

## BUDGET SPEECH 2012

### Introduction

01. Hon. Speaker, I am indeed happy to deliver the 7<sup>th</sup> consecutive Budget Speech of our Government. I am also inspired to see you in the chair on this occasion. You would recall our young days when our father - late D A Rajapaksa, with other late leaders such as S W R D Bandaranaike, Philip Gunawardena and S A Wickramasinghe were in the forefront to make a decisive change in our society. What they infused into our hearts as young children was a new vision, with aspirations for Sri Lankan values, traditions, equal opportunities for all, rural agriculture as well as an entrepreneurial economy. The vision of these leaders in fact became a formidable force that nurtured a people centric approach as opposed to the urban elitist and feudalistic political and economic ideologies that prevailed. This transformation was subsequently taken forward by several progressive leaders such as late Mrs. Sirimavo Bandaranaike, late Dr. N M Perera and late Dr. Colvin R De Silva. I recall watching with amusement as a young Member of

Parliament at that time, how opposing forces got together to destruct this progressive path. I am sure that the Hon. Senior Members of this august Assembly would recall how this path was reversed in 1977.

02. This nation was placed on to a very destructive path from 1977. This path was overshadowed by neo liberal economic policies on the one hand and separatist terrorist activities, on the other. This caused tremendous hardships to the general public. The whole nation became a victim of terrorism. Democratic values got eroded. A revengeful culture came into being. Many wrongful activities such as international money laundering, drug trafficking, smuggling and arms dealing were carried out on the pretext of terrorism. Separatist terrorist activities got aggregated to such a dangerous level, and plans were virtually drawn up to recognize a divided administration. Many internal issues were internationalized by terrorists, thereby threatening the sovereignty of the country. In short, all hopes of our people to live in a unitary state were virtually shattered.

03. It is in this backdrop, that I came forward in 2005, seeking leadership to see an end to this destructive path. I wish to place on record my appreciation, and I wish to remember with honour, all parties and organizations that encouraged me to face this formidable task with strength. All of us were convinced of the need to find an alternative mechanism to end terrorism and restore peace. We were also aware that we could not revert back to the policies of the 1960s and 70s. Further, we had also realized the need to rectify the detrimental policies of the 80s and 90s that had an adverse impact on the nation. Although our country remained to be poor, many countries that were poor had by then emerged to be strong economies. The world had witnessed a change. Through these experiences, there was a realization that over reliance on market forces is as bad as excessive state intervention.

04. Hon. Speaker, it is in this backdrop that '*Mahinda Chintana - Towards a New Sri Lanka*' - my first election manifesto, was presented in 2005. Our vision was to ensure a rural centric development strategy in which all

citizens would get equal opportunities to be engaged in economic and social development. Broad responsibilities were shouldered by us to ensure that national aspirations are protected within a market economy and global trends. Thereafter in 2010, my second election manifesto '*Mahinda Chintana - Vision for the Future*' was presented to place the country on a path of rapid economic development.

05. Within the last 6 years, we have been successful in changing the living condition of our people in all spheres of life by freeing the nation from the grips of brutal terrorism, by correcting ill-conceived economic policies of the past and by promoting a well committed infrastructure network required to create a modern economy. However, it is unlikely that through these measures alone, the effects of the destructive violent culture that prevailed over the last 30 years could be eliminated. Many more changes need to be done in this regard.

06. We also need to give some time for the world to realize that the preconceived views that they have consequent to the distorted facts spread by the global network of the LTTE, are

wrong. However, I am extremely happy to note that countries that respect democracy are gradually accepting the position being explained by us, having given due consideration to hard facts. The opposition should also work with us to find solutions to the problems faced by our people and also to find such solutions while ensuring unity. We need to understand that forced solutions cannot be imposed to resolve our internal issues by getting trapped to external forces. We need to realize all this if we are to sustain the hard won peace and to create national unity and economic development.

07. Hon. Speaker, I am humbly proud of several aspects which provide the backdrop to this Budget Speech. We were able to create a mine free North, within a short time span of about 2 years, having put an end to LTTE terrorism in May 2009. We have by now demined 1,412 square kilometers out of the 2,046 square kilometers that were contaminated with landmines. We have resettled around 295,000 persons who were displaced. The greatest achievement is being able to rehabilitate around 15,000 persons who formed part of the LTTE cadres at that time and being able to

handover them to their respective families. People have no fear any more, that their children will be grabbed by the LTTE.

08. Despite global uncertainties, our country has been able to sustain an 8 percent growth momentum gathered in 2010, and in 2011 as well. Inflation has been moderated at 5 percent underscoring the success of rural centric development initiatives such as *Divi Neguma*, while resolving long standing food security challenges faced by our country. Our vision නිල්ල පැතිරෙන රටක් - අටුකොටු පිරුණු හෙටක් has become a reality by reaching self-sufficiency in rice. Above all, I am encouraged to note that the income avenues of the low income segment have improved with unemployment being reduced from 8 percent to 5 percent and poverty, from 15.6 percent to 8.9 percent.

