
- LKR1,500Mn allocated for "Nilwala Eliya" model park and mega zone to be established on the left bank of the Nilwala river in Matara.
- Allocation of LKR75Mn each to move to an "Open Cage" concept at the Dehiwela Zoo and re-organization of the Pinnawela elephant orphanage to be "Born Free Chain Free".
- Establish a Research Institute on Elephants at Pinnawela and initiate a programme to train Mahouts in Pinnawela financed through the Wildlife Conservation Fund (WCF)
- LKR20Mn allocated for strengthening efforts to conserve our endemic species that are endangered along with the WCF.
- Introduction of Cellular Tower levy of LKR200,000 per tower per month to discourage the proliferation of such towers.

1.2 Blue Economy

- Allocation of LKR25Mn for the development of an Integrated Coastal Zone Management (ICZM) mechanism.
- It is proposed to allocate LKR400Mn for initiating a project on Beach Replenishment from Mount Lavinia to Ratmalana.
- LKR800Mn investment to protect the coastal belt from Negombo to Marawila.
- Investment of LKR1,000Mn in 10 lagoons for cleaning the lagoons, increasing the carrying capacity, supporting the existing livelihoods of fisherman and Research and Development
- LKR250Mn will be allocated for assisting industries to invest in technology to ensure zero discharge of waste into the lagoons.

- LKR25Mn allocation for establishment of a permanent Secretariat to pursue the extension of the continental shelf.
- LKR25Mn allocation for establishment of a virtual Blue - Green- Institute as the Coordinating Secretariat for Science, Technology and Innovation (COSTI).

1.3 Encouraging Sustainable Agri and Fishing Ventures

- LKR25Mn allocated to strengthen the eco-certification programme to facilitate access to export markets.
- An allocation of LKR1,000Mn to desilt small and medium tanks.
- Allocation of LKR250Mn to complete the construction of 3 warehouses for storage of agricultural produce, in Polonnaruwa, Ratnapura and Kilinochichi.
- LKR3,000Mn investment in a weather indexed insurance scheme with a minimum cover of LKR40,000 per acre for 6 crops including paddy and other 5 emerging crops.
- Allocating LKR200Mn for upgrade the Department of Meteorology.
- SLINTEC, ITI and the National Science Foundation (NSF) will be supported through an allocation of LKR50Mn to engage in developing fertilizer, soil management practices etc. to rehabilitate and improve such degraded soil.
- Exempt NBT on the import of selected equipment including greenhouse technology that enables advanced technology agriculture practices.
- Backward integrated activities related to agriculture will be taxed at the concessional Income Tax rate of 14%.
- LKR175Mn allocation for bearing 50% of the cost of introducing technology such as refrigerated storage to mitigate post-harvest losses in multi-day boats.
- LKR1400Mn allocation for bearing 50% of the cost of multi-day boats of more than 55 feet long.
- LKR1,750Mn will be allocated for developing and upgrading the anchorages and landing sites of fishery harbours while also investing to improve Chilaw, Mirissa, Karainagar and Purana Wella fishery harbours.
- An allocation of LKR200Mn for development of the Gandara Fishery harbour together with a new fishery harbour in Wellamankara in the Mannar District.
- “Wewak Sahitha Gamak” programme for improving fishery villages in coastal areas will be allocated LKR450Mn.
- A Milk Fish Hatchery and a Marine Ornamental Fish Hatchery will be established in Bangadeniya for an investment of LKR100Mn.

- A dedicated buffer zone will be established in Poonakery in the Kilinochchi District where the private sector will be given plots to harvest and process Sea Cucumbers.
- Infrastructure facilities of the model Aquaculture Industrial Park in the Batticaloa District will be completed with an investment of LKR250Mn.

2. Enterprise Sri Lanka

2.1 Creating the Next Generation of Local Entrepreneurs

- LKR10,000Mn allocation for facilitating the establishment of a Development Bank with an EXIM window, to enable the much desired long term financing for our private sector ventures. Until the Bank is established, the government will continue with the targeted, existing and the proposed loan schemes.
- The “Enterprise Sri Lanka Credit Scheme” will be allocated LKR750Mn.
- An allocation of LKR2,200Mn in extending support mainly to the farmers, fisherman, youth and women who are already engaged in small businesses and introducing development programmes to address regional issues.
- LKR500Mn will be allocated to support the formation of 50 agro and fishery companies, 25 majority women owned companies, and 150 youth centric start-ups during 2018-2020.
- In order to encourage women entrepreneurs, “Enterprise Sri Lanka Credit Scheme” will make available credit facilities with the interest subsidy being at least 10% more for women entrepreneurs relative to others. LKR50Mn will be allocated for this.
- The differently abled will also be eligible to access the “Enterprise Sri Lanka Credit Scheme” with the interest subsidy being at least 15% more relative to others. LKR15Mn will be allocated for this.
- LKR500Mn will be allocated for establishment of a SME Guarantee Fund.
- LKR25Mn will be allocated for the “Erambuma Credit Scheme” which supports the start-ups with a credit facility of LKR1.5Mn per annum per idea per person with a Government Guarantee.
- The Government will launch the “IT Initiative”, which is in effect the Government’s angel fund for the IT industry. This initiative will be operated through the EDB and the government will invest LKR3 billion in the next 5 years to support:
 - The local start-ups and to attract foreign start-ups,
 - Small and Medium sized IT Companies, and
 - Create the enabling environment by supporting establishment of Incubators, supporting the acquisition and augmentation of skills and knowhow in collaboration with the local universities etc.