### **Development and National Unity**

09. Hon. Speaker, today our country enjoys a per capita income of US\$ 2,800. However, we should not forget that until recently it was below US\$ 1,000 and that

too was only confined to few urban areas. Another fact that we should also not forget is that several districts were lagging behind in development, until very recently. In fact, people did not have even access to some of the districts. Those people who were in the grips of terrorists for over 3 decades are now enjoying their new-found freedom.

10. The reconciliation efforts to bring about unity among all communities have made good progress. A dialogue has commenced to address the political concerns of the minority. Representations by the minority community in the Provincial Councils and in Parliament have paved a solid platform to this dialogue. Such people now have access to electricity, roads, water, housing, schools, and hospitals. Their farmlands have been rehabilitated to improve living standards. Facilities associated with fisheries, livestock and tourism industries have been restored. The access roads, bridges, culverts, ports, railways, airports, water supply schemes and irrigation facilities which were destroyed by the LTTE with the intention of separating the people of the North from the rest of the country, are now being expeditiously rebuilt. Loans to

the tune of around US\$ 5 million have been directed towards rebuilding these areas, on a priority basis. It is due to these factors that the North has been able to register a high growth of 23 percent, exceeding the national average growth of 8 percent. Such a high growth momentum is necessary to ensure reconciliation and national integration as well as to regain lost prosperity in those districts.

### **Social Integration**

11. Hon. Speaker, since normalcy has returned to the areas that were under threats of terrorism, measures are being taken to merge to the society, the refugees returning from India and those who then belonged to the LTTE cadres. It is also necessary to restore a peaceful surrounding to enable the Sinhalese and the Muslims who were compelled to leave, to resettle in such areas. Those Indian Tamils who are living in the plantation areas need to have greater access to education, health and other state services. We need to transform in to a trilingual society, if we are to ensure success in all spheres. Hence, the Government is duty bound to ensure

the language rights of all people. An initial step that is required to be taken to guarantee that state services are provided to all citizens on an equal basis is to ensure bilingual knowledge among public servants. Budgetary provisions have been made to upgrade training facilities of teachers so that all school children could be taught Sinhala and Tamil, in addition to English. I propose to allocate an additional Rs. 100 million to launch mobile language labs, to introduce new types of telecommunication facilities and to popularize language skills clinics through social service activities.

### **A Caring Society**

12. If not for the fact that our security forces were able to rescue innocent civilians who were in the grips of terror for the last 30 years, democracy, development and social reconciliation would not have been a reality. Hence, it is our duty to give priority to address the economic and social needs of our security forces. I therefore, propose to extend the application of the proposal that I announced in the last Budget to grant Rs.

100,000 at the birth of the third child of any member of the security forces, to those who are serving in the Police force as well. I also propose to grant a monthly allowance of Rs. 750 to each of the parents of members of the security forces including the parents of those brave soldiers who sacrificed their lives to liberate the country from terrorists, who are faced with economic difficulties. I also propose to introduce a special loan scheme '*Ranaviru Divi Neguma*' for the benefit of disabled soldiers, to be engaged in self employment. I propose to allocate Rs. 1,700 million to the Ranaviru Authority on account of these measures. A sum of Rs. 14,000 million has been allocated in this Budget to meet the monthly allowance paid to all disabled soldiers.

### **Welfare of the Elderly**

13. The economic development that we are talking of would not have any meaning, if we are not able to address various facets of poverty. The society should be sensitive to the helplessness of the disabled, the sick and the elderly. As of now such segments are paid a monthly

allowance ranging from Rs. 100 to Rs. 300. I am of the view that these allowances should be revisited. Hence, I propose to increase the monthly allowance paid to the elders over 70 years from Rs. 300 to Rs.1,000 and from Rs. 100 to Rs. 500 in relation to others. An allocation of Rs. 900 million will be made in this regard. I propose to expand the nursing care extended at household level, to cover elderly health care, in parallel to family health services. Further, I propose an additional allocation of Rs. 200 million to expand residential facilities and improve dedicated wards for the elderly, in base hospitals and ayurvedic hospitals. The Social Service Department and Provincial Councils need to ensure taking required action to coordinate these welfare measures in line with related national policies. I propose that all social service and welfare centers be under the close scrutiny of District Secretaries.

### **Support for the Low Income Families**

14. Hon. Speaker, I intend to make a change to the *Samurdhi* allowance that is paid in 8 slabs, ranging from Rs. 210 to Rs. 1,500. Accordingly, the Rs. 210 to

Rs.615 allowance being paid to low income small families will be increased to Rs. 750, while the Rs. 900 allowance paid to low income general families will be increased to Rs. 1,200. Lactating mothers and infants of these families will be targeted for the *Thripasha* and such other nutritional programs as well as for other development activities through which the welfare of women and children will be taken care of. I also propose to extend these facilities to those living in the North and East from next year, who could not avail themselves of such facilities due to the terrorist activities that prevailed in such areas. Along with the setting up of the *Divi Neguma* Integrated Rural Development Department in next year, all those serving as *Samurdhi* Officers will become pensionable public servants. I propose to simultaneously expand these services to the North as well. Accordingly, these officers will be given special training to master bilingual abilities and on rural development, so that they will be able to better serve to improve the social needs and livelihood income generation activities of the low income families. Hence, I propose to make an allocation of Rs. 3,000 million in

addition to the Rs. 9,300 million, already allocated in this regard.

### **Child and Women Protection**

15. We need to pay special attention to the welfare of children and women. There have been many shortcomings in relation to child welfare due to lack of emergency medical attention and nutrition aid to the poor families living in difficult areas, due to there being children whose parents have been imprisoned and since pre schools do not meet even minimum standards. Parents as well as teachers should pay greater attention to ensure that children are protected from child abuse, molesting and other anti-social activities that take place with the aid of the internet, mobile telephones and computers. We need to extend aid to religious places at Divisional Secretariat level to broaden religious education. Hence, I propose to allocate Rs. 150 million to strengthen and expand educational programs being conducted by such institutions for the benefit of children and women and to assist pre-schools and Daham Schools, under the close scrutiny of the District Secretaries.

### **Development of Most Difficult Villages and Religious Places**

16. Hon. Speaker, I visited Kebithigollewa village, where the LTTE massacred over 75 innocent people. There are many such villages that lagged behind during the past years. The attention being given to the historically significant religious places and the adjoining areas of these most difficult villages is grossly insufficient. We should not forget the historical bond between the temple and the village. Hence, I propose to allocate Rs. 300 million to provide schools, maternity centers, drinking water and access roads, centered around such ancient religious temples to ensure rapid development of such areas. With a view to attract the private sector towards engaging in such activities, any expenditure incurred by the private sector to improve preliminary facilities of such villages will be permitted to be deducted when paying income tax.

### **Empowering Artists and Journalists**

17. Fulltime artists, journalists and writers very often face economic

difficulties. Even the funerals of such artists, journalists and writers are held amidst heavy financial constraints. Hence, I propose to setup a special fund through which assistance could be extended to elderly artists, journalist and writers by appreciating the contributions made by them from time to time and by extending assistance to families towards meeting their funeral expenses etc. I propose to allocate a seed capital of Rs. 50 million in this regard. Further, I also propose to introduce an interest free car loan scheme to enable senior artists, writers and journalists who have made an uninterrupted contribution of over 25 years, to purchase a motor car.

### **Laws Delays**

18. I also wish to draw the attention of this House, to the economic difficulties that are being faced by the people consequent to laws delays and pending legal cases. There are about 650,000 cases pending in court houses pending administration of justice. The number of land related cases pending for a prolong period of time is over 150,000. I made necessary allocations in my last Budget to

ensure quick dispensation of such cases. I wish to assure that the Government is committed to provide all necessary provisions to the Supreme Court and the judicial service to facilitate this process as this will provide relief to those affected, particularly the poor. I am pleased to note that steps are being taken to monitor with the aid of computer technology the number of new cases being filed and the number of cases being concluded so as to ensure effective monitoring. In addition emphasis is being given to popularize arbitration as an alternate method of dispute resolution. The Legal Aid Commission also conducts legal clinics at village level with the objective of providing legal aid to the low income earners. I propose to allocate Rs.100 million in this regard.

### **Prison Reforms**

19. Hon. Speaker, statistics reveal that around 125,000 people go to prisons each year, for minor offences. Around half of this number is in remand prisons. Most of them are in remand prisons consequent to not being able to pay the fines imposed on them. Hence, I propose to provide

financial assistance to the families of such detainees so that they could pay the fines and on condition that they will be required to carry out public work, to compensate for the offences committed.

20. Based on the experience we have had by successfully rehabilitating of around 15,000 LTTE combatants, I feel that what our society needs are not prisons but rehabilitation centers. Hence, I propose to reduce the number of existing prisons and convert them as rehabilitation centers and open air camps. Through these measures, I propose to attract such people towards sports, vocational and skills development. Vocational education opportunities can be given to those who show reasonable success. I propose to allocate an additional Rs. 50 million to expedite the relocation of Bogambara, Matara and Tangalle prisons.

#### *Uruma Aruna*

21. Hon. Speaker, we need to preserve our ancient buildings, furniture and equipment. We have a number of buildings with archaic value, including

the Hambantota Kachcheri, buildings of the Jaffna Fort, the old Colombo Post Office Headquarters, Mumtaz Mahal, and the old Ratnapura Kachcheri building. I propose to allocate Rs. 100 million to set up a fund by the name '*Uruma Aruna Conservation Fund*' to conserve such buildings and maintain them as divisional museums. I also propose to allocate a further, Rs. 100 million to rehabilitate the '*Wayamba Square*' connecting the old kingdoms of Dambadeinya, Panduwasnuwara, Kurunegala and Yapahuwa, and archeological sites at, Ruhunu Magampura in order to conserve archeological sites and develop related facilities. Steps will be taken to restructure the activities of the Central Cultural Fund.