- The “IT Initiative” will at the outset finance the following:
 - 50% of the Rent expenditure for 24 months on the Hatch Incubator and similar support to any such private ventures in the future, as well.
 - The Universities of Colombo and Moratuwa and, SLIIT will conduct training courses on Artificial Intelligence, Robotics, Data Science, Machine Learning, Python Development etc. in collaboration with the industry for which the cost will be shared between the industry and the proposed “IT Initiative”.
- The SME Guarantee Fund will be extended to the “IT Initiative” and the exporters who require support.

2.2 From Local Entrepreneurs to Global Leaders

- Encouraging competition in the local private sector through the following steps,
 - The para-tariffs applicable on the tariff lines which do not at present carry any Customs duties will be abolished within the next 3 years;
 - Removal of 1,200 para tariff on import items by way of a trade adjustment programme;
 - introduction of strong Anti-Dumping and Countervailing laws together with strengthened Consumer Protection laws while also augmenting the National Quality Infrastructure.
- Introduction of anti-competitive laws addressing Mergers and Monopolies practices to ensure that the private sector can be better facilitated to grow through scale and yet ensure a level playing field.
- Supporting our private sector while focusing on strengthening the potential industries as identified in the National Export Strategy.
- LKR800Mn will be allocated for the introduction of “Export Market Access Support” programme as part of the Trade Adjustment programme which will support our local companies that already have exports of less than USD 10Mn per annum and potential new entrants to the export market to better access the global value chains.
- The “Export Market Access Support” programme will facilitate;
 - meeting the cost of compliance (includes the cost of provision of free samples, intellectual property registration etc.)
 - support in meeting the cost of rent of retail shop space or shelf space occupied by domestic brands that go overseas for a period of 36 months.
- Product development assistance to exporters including the transfer of technology and knowhow will be facilitated through the “Enterprise Sri Lanka” Credit scheme.

- The proposed SME Guarantee Fund will enable SME Exporters who are in the CRIB but have the potential to export to access financing from Banks utilizing the SME guarantees.
- LKR250Mn to be allocated for the testing facilities at the Industrial Technology Institute (ITI), Sri Lanka Standards Institution (SLSI), National Quarantine Centre, National Aquatic Research Agency and similar agencies will be upgraded to be on par with international certification bodies.
- Allocation of LKR25Mn for upgrading the National Intellectual Property Office.
- BOI and the Customs Department will establish a procedure by 1st January 2018, to facilitate Business to Consumer e-commerce transactions (B to C).
- Liberalization of the existing investment regime with the inclusion of working capital, expansion of designated areas and introduction of updated operating guidelines.
- The Sri Lanka Ports Authority Act, No. 51 of 1979 and the Merchants Shipping Act, No. 52 of 1971 will be amended to cater to the demands of the modern day logistics and marine industry.
- An independent Ports regulator will be introduced and restrictions on the foreign ownership on the shipping and the freight forwarding agencies are to be lifted.
- An allocation of LKR25Mn will be made in a “Multi-National Corporation Outreach” programme (MNC Outreach) to attract global Electronic and Electrical Machinery (EEM) players into the country.
- Tax concessions to be provided on imported capital goods through bonding facilities during the construction period for large scale pharmaceutical investments, dairy industry and solid waste management ventures.
- The EDB, supported by institutions such as Sri Lanka Customs, Department of Commerce etc., will establish a trade portal (E trade Information Platform) that will allow the exporters to access reliable trade information on time and trade promotional tools. LKR25Mn will be allocated for this.
- LKR25Mn will be allocated for the conversion of COSTI into the National Science Technology & Innovation Coordinating Authority (NASTICA) which will be dedicated to convert research into commercial ventures.
- LKR25Mn will be allocated for the “Innovators to Industry (I2I)” initiative, which will facilitate the matching of the best and the brightest creative minds with our industries.
- The allocation of LKR350Mn for the support of the Product Design Engineering (PDE) initiative through the Mechatronic Enabled Economic Development Initiative (MEDI).
- LKR50Mn will be allocated for strengthening the Centre for Robotics while supporting the Public Innovation Spaces.

- Introduction of the necessary regulations to facilitate the boat building industry to grow, including the introduction of a system for standardization and quality assurance and, will also create dedicated industry zones in Trincomalee and Koggala. LKR100Mn will be allocated for this.
- The upfront payment of NBT and PAL applicable on the sale of yachts built by BOI companies to the local BOI charter companies will be exempt.
- Stringent regulations will be imposed in the spice and concentrates industry to ensure good quality products.
- LKR50Mn allocation for providing incentives to increase the production of high quality planting materials in 1,000 nurseries for the Cinnamon and Pepper industry.
- LKR50Mn will be allocated for strengthening activities of the Cinnamon Training College.
- A revenue model for the Tea industry will be developed in the medium term.
- An allocation of LKR250Mn will be made in extending assistance to Tea small holders to improve productivity.
- NBT on domestic Coconut oil and kernal products will be removed for a period of 1 year.
- Introducing regulations to ensure mandatory packaging and labelling and standardization of quality in compliance with international quality standards for all Coconut kernel products.
- LKR25Mn will be allocated to support the Coconut Research Institute to produce Hybrid Coconut Seedlings.
- LKR50Mn will be allocated for the implementation of the Rubber Master Plan, which includes 22 different projects covering the raw material base and manufacturing.
- The import of maize will be liberalized provided that such imports will be made only to meet any gap created due to a lack of domestic production.
- Underutilized state farms or land suitable for the poultry industry will be leased to develop modern poultry farms.
- LKR125Mn will be allocated in supporting the Horana and Makandura Research Centres and the Institute of Agro- Technologies and Rural Sciences to develop high yielding plants using micro propagation methods and disseminate the necessary technologies. Concurrently, the government will also support the Wayamba University in establishing a Centre for Food, Technology, Research and Training.
- LKR10Mn in improving infrastructure in the floriculture industry, including the establishment of a Flower Council to access new markets.
- The NBT on the gem stones imported for service cutting and to re-export will be exempted.