#### **Development of Traditional Craft Villages**

22. By strengthening traditional craft villages, not only that people in such villages get economically stronger but there will also be a cultural revival in our country. Hence, I propose to allocate Rs. 100 million to develop traditional craft

villages at Matara, Matale and Kandy, engaged in the making of traditional musical instruments and crafts.

### **Promotion of Arts and Crafts**

23. The various exhibitions recently held demonstrate that the society is keenly interested in artwork and crafts. The up and coming artists and craftsmen brought to my attention that they do not have an attractive centre to exhibit and sell their artwork and crafts. Hence, I propose to allocate Rs. 100 million to set up a new art gallery in Colombo as a place that would attract the attention of tourists. It is proposed to promote setting up high standard art galleries in an around famous hotels and city-centers in which tourists move around. I propose to introduce a special loan scheme through the Lankaputhra Development Bank to extend financial assistance to artists and craftsmen to improve their products. I also propose to exempt artwork and crafts and related transactions of artists and craftsmen, from taxes.

### **Self Sufficiency in Food Production**

24. Hon. Speaker, the surest way to consolidate food security is to expand our self sufficiency goal. This goal should expand beyond rice, to include peanuts, green gram, undu, sesame, and maize. We will maintain a high CESS to discourage such imports. We need to introduce special programs to expand related agriculture and also provide high quality seed material, since these are mostly grown by small scale farmers. Special loan schemes will be made available by the *Samurdhi* banking societies and regional development banks to promote related activities.

25. The task of making the respective districts self-sufficient through specialized food products will be entrusted to District Secretaries, consolidating the progress achieved by District Secretaries and other government officials in their respective districts in recent times. Action will be taken to recruit 750 new agricultural extension officers to be deployed in areas where their services are in high demand. Steps will be taken to maintain a high CESS on the importation of products such as chili

powder and curry powder, and to promote de-hydrated process food and to make value addition while keeping taxes on related raw material, machinery and equipment at a low level.

### **A Rice Exporting Economy**

26. Hon. Speaker, our next aim should be to become a rice exporting country. This will contribute to improve farmer income. I propose to develop four rice exporting zones in the South, East, Rajarata and North. I propose to allocate an initial seed capital of Rs. 200 million to facilitate required research, seed development and expansion services. I also propose to extend tax concessions to those who are willing to setup modern rice processing mills in these export zones. With a view to improve agricultural productivity in the country, I propose to allocate Rs. 100 million towards the production of seed material, improvement of extension services and related technical know-how, in seed production. Last year I exempted income, derived from the cultivation of certified seed and planting material in order to

encourage private sector engagement in such activities.

### **Coconut Production**

27. In addition to the coconut production being a household income source the Government has ventured on to making it an export oriented industry targeted to produce a variety of food and other industrial products. It is planned to improve the present coconut harvest of 2,700 million fruits to 3,650 million by the year 2016. While 4 million young coconut plants have been distributed in 2011 to popularize the growing of coconut alongside the *Divi Neguma* initiative, nurseries have been set up for the distribution of 6 million more in 2012. The *Kapruka Program* targets to plant at least one coconut tree in the gardens of every low income family. A high CESS has been imposed on vegetable and other edible oils to protect coconut cultivation and other related industries Taxes imposed on food produced from coconut, Palmira and Kitul will be removed with a view to improve related production.

## **Fishery and Livestock Development**

28. In order to ensure food security we have taken steps to increase production of grain, fruits and vegetables as well as fish, meat, egg and milk. Assistance is given to grow alternate fish and expensive water plants in abandoned prawn farms. Steps will be taken to expand prawn farming in the selected lagoons in the East. Oyster production projects are being encouraged for the export market. Provisions have been made to extend loans to improve fish production targeting species of fish naturally growing in lagoons, tanks and rivers, to conserve such places, and to promote the growing of fish in tanks and ponds. Provisions have been made to improve the inland fishery industry by expanding the project presently being carried out by the Ministry of Fisheries and Aquatic Resources to supply ornamental fish. I propose to allocate Rs. 50 million to set up an ornamental fish exchange in order to attract tourists, to promote ornamental fish exports and to make it a high earning self employment activity.

29. Assistance extended through the *Divi Neguma* initiative to expand the livestock industry at household level has enabled the large scale producers to explore export markets. Therefore, I propose to extend financial assistance to those engaged in the livestock industry to reach international markets. VAT on modern machinery and equipment required for livestock production will be exempted. Tax concessions are being provided to Government and private entities to promote milk production. Steps have been taken to import 3,000 cows to be distributed among dairy farmers. High duty on imported milk powder will be maintained in order to enable dairy farmers to secure better prices.

### *Divi Neguma*

30. Hon. Speaker, in my last Budget, I proposed to promote one million home gardens to develop a backyard economy. This program named *Divi Neguma* has produced encouraging results. All line ministries connected with rural development have embraced this program. Food and vegetable

production has increased considerably. Prices of most of the essential food items have dropped by approximately 50 percent. This program enabled to retain inflation of food at around 3 percent. It is planned to expand this program to cover up to 2.5 million households by 2012, including the participation of all low income families. It is also intended to include small home gardens of around two and a half acres of land into this program to expand the growing of selected vegetables, fruits and flowers.

31. I also propose to setup *Divi Neguma* Enterprise Villages, under this program. Such villages will consist of approximately 200 families, and will have a small livestock farm, storage facilities for dairy products, meat and vegetables, an organic fertilizer processing center, small rice mills and food processing centers, a *Divi Neguma* bank branch, and access to the nearest township. As a wide is witnessed in home gardening, in addition to the agricultural activities, I propose simplify taxes on mamoties and such other agricultural implements to reduce expenses related with such material. In

addition to promoting agricultural activities, special villages will be selected to promote home based industries through the *Divi Neguma* program. It is proposed to implement the *Divi Neguma* Enterprise Credit Scheme in 2012, with the support of state and private banks to promote such small industrial villages to supply their products to be exported and for the tourism industry. In order to connect the required designers for small industries from reputed designing agencies, amendments will be introduced to enable them to deduct related transport and field expenditure from income tax.

### **Wildlife Conservation**

32. The development of the 21 sanctuaries and wildlife parks located all over the island, will attract tourists and provide a main stream of income. Provision has been made to develop 4 elephant conservatories at Lunugamvehera, Maduru Oya, Horowpathana, and Galgamuwa, to rehabilitate water reservoirs situated in such locations as well as to develop

forestry and trees that would be fodder for animals to improve wildlife conservation. As requested by the respective Members of Parliament representing such areas, I propose to allocate Rs. 100 million to build electric fences and dredge drains to minimize damages caused by elephants to the farmers of such villages. I also propose to introduce an insurance to compensate lost life and property, due to destructions caused by elephants.

#### *Pura Neguma*

33. We have formulated a strategy to modernize small townships located within 100 Local Authorities, with Rs. 7,000 million mobilized from the Asian Development Bank to consolidate our rural centric development model. Key development initiatives under this program will include the modernization of water supply and sanitation facilities, access roads, maternity and health centers, children's parks and playgrounds and market places. Provisions have been included to provide waste disposal equipment and tractors to maintain cleanliness.

Assistance will be extended to simplify the rates and taxes at the local authority level to create a client friendly organizational structure in such localities.

#### **Development of Urban and Semi Urban Areas**

34. There is an imminent threat of flooding in the Colombo and Gampaha districts, since sufficient funds have not been invested for the conservation of marshy lands and rivers. Hence we have already commenced such conservation activities in Kesbewa, Maharagama, Kaduwela, Kotte, Kollonnawa, Moratuwa, Gampaha, Wattala, Kelaniya local authority areas. This project will contribute towards minimizing the flood risk in such areas, help to transform such areas as healthy and eco-friendly cities and will also result in attracting more private investments into such areas. I propose to allocate Rs. 800 million in 2012, to accelerate these conservation activities. We have also planned to invest Rs. 20,000 million over the next 3 years with World Bank loan assistance, to

execute urban and semi urban development activities in a balanced manner.

### **Provincial Council Activities**

35. Hon. Speaker, Rs. 130 billion has been allocated in this Budget for development activities in the education, health, social service and provincial economic activities that are devolved on Provincial Councils. To broaden the sources of income of the Provincial Councils, it is expected to allocate Rs. 32 billion from the income derived through Nation Building Tax, Stamp Duty and Motor Vehicle Registration. As such, it has been ensured that the Provincial Councils could spend around Rs. 162 billion in 2012. The provincial tax system has been simplified with the removal of Turnover Tax as proposed in the 2011 Budget. A consolidated program has been launched to ensure that rates and charges of Provincial Councils and local government institutions are simplified so as to ease doing business in such areas. I propose to consolidate the Withholding Tax on motor vehicle

registration to simplify these applications of such levy and also revise the registration levy as well as the luxury vehicle tax as a measure of relief to the operators of busses, lorries and tractors. The registration fee will remain unchanged. A sum of Rs. 1,000 million is expected from this measure to the Provincial Councils.

36. In addition, allocations have been made virtually under all ministries to launch national programs that cover all provinces and inter provincial development activities. The 6,000 schools - education project, proposed 1,000 hospitals - health project, elderly welfare programs, provincial roads, water supply, irrigation, electricity have been given high priority. This Budget has also provided a broad access to national ministries and Provincial Councils to work jointly in relation to agriculture, fishery, livestock and sports.

### **Coast Conservation**

37. The sea erosion that is occurring particularly in the Southern and North

Western coastal areas should be a matter of serious concern to us. Although many temporary measures have been taken in this regard, it is proposed to allocate Rs. 500 million in 2012 as an initial capital to conserve the coast using the sand filling method, by planting suitable trees and through other coast nutritional management methods.