- National Gem and Jewellery Authority's structure and polices will be revamped so as to facilitate the industry's growth potential including upgrading the lab facilities.
- Establishment of a Design Centre for Timber and Timber based products in collaboration with the University of Moratuwa.

2.3 Stimulating the Tourism Industry

- Homestay programmes will be encouraged. LKR10Mn will be allocated for a special credit facility will be introduced to upgrade such facilities.
- It is suggested to register all tourist service providers with the Sri Lanka Tourism Development Agency (SLTDA).
- It is further suggested that a tax of 1% be imposed on the Online Travel Agents (OTAs) in the tourism industry (both resident and non-resident) which derive their commission from the businesses carried out in Sri Lanka, on the commission derived or accrued by OTAs from reservations in Sri Lanka.
- Para-tariffs imposed on certain imported food and beverages will be removed.
- The liquor licensing fee structure will be rationalized and a tax file number will be one of the essential requirements when issuing these licenses.
- LKR250Mn will be allocated for the development of Forts in Matara, Hambantota, Batticaloa, Fort Fredrick in Trincomalee, Mannar Fort/Doric House and in Kalpitiya in collaboration with the Archaeological Department and the private sector.
- Railway stations such as Nanu Oya, Colombo Fort, Galle and Ella will be declared as Archaeological sites and modernized to give a better rail commuter experience. LKR75Mn will be allocated for this.
- The domestic airports at Sigiriya, Batticaloa, China Bay and Koggala will be developed as PPP's to support tourism.
- Definition of 3 dimensional boundaries to be demarcated as "open skies for aero sports" including Hang Gliding, Ballooning etc.
- NBT and PAL will be removed on the import of non-powered equipment with relation to aero sports.
- LKR75Mn allocation for development of Maduru Oya and Gal Oya National Parks and park rangers to support high end safaris etc.
- The SLTDA will establish 25 life guarding stations on the coast and the Government will collaborate with Sri Lanka Police to strengthen 20 Tourism Police Units in popular tourist spots to ensure the safety of Tourists. LKR30Mn will be allocated for this.

- The PAL and NBT will be exempted on the import of non-motorized water sports equipment such as Kayaks, Canoes etc.
- Reduction of import taxes applicable on off road electric sports vehicles.
- The EDB together with the SLTDA will invest in the development of a “Branding Sri Lanka Cuisine” initiative.
- Allocation of LKR50Mn for three street festivals and exhibitions to be held in Los Angeles, London and Mumbai during the coming year to coincide with Sri Lanka’s 70th Independence celebration.
- A VAT refund scheme for foreign passport holders will be implemented at the Airports and Sea Ports with effect from 01st May 2018.
- LKR50Mn to be allocated for the introduction of a “Tourist Friendly tuk” where the “tuk” drivers will be trained and registered with the Bureau.
- Allocation of LKR25Mn to establish the three wheeler regulatory authority. regulations have already been issued to make meters mandatory for all.

2.4 Enabling Environment for Foreign Direct Investments

- The Department of the Registrar of Companies will establish a One Stop Shop for business registration through the introduction of a single identification system, digitizing company records, creation of a database of trademarks, etc. using its own funds.
- LKR500Mn allocation for introduction of an E-local Government application system, automated construction permit issuing mechanism, Integrated Land Registry (ILR), digitized 45 Land Registers, and establish a National Single Window connecting 31 State agencies with the Customs Department.
- Removal of restrictions that limit the land ownership rights of listed companies with foreign ownership together with the restrictions on foreigners’ ability to purchase condominiums below the 4th floor.
- Rojana Industries of Thailand will be establishing an Industrial Park at Milleniya with an investment of USD 500Mn. The Government has already provided this venture with land and will also provide the necessary infrastructure such as electricity, water, access roads etc. up to the Zone. Similar support will be extended to the proposed Industrial Zones in Bingiriya, and Charlemont Estate, Weligama. The BOI, the relevant line agencies and the newly established PPP Unit at the Finance Ministry will collaborate in facilitating such ventures. LKR2,500Mn will be allocated for this.
- Allocation of LKR100Mn on the establishment of the Hi-Tech Innovation Park in Mahahenawatte, Pitipana which will host initially 6 industries from the Bio-Pharma sector and 15 more industries subsequently.

- A special PPP Unit has been established under the Finance Ministry, which will be the single facilitation point for all stakeholders in designing and implementing PPPs. PPP guidelines will be issued shortly and LKR50Mn will be allocated to this unit.