### **Development of the Road Network**

38. Hon. Speaker, if wider opportunities are to be created to promote development, the road network needs to be broadened. In this background Rs. 5,000 million has been provided in 2012 under the Ministry Ports and of Highways, to link 100 villages to provide connectivity to over 20,000 families. Rs. 500 million has been allocated under the Ministry of Local Government and Provincial Councils for the rehabilitation of access roads in selected Local Authority areas. Rs. 12,300 million has been allocated to Provincial Councils for the renovation and maintenance of roads. Rs. 30,000 million has been allocated to the Ministry of Economic Development to

improve the rural and agricultural road network as well as the provincial and inter-district road network. Rs. 123 billion has been allocated under the Ministry of Ports and Highways to improve the national road network.

39. The A-15 road that has large bridges, was completed last month connecting Trincomalee, Batticaloa and Ampara townships. Our country's first expressway that connects the South and the West will be opened in a few days time. Super highways connecting main cities such as KKS, Anuradhapura, Kurunegala, Puttlam, Trincomalee, Baticaloa, Kandy and Nuwara Eliya are also presently being built. Rs. 170 billion is expected to be spent within the next 5 years to build a road network that will connect villages and cities across the country.

### **Drinking Water**

40. The budget estimates of the Ministry of Water Supply and Drainage show that Rs. 164 billion has been allocated for 2011 to 2014 for investments to improve water supplies.

Priority has been given for water supply projects in major towns such as Jaffna, Ruhunupura, Ratnapura, Kurunegala and Trincomalee, as well as for water supply projects in secondary townships such as Kolonne, Balangoda, Polonnaruwa, Anuradhapura, Dambulla, Katana, Nuwara Eliya and Angunakolapelessa. Rs.33 billion has been allocated to complete ongoing projects as well as to commence new projects. Rs. 3,200 million has been allocated for 55 water supply projects covering all provinces, for the benefits of emerging small towns. An investment of Rs. 680 million will be made in 2012 to save around 48 percent of non revenue water in Colombo due to leakages and waste. I also propose to encourage investment to use sea water for tourism and industrial activities.

### **Irrigation**

41. There is massive investment that is taking place in the irrigation sector. Rs. 35,835 million will be spent on account of same in the year 2012 which is three times the amount spent in 2010. Rs. 177 billion has been allocated for

irrigation projects due to be completed before 2014. We have witnessed a strong progress in irrigation development activities associated with Uma Oya, Deduru Oya, Yan Oya, Moragahakanda, Iranamadu, Yoda Wewa and Mora Wewa. Rs. 2,400 million has been allocated to commence 12 new irrigation development projects including Kalugal Oya, Kumbukkan Oya, Pahala Uwa and Mahagona Wewa. Rs. 5,521 million has been allocated to renovate the irrigation system associated with the Mahaweli irrigation project. The allocations earmarked for minor irrigation activities are around Rs. 6,300 million. Provisions have also been made to commence feasibility studies to develop Gin Ganga, Kalu Ganga, Nilwala Ganga and North Central waterway up to Iranamadu and Weli Oya.

### **Electricity for All**

42. An allocation of Rs. 34,187 million has been made in the year 2012 under the ongoing investment program to improve the generation and

distribution of electricity. This includes Rs. 15,635 million allocated under 11 projects to conclude 2,600 ongoing rural electrification schemes, covering areas to which electricity is so far not available. In keeping with our target to provide electricity for all, around 800,000 families will be privileged to consume electricity by the end of next year.

### **Railways and Transportation Services**

43. Hon. Speaker, an allocation of Rs. 37,000 million has been made to construct the Northern railway line, to renovate the coastal railway line, to construct a new Matara - Beliatta railway line and to purchase railway engines and power sets. Rs. 3,170 million has been allocated to the Central Transport Board on account of providing school bus services, state services and for being engaged in operating non-profit oriented routes. In addition to the buses purchased by the Central Transport Board on lease arrangements, Rs. 880 million has been allocated to purchase new bus engines in support of the operations of the Sri

Lanka Transport Board. In order to improve transport facilities in rural areas a further Rs. 500 million will be allocated to provide 200 buses. VAT on the importation on buses will be removed to promote the purchase of new buses to ensure high standards in general and tourist transportation. I also propose to remove VAT and Custom Duty on the importation of lorries, trucks and new lorry engines to support goods transportation. It is proposed that import duties on tyres used for buses and lorries will be reduced by 50 percent.

### **Domestic Airports**

44. Parallel with the expansion of the Bandaranaike International Airport and the development of the Mattala International Airport, Palali and Ratmalana domestic airports, I propose to construct domestic air ports in Kandy, Nuwara Eliya, Batticaloa, Trincomalee, Hingurakgoda, Sigiriya, Anuradhapura and Iranamadu, to facilitate domestic air travel. Rs. 750 million will be allocated in the next year to commence the construction of

airports in Iranamadu, Nuwara Eliya and Kandy.

### **Electronic Visa Facilities**

45. Hon. Speaker, Government has implemented online visa facilities, enabling travelers to obtain visas electronically from any part of the world. It has been decided that the visa fee for this facility will be US\$ 10 for travelers from SAARC countries and US\$ 20 for others. However, a visa fee will not be levied on travelers who are travelling from countries that not charge a visa fee from Sri Lankans. It has been also decided that there will be no visa fees charged from children in order to promote family travel. There will also be no visa fee charged from a tourist who spends less than 48 hours within the island. A sum of Rs. 2,000 million is expected from the provision of this new service.

### **Transportation Facilities to Airports**

46. A high quality transportation service needs to be provided to those

who are traveling to and from airports, in order to ensure safe travel. I propose to reduce taxes at the point of import by 50 per cent for those who are operating transport services to and from airports so that it would promote the use of new vehicles for such services. However, such vehicles made available would have to conform with quality standards to be prescribed by the Airport and the Airport and Aviation Authority.

### **Legal Reforms and International Arbitration Centre**

47. Hon. Speaker, considering the professional standards prevalent in the legal services, there is great potential to develop our country as a regional hub in relation to allied services. Hence, I propose to set up an international arbitration centre in Sri Lanka. The Government has decided to allocate 3 acres of land in the close proximity to the Superior Court Complex, to develop a new complex which will house the new arbitration centre, the court facilities and the Attorney General's Department. Rs. 100 million will be allocated for a legal reforms project that

will facilitate law reforms, professional development and strengthening the lower court system.

### **Infrastructure Facilities for Government Agencies**

48. Many government officers do not have sufficient facilities and access to transport facilities causing many hardships. The Government has commenced the construction of new buildings for district and divisional secretariats and several other government agencies. Action has already been initiated to relocate the Ministry of Defence and the Headquarters of the 3 forces outside Colombo. I propose to allocate Rs. 15,000 million over the next 4 years to also relocate the Ministry of Foreign Affairs, Inland Revenue Department, Ministry of Irrigation, Ministry of Power and Energy and the Ministry of Economic Development. I propose that they will be relocated outside Colombo with easy access to the outer circular expressway. All these projects will be reserved for the domestic construction industry which has shown a

commendable capacity during the last 6 years.

49. Hon. Speaker, we need to provide required residential facilities and concentrate on human resource development of our security forces. Out of the Rs. 230 billion allocated to security forces in the Budget, Rs. 203 billion is on account of expenses on salaries, uniforms, food, fuel and transport. Hence, I propose to make an additional allocation of Rs. 3,000 million to construct permanent quarters for security establishments and to improve human resource development of the forces. It should be noted that even after restoring peace the security forces have been engaged in demining, rehabilitation of affected areas and urban development related work to the value of around Rs. 5,400 million.

### **Information Technology**

50. Many Government offices are using information technology successfully in discharging their duties. The Inland Revenue Department is being automated to introduce a new

Revenue Management Information System with the assistance of the Asian Development Bank to be completed in 2013. The coordination and implementation of information technology to other institutions of government is entrusted to the Information and Communication Technology Agency (ICTA). Hence, all allocations made to different institutions towards introducing such measures should be done with the approval of ICTA.

51. Steps are being taken to provide information technology education to all schools in the district of Anuradhapura under the 2012 *Deyata Kirula* program. This will be extended to other districts as well within the next 3 years. I hope that the knowledge extended through the IT labs setup under this program along with the *Nanasala* centers will enhance the computer literacy to 75 percent, by 2015. Hence, I propose to allocate Rs. 500 million to broad base this program. My request to all school children and teachers is to make maximum use of the information technology facilities provided to them

and acquire universal knowledge, for the benefit of our society and the future.

52. Plans have been drawn to setup a technology city at Hambantota in order to attract investment on information technology and related industries which will be conducive to make this a billion dollar industry by 2015. The Board of Investment will provide necessary incentives to attract required investments to this city which will have dedicated infrastructure required for investment technology.

53. Sri Lanka Telecom as well as private companies have undertaken large investments for the development of telecommunication facilities. The Telecommunication Regulatory Commission will implement policies and strategies to encourage telecommunication companies to give priority for the development of broad-band network facilities. In keeping with development priorities, telecommunication charges on incoming and outgoing calls will be revised suitably.

## **Housing Facilities**

54. Hon. Speaker, the house is the most essential asset that every family should have. Although we have made substantial progress in relation to housing, still there are families those living in basic shelters. Hence, I propose to build one million houses within 6 years. Accordingly, many projects are in progress to renovate housings schemes, build new flats for those residing in urban shanties, improve housing facilities of those who were resettled and also to improve substandard shelters in the villages, fishing and plantation areas.

55. An allocation has been made to build multistoried flats containing 50,000 housing units, to resolve housing problems of urban shanty dwellers. Action is being taken under the *Deyata Kirula* program to ensure that all cadjan roofed houses in the Anuradhapura district, will be transformed to be tiled roofed houses. This has also caused an impetus to the local roof tile industry. I also propose to exempt local roof tile manufacturers and clay related products manufactures from Nation

Building Tax, Economic Service Charge and VAT to further encourage this business. I propose to allocate Rs. 500 million to launch a special program in 2012 for the benefit of those who are less interested in availing housing facilities.