2.5 Harnessing Our Young Entrepreneurs

- A three pronged approach will ensure that no youth will be left behind within the “Enterprise Sri Lanka” vision.
 - “13 years of Education” - Invest in primary and secondary education to ensure that young people will get 13 years of education irrespective of the outcome at O/Ls in a stream of their choice with the emphasis on vocational and skills training.
 - “World Class University Education” - Invest in university education with focus on modern curricula, research facilities and standardization.
 - “Market Oriented Vocational Training” - Invest in developing vocational training institutions to develop high quality market oriented training programmes.
- Allocation of LKR2,500Mn in establishment of “Employment Preparation Fund” at the Ministry of National Policies and Economic Affairs for providing 3-6 months training courses in a specific skill set as demanded by the private sector. Through this fund,
 - The cost of such training courses to be made available
 - The cost of the stipend to be paid during the training period amounting to LKR3,500 per month
 - A portion of the monthly allowance up to LKR6,000 for a period of 6 months and the partner employer will pay a further allowance of LKR10,000.
- The National Youth Corps has undertaken several skill development programmes and these will be further strengthened by allocating LKR2,000Mn.
- LKR1,000Mn allocation for 5 Technical and Vocational schools in Badulla, Kandy, Trincomalee, Ratnapura and Anuradhapura in the next 3 years with technical inputs from the Swiss and the German Governments.
- LKR50Mn will be allocated for a University College to be established in Kinniya for advanced training opportunities for youth.

3. Social infrastructure

3.1 13 Years of Education

- Investments in Education, Higher Education and Vocational Education alone will amount to over LKR325 billion in 2018.

- LKR3,500Mn allocated towards introducing a Student Insurance Scheme and to provide Tablets for students. Budget for education is structured on the objective of providing “13 Years of Education”. Reforms will also focus on improving the ratio of Science, Technology, Engineering and Medicine (STEM) to Non-STEM graduates in the country.
- The National Institute of Education (NIE) will be restructured to partner the demand for serious reforms in the primary and secondary education. The focus of the reforms will include a change in the methodology of teaching of STEM subjects.
- It is proposed to change the A/L subject combinations ensuing degree programmes, as well, in line with the STEM+A (Arts) concept, which will allow students to have combinations such as Mathematics with Music, Science with Drama etc. at A/Ls.
- The examination and assessment methodology will be reformed to suit “13 years of Education”.
- It is proposed to provide students with math kits and upgrade the mathematics laboratories.
- An allocation of LKR25Mn to be made for the Programme for International Students (PISA), which will be introduced to facilitate the testing of the education system in comparison to the global standards by testing the skills and knowledge of students.
- It is proposed to introduce Genomics, Coding, Robotics and Nanoscience into our school curricula in preparing students for tomorrow’s jobs.
- An allocation of LKR1,200Mn to the Continuous Professional Development (CPD) for Teachers.
- The “Smart Class Room” concept to be strengthened as part of our digitalization drive, together with the development of e-text books and an allocation of LKR755Mn is made for this purpose.
- A centre dedicated to training Teachers in English Language to be established at the College of Education at Maharagama and an allocation of LKR50Mn is made for this purpose.
- An allocation of LKR25Mn is made to upgrade the special needs training facilities at Hapitigama and Adalachchenai Colleges of Education, to further strengthen the training of teachers of special needs students.
- An allocation of LKR50Mn is made to increase the allowance paid to the students in National Colleges of Education up to a maximum of LKR5,000 per month from an average of LKR3,500 per month.

3.2 World Class University Education

- An allocation of LKR1,250Mn is made to establish State medical faculties at Wayamba, Sabaragamuwa and Moratuwa Universities to expand medical education.

- An allocation of LKR50Mn is made for a Professorial unit at the Karapitiya hospital to complement the expansion of the medical faculty at the Ruhuna University.
- An allocation of LKR5,000Mn is made to expand the technology degree programmes in subjects such as Information and Communication Technology, Engineering Technology and Bio Systems Technology in 7 new technology faculties which include, the Universities of Rajarata, Ruhuna, Sabaragamuwa, Kelaniya, Colombo, Sri Jayewardenepura and the South Eastern University.
- It is proposed to establish a Centre for Naval Studies and Shipping at the Ruhuna University and an allocation of LKR250Mn is made for this purpose.
- An allocation of LKR250Mn is made to support the Colombo University's initiative to collaborate with the industry needs and venture into new streams such as Data Science, Big Data analytics, Actuarial studies, Business analytics etc.
- The Vavuniya Campus of the Jaffna University will be strengthened to include a state of the art library facility and an IT centre and an allocation of LKR200Mn is made for this purpose.
- It is proposed that the government would facilitate the State universities to offer internal off site degree programmes in properly regulated and accredited private institutions.
- An allocation of LKR25Mn is made to establish an independent quality assurance and accreditation mechanism to maintain standards and quality of the provision of higher education.
- An allocation of LKR100Mn is made to support the University of Sri Jayewardenepura's Management Faculty to seek the accreditation of the Association to Advance Collegiate Schools of Business (AACSB) enabling the university to benchmark against the global competitors.
- The relevant Statutes governing UGC approved universities to be amended to own patents and, remove restrictions on licensing them and owning shares in companies that exploit or license such patents.
- An allocation of LKR40Mn is made to establish a Post Graduate Institute of Indigenous Medicine.
- An allocation of LKR75Mn is made to increase eligibility criteria of the household income threshold from LKR300,000 to LKR500,000 per annum for the Mahapola Scholarship scheme.
- It is proposed to finance a health insurance scheme for all university students and an allocation of LKR100Mn is made for this purpose.

3.3 Sports Activities

- An allocation of LKR100Mn is made to develop 100 rural play grounds throughout the country to popularize and support community sports.
- It is proposed to develop the Digana sports stadium, the Polonnaruwa District stadium and the Sandankeni sports stadium in Kalmunai and also to rehabilitate the Matale Hockey Ground to promote sports at the District and Provincial levels. An allocation of LKR400Mn is made for this purpose.
- An allocation of LKR1,400Mn is made to upgrade and expand the Diyagama International Sports Complex, where the South Asia Games (SAG) will be held in 2020.
- The Sugathadasa Indoor Stadium will be modernized and managed as a PPP and an allocation of LKR100Mn is made for this purpose.
- An allocation of LKR1,200Mn is made upgrade the pavilion and the tracks at the Sugathadasa Outdoor Stadium to meet international standards.
- The Human Performance laboratory will be equipped with state of the art facilities and an allocation of LKR75Mn is made for this purpose.
- An allocation of LKR25Mn is made to support the implementation of a national awareness programme on anti-doping and the establishment of a drug testing and research laboratory.
- It is proposed that the para-tariffs imposed on import of sports shoes be removed.
- An allocation of LKR50Mn is made to support the Veterans and the differently abled who represent the country in international sports competitions such as the Asian Masters Championships, Paralympics etc.

3.4 A Healthy Nation

- An allocation of LKR450Mn is made to establish specialized rental units and 3 numbers state of the art Extra-Corporeal Shock Wave Lithotripsy (ESWL) machines to the Polonnaruwa, Anuradhapura and Jaffna Hospitals.
- It is proposed to strengthen the Health Education Bureau's (HEB) activities and screening process for CKDu, Thalassemia and HIV/AIDS tackle the rising threat of Non Communicable Diseases (NCD). An allocation of LKR100Mn is made for this purpose.
- It is proposed to impose and excise duty of 50 cents per gram of sugar contained in beverages effect from midnight today, in the ongoing effort to reduce diabetes and obesity, especially amongst children.
- The Karapitiya Cancer Unit will be strengthened and Cancer Units will be established at both Batticaloa and Ratnapura Hospitals. An allocation of LKR300Mn is made for this purpose.

- An allocation of LKR100Mn is made to strengthen the primary health care network of Government dispensaries.
- An assisted Reproductive Treatment Centre at the Castle Street Hospital for women and 3 highly specialized Obstetrics Centres in Colombo, Kandy and Anuradhapura to be established and an allocation of LKR275Mn is made for this purpose.
- An allocation of LKR50Mn is made to establish a Maternity and Neo-natal Complex at the Polonnaruwa Hospital.
- An allocation of LKR400Mn is made to commence work on the Cardiac and Critical Care Complex and the Cardiothoracic Complex at the Lady Ridgeway Hospital.
- The Divisional Hospitals at Moratuwa and Deniyaya to be upgraded with necessary infrastructure and the Beruwala Base Hospital to be strengthened with curative care units, laboratories, a Blood Bank and a sewerage treatment plant. An allocation of LKR375Mn for this purpose.
- An allocation of LKR150Mn is made to move the maternity, paediatric, medical and the administrative units of the new District General Hospital at Matara to Kamburugamuwa.
- It is proposed to develop a comprehensive food hygiene and food safety system in collaboration with the relevant line agencies. An allocation of LKR25Mn is made for this purpose.
- An allocation of LKR300Mn is made to improve the infrastructure facilities at the Nurses Training Schools.
- An allocation of LKR25Mn is made to support the improvement of mental health care in the country.
- The Dental Health Institute of Maharagama and the Oral Health Care Unit at Ratnapura to be strengthened with better facilities. An allocation of LKR300Mn is made for this purpose.
- An allocation of LKR25Mn is made to establish a unit dedicated to Sexually Transmitted Diseases (STDs) and HIV/AIDS with the state of the art facilities at the National Hospital of Colombo.
- An allocation of LKR750Mn is made to support the Suwaseriya Ambulance service.
- The NSF to be supported to strengthen health and allied research and an allocation of LKR75Mn is made for this purpose.
- Regulations to be issued imposing the quality and standards required in importing cosmetic and personnel care products.
- It is proposed to rationalize the tax structure based on a formula linked to the alcohol content and type and NBT to be imposed on liquor with effect from 1st April 2018.

3.5 A home owning society and creating urban hubs

- An allocation of LKR17.5Bn is made for the Urban Regeneration Project (URP) where the government hopes to provide 20,000 housing units for the low income segment in the country by 2020.
- An allocation of LKR3,000Mn is made to construct houses in the North and the East for those displaced during the conflict.
- It is proposed to facilitate a shift from the line rooms to a house and for which 25,000 houses will be provided in the medium term for the plantation sector workers. An allocation of LKR2,000Mn is made for this purpose.
- Rural housing needs to be addressed through an owner driven housing scheme and also to support improvements to the houses. An allocation of LKR2,000Mn is made for this purpose.
- An allocation of LKR500Mn is made to support middle income home buyers with a low interest credit schemes to purchase houses in the projects undertaken by the Urban Development Authority (UDA) and the National Housing Development Authority (NHDA) to construct affordable houses in the areas of Borella, Kottawa, Wadduwa, Homagama and Ragama.
- An allocation of LKR24 Bn to be made for URP: a multipurpose initiative, which includes an integrated flood mitigation mechanism to cover the Colombo city limits and its suburbs including Weras Ganga project, the relocation of the Manning Market to Peliyagoda, Administrative City Development project, development of Ancillary Infrastructure for the Colombo Port City, Transport Development project, Beira Lake Rehabilitation and Redevelopment project and, the provision of Road Infrastructure for the Tec-City at Homagama.
- An allocation of LKR12,000Mn to be made for the township and strategic city development programme, which will initially cover Kandy, Anuradhapura, Galle and the Jaffna Districts.
- It is proposed to support the master plan for greater Kalmunai and Samanthurai by uplifting small and medium townships, especially in the lagging regions of the country with modern amenities. An allocation of LKR2,000Mn is made for this purpose.
- An allocation of LKR10,000Mn is made to complement the financing for the Central Expressway project.
- An allocation of LKR4,000 is made to improve the rural road network covering the entire country and to rehabilitate the roads that were affected by the disasters due to floods and landslides.

- It is proposed to support the Touch Travel card program led by SLTB to cover private sector too and to further support the initiative and to implement a combined timetable for bus transport.

4. Creating a Secure Environment for All

- Allocation of LKR100Mn for community policing to position Sri Lanka Police as a professional, people friendly law enforcement agency.
- A Police and Criminal Justice University, will be established with an allocation of Rs.125Mn. to focus on areas of Human Rights, International Law, Security, Criminology, Forensics, Investigational and Intelligence Analytics.
- For the purpose of strengthening the Cyber Crime Investigation Unit of the Sri Lanka Police and upgrading the Police Information and Communication Systems, allotment of LKR440Mn.
- As requested by UN, special training and development courses for Sri Lankan Soldiers are to be implemented to with an allocation of LKR750Mn.

5. Legal Reforms

- Establishment of specialized high courts with an allocation of LKR25Mn in order to clear the huge build-up of cases pending in courts on offenses such as financial crimes, corruption and organized crimes. Further to the above an installation of modern audio and visual recording system to accelerate the process.
- Introduction of an automated case management mechanism with an allocation of LKR50Mn
- LKR500Mn for relocation of two court complexes in Ratnapura and Welimada as it has been identified to be affected from landslides.
- LKR400Mn for relocation and expansion was budgeted for court complexes in Kilinochchi, Theldeniya, Pugoda and Kantale
- LKR50Mn is allocated to procure vehicles dedicated to transport juvenile offenders and victims separately.

6. Strengthening the Capital Markets

- It is in this context BOC and PB will be permitted to raise both debt and equity capital. In raising equity capital, the State will not relinquish the controlling ownership, but is willing to allow the divestitures, provided that the depositors and the employees are given the option of becoming shareholders. However, in the interim, Government will infuse

LKR5Bn as equity to BOC in 2017 and a further LKR5Bn in 2018. In addition, LKR2.5Bn will be infused as capital into the Pradeshiya Sanwardana Bank in 2017. Total allocation of LKR5000Mn for the above.

7. Heritage and Culture

- LKR50Mn to be allocated to establish a Buddhist library
- Allocation of LKR250Mn to restore and renovate activities of our Purana Viharas of archaeological value, all over the country, as well as other such places of worship of Hindu, Christian and Islamic faith.
- Establishment of Pilgrims Rests in Anuradhapura, Sri Pada, Madu, Koneshwarem, Muneshwarem and Nallur with an allocation of Rs.100Mn
- Continuation of the conservation and the preservation of the Ritigala and Rajagalatenna archaeological sites with an allotment of LKR25Mn
- The Racecourse building will be converted into the National Centre for Arts, Crafts and Modern Design to use as a hub for both traditional and contemporary artists, artisans and designers. Funding will also be available to artists and designers to showcase their talent and products both here and abroad. LKR250Mn has budgeted for the same.
- Development of contemporary arts through the establishment of world class performance Centre in Moratuwa with an allocation of LKR600Mn
- Restoration of Cultural Hall in Thaalvupadu, Mannar with an allocation of LKR25Mn
- Accident and medical insurance scheme to be introduced for artists supported by the President's Welfare Fund and the Tower Hall Foundation. LKR10Mn has been budgeted for same.

8. Public Sector

- Infusion of technology and, change of laws and regulations.
- empowerment of the public servant
- Allocation of LKR2,000Mn for initiatives on digitization of Government systems and procedures and, the infusion of technology
- National Economic Council to be set up to ensure a more coordinated approach in formulating the country's development policies.
- Allocation of LKR500Mn for Integrated Treasury Management Information System (ITMIS), connecting all the departments in the General Treasury to facilitate better Treasury management.

- Introduce a common payroll system for public sector employees
- Accrual accounting in preparing the financial statements to be implemented from the existing modified cash accounting methodology to improve the country's balance sheet ensuring better accountability and transparency.
- Strengthen the capacities of the Local Government bodies with further investments of 150Mn.
- A programme to be initiated for providing child care facilities in Government offices that have more than 500 employees or at least 500 employees.
- Tax concessions applicable on the public servants' concessionary vehicle scheme will be continued, with a Rupee value based upper ceiling.
- Fees charged for the services provided by Government agencies which have not been revised during last 3 years to be revised by 15%.

9. Reconciliation

- In addition to the allocations already provided to other Ministries, it is proposed to allocate LKR750Mn to construct 50,000 brick and mortar type houses in the North and the East.
- An allocation of LKR2,000Mn is made to support programs and activities in rural irrigation development including drip irrigation, rain water harvesting, and integrated village development.
- An allocation of LKR2,750Mn is made to construct a special home for differently abled women in the North.
- It is proposed to support by way of provision of grants and the introduction of a low interest loan scheme to facilitate those indebted and to move out the debt trap through Co-operative Rural Banks and the Thrift and Credit Co-operative societies. An allocation of LKR1,000Mn is made for this purpose.
- It is proposed to facilitate existing small industries to increase production and to connect with the markets through existing subsidized credit schemes under the "Enterprise Sri Lanka" Credit Schemes.
- It is proposed to support by way of grants, selected small industries throughout the Northern Province by empowering the vast network of Producer Cooperatives in the Province. An allocation of LKR1,000Mn is made for this purpose.
- It is proposed to establish 2 food processing centres in Delft Island and Kilinnochchi, specializing in Sap based produce such as Palm Juggery, Palmyra fruits and Tuber processing, respectively. An allocation of LKR40Mn is made for this purpose.

- The Mylitty harbour to be developed as a fishery harbour and also to establish cool rooms and storage facilities to enable the fisherman to store their fish. An allocation of LKR150Mn is made for this purpose.
- An allocation of LKR100Mn is made to bear 50% of the electricity cost of the companies that will be established, for a period of 2 years and to upgrade the facilities at Achchuveli Industrial Zone.
- It is proposed to establish a modern economic centre in Jaffna connected to the Dambulla dedicated Economic Centre and to Colombo, creating an economic triangle. An allocation of LKR100Mn is made for this purpose.
- An allocation of LKR30Mn is made to improve the services of ITN's Vasantham TV channel.
- It is proposed to allocate resources to strengthen the implementation of the Official Language Policy through the National Language Development programme and the National Co-existence programme. An allocation of LKR200Mn is made for this purpose.
- An allocation of LKR25Mn is made to support the "Ammachchi" concept where women affected by the war are facilitated to engage in small trader businesses.
- It is proposed to make the 12,600 rehabilitated ex-combatants eligible for employment by facilitating them to obtain NVQ certification in keeping with their skills. An allocation of LKR25Mn is made for this purpose.
- It is proposed to that private entities that recruit at least 5 ex- combatants to be provided with a salary subsidy of 50% of the salary per person subject to an upper limit of LKR10,000 per person per month for period of 12 months. An allocation of LKR250Mn is made for this purpose.
- An allocation of LKR2,500Mn is made for infrastructure development and housing for the Muslims living in the North, who were forcibly evicted by the LTTE. It is also proposed to expedite the resettlement processes which include the rehabilitation of the Mannar town area and to continue the township development programme at Silawathura.
- The OMP, which was approved by this House, to commence its operations, fully from 2018. An allocation of LKR1,400Mn is made for this purpose.
- An allocation of LKR180Mn is made to support the activities of the extended term of the Secretariat for Coordinating Reconciliation Mechanisms (SCRM).

10. Cost of living

- It is proposed to support the creation of fair price shops through established retailers in public spaces provided by the Government, free of charge.

- It is proposed to strengthen the Consumer Affairs Authority to protect the consumer from price and quality manipulators

11. Social levy for debt repayment

- It is proposed to charge a Special Levy for Debt Repayment at the rate of 20 cents per LKR1,000 on the total transaction made through banks with effect from 1st April 2018 and will be applicable only for 3 years and shall not be passed on to the customers.

Sri Lanka Economy at a Glance

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Budget deficit (% of GDP)	(5.4)	(7.6)	(5.7)	(5.4)	(5.6)	(6.2)	(7.0)	(9.9)	(7.0)	(6.9)	(7.0)	(7.0)	(7.5)	(7.3)	(8.5)	(10.4)
Current account (deficit) (USD Mn)	(1942)	(1,883)	(1,988)	(2541)	(3982)	(4615)	(1075)	(214)	(3885)	(1401)	(1498)	(650)	(648)	(71)	(236)	(215)
Balance of payments (deficit)/ surplus (USD Mn)	(500)	(1,489)	1,369	985	151	(1,059)	921	2,725	(1,384)	530	203	501	(205)	502	338	219
Total international reserves (USD Mn)	8,433	9,336	9,884	8,573	8,585	7,991	8,620	7,030	3,639	4,956	4,005	4,200	3,439	3,218	2,495	2,238
Total Foreign Assets (USD Mn) (Month of same year imports)	5.2	5.9	6.1	5.7	5.4	4.7	7.7	8.3	3.1	5.3	4.7	5.7	5.2	5.8	4.9	4.5
Unemployment %	4.4	4.7	4.3	4.4	4.0	4.2	4.9	5.8	5.40	6.0	6.5	7.7	8.3	8.4	8.8	7.9
GDP at market prices (LKR Bn)	11,839	10,952	10,361	9,592	8,732	7,219	6,414	4,835	4,410	3,578	2,938	2,452	2,090	1,822	1,581	1,407
GDP at market prices (USD Bn)	81.3	80.6	79.4	74.3	68.4	65.3	56.7	42.0	40.7	32.4	28.3	24.4	20.7	18.9	16.5	15.8
Mid-year population (Mn persons)	21.2	21.0	20.7	20.5	20.4	20.8	20.6	20.5	20.2	20.0	19.9	19.6	19.4	19.1	19.0	18.8
Per capita GDP at market price (LKR)	558,363	522,355	498,828	465,976	427,538	345,544	310,214	236,144	217,855	178,586	147,985	124,862	107,581	95,054	83,605	74,874
Per capita GDP at market price (USD)	3,835	3,843	3,821	3,609	3,351	3,125	2,744	2,054	2,011	1,614	1,423	1,242	1,063	985	874	838
Real GDP growth rate	4.4	4.8	5.0	3.4	9.1	8.4	8.0	3.5	6.0	6.8	7.7	6.2	5.4	5.9	4.0	(1.5)
- (Colombo Consumer Price Index 2006/07 = 100)	3.7	0.9	3.3	6.9	7.6	6.7	6.2	3.5	-	-	-	-	-	-	-	-
- (Colombo Consumer Price Index 2002 = 100)						6.9	5.9	3.4	22.6	15.8	10.0	11.0	9.0	-	-	-
Interest rate		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- AWDR(Average Weighted Deposit Rate) - Monthly	8.17	6.2	6.20	9.37	10.10	7.24	6.23	8.01	11.63	10.31	7.60	6.24	5.30	5.30	7.50	10.80
- AWPR (Average Weighted Prime Lending Rate) - Monthly	11.52	7.53	6.26	10.13	14.40	10.77	9.29	10.91	18.5	17.95	15.19	12.24	10.2	8.95	12.20	14.30
Exchange rate LKR/ USD (Annual Average)	145.60	135.94	130.56	129.11	127.60	110.57	113.06	114.94	108.33	110.62	103.96	100.50	101.19	96.52	95.66	89.36
Capital Market Index																
- All Share Price Index	6,228	6984	7,299	5,912	5,643	6,074	6,635	3,385	1,503	2,541	2,722	1,922	1,506	1,062	815	621
- Milanka Price Index		-	-	-	5,119	5,229	7,061	3,849	1,631	3,291	3,711	2,451	2,073	1,897	1,374	1,031
- S&PI Index	3,496	3,625	4,089	3,263	3,085	-	-	-	-	-	-	-	-	-	-	-

(a) Data covers the entire island

(b) Data excluding Northern Province

(c) Based on CCPI (1952=100)

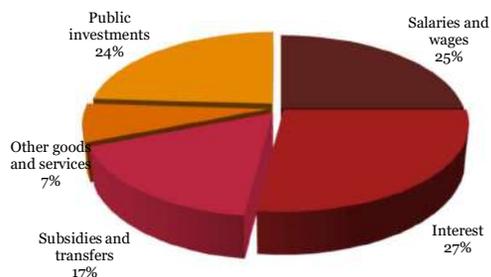
Budget Estimates

The budget 2018 estimates total revenue and grants of LKR 2,326Bn (2017- LKR 1,997Bn) consisting of tax revenue from income tax LKR375Bn (2017- LKR308Bn), taxes on goods and services LKR1,239Bn (2017 – LKR 1054Bn), taxes on external trade LKR420Bn (2017 – LKR387Bn) non-tax revenue LKR184Bn (2017 – LKR152Bn), provincial councils tax sharing and devolved revenue LKR98Bn (2017 – LKR88Bn) and grants of LKR10Bn (2017 – LKR8Bn) against a total estimated expenditure of LKR3,001Bn (2017 – LKR2,677Bn). The estimated expenditure consists of recurring expenditure LKR2,2504Bn (2017- LKR2053Bn) and public investment of LKR761Bn (2017 – LKR633Bn).

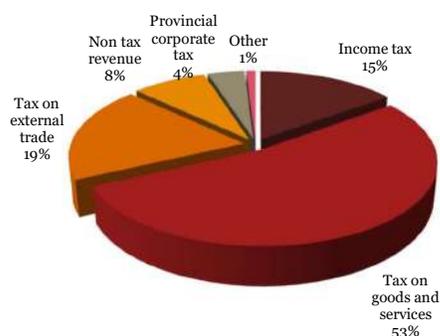
The resulting budget deficit of LKR675Bn (2017 – LKR680Bn) is expected to be financed by foreign financing of LKR300Bn (2017 – LKR330Bn) and domestic financing of LKR375Bn (2017 – LKR350Bn).

The pie charts below depict the revenue and expenditure estimates of 2017 and 2018 respectively

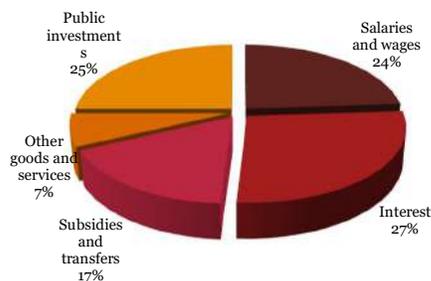
Total Expenditure 2017



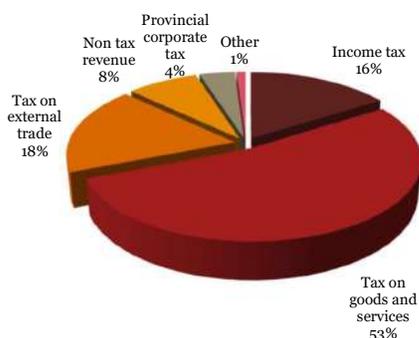
Total Revenue 2017



Total Expenditure 2018



Total Revenue 2018



Let's Talk

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