## **A Healthy Society**

56. Hon. Speaker, the fact that our health indicators are on par with those of developed countries is a major accomplishment that we have been able to achieve through our free health services. We have been successful in resolving many disease and health related problems usually faced by less-developed countries. However, our nation is becoming increasingly vulnerable to non-communicable diseases such as diabetes and cancer. There are health problems faced by the elderly since their life expectancy has improved. There is also an undue demand in urban hospitals due to various shortcomings that are prevalent in rural hospitals. Hence, the Government has planned to make a substantial investment to improve the

health sector within the next 5 years, with financial assistance from the World Bank and through other bilateral funding.

57. The allocation on health at national and provincial level in 2012, through western and indigenous medical services is Rs. 105 billion. A Rs. 500 billion investment would be made between 2011 - 2014 on health services. A high allocation had been made to extend, for both curative measures and health care. Rs. 100 million has been allocated to provide equipment, ambulances and building facilities required by district and base hospitals situated throughout the island. We have received assistance from both World Bank and the Government of Japan to be invested in health services.

58. We have made an allocation of Rs. 600 million as the Government contribution in support of the construction of a modern complex for the Maharagama Cancer Hospital, at a cost of Rs. 1,400 million that will be built with the donations from the private sector. It is proposed to build a multi storied modern hospital complex

for the Colombo National Hospital consolidating all facilities that will consist of 25 floors at a total cost of around US\$ 150 million. We propose to provide hospital care for public servants within this new complex, under the Agrahara Insurance scheme. An allocation of Rs. 500 million has been made to commence the first stage of this development program next year, under which a modern ambulatory care center consisting of 18 floors will be constructed for the National Hospital of Colombo.

### **A Knowledge Society**

59. Hon. Speaker, we have witnessed a substantial progress in education in recent years. The number of students who have qualified at the GCE O/L examination to enter Advance Level has increased from 47.8 percent in 2005 for 58.8 percent in 2010. The number of students, who have qualified for university education, has increased from 55.2 percent to 61.2 percent. However, there are some disparities. While there are 1,590 small schools with less than 50 students in

each, there are 197 larger schools with over 2,500 students. Out of 2,721 secondary schools, only 716 schools have facilities to teach science subjects in Advance Level classes.

60. Many children and teachers who have visited Temple Trees from rural schools have told me, that they do not have sufficient drinking water, toilet and sanitation facilities. They have also complained to me that they do not have teachers for essential subjects. Many children do not get access to basic facilities for extracurricular activities. Children who came from Kyts told me that this was the first time they engaged in an education tour of the sort. I could imagine the extent to which the children of such areas would have been overshadowed by the threats of terror at that time.

61. The Government proposes to give priority to develop 1,000 high quality secondary schools that could be improved to meet universal standards and 5,000 well performing primary schools that could be connected to such secondary schools. This program will be launched in collaboration with the

Provincial Councils and will include all Divisional Secretary areas. Accordingly 300 secondary schools and 700 primary schools will be modernized in 2012. Parallel to this program, priority will be given to recruit new teachers for math, science, IT and language and also to ensure that all excess teachers will be trained in such subjects. The policy to recruit teachers directly to the respective schools that their services are required will also be implemented. This program also includes improving the quality of school text books and teaching material. Allocations will be made to include sanitation, toilets and such other facilities for students. The Asian Development Bank, the World Bank and the USAID have agreed to co-finance this program. In order to ensure the success of this schools development program, I propose to allocate a further Rs, 2,500 million. Accordingly, Rs.95 billion will be allocated in this Budget towards primary and secondary education alone.

## **Skills Education**

62. Hon. Speaker, about 350,000 children enter schools each year. But only about 25,000 of those get eligible to enter universities. About 175,000 children enter into vocational education provided by both the private and public sectors. This shows that around 140,000 children do not get an opportunity to improve their skills. It is also shocking to note that around 165,000 children fail the GCE Ordinary Level examination.

63. My view is that all children should have access to skills development. An education system cannot create failures. We have to accept that there is some lacuna in the education system, if we are not able to accept that failing an examination does not mean failing life. Hence, I propose to introduce a system through which children will be selected from GCE Advance Level either to enter university or to pursue skills development, so as to ensure that all children will get an opportunity to develop their skills. As a sum of Rs. 8,617 million has been allocated for vocational education. I expect that

relevant institutions will give priority to introduce standards and skills development program through required reforms, in order to respond to emerging skills demands. I also propose to allocate Rs. 500 million to undertake special accelerated vocational education programs on a priority basis in the fields of tourism, IT, construction, beauty care etc. in districts in which unemployment is in excess of 8 percent, to meet the emerging demands for local and overseas jobs.

## **Research and Technology**

64. We should try to ensure that our farmers, SME entrepreneurs and students are oriented towards research and technology. Our universities as well as research and technology institutes have around 4,000 researchers at present. This number should be increased to about 20,000 by the year 2020. A research allowance was granted to university staff and researchers to incentivize them towards research.

65. I propose to reduce income tax on research income, from 24 percent to

16 percent, to encourage researchers to engage in such work. I also propose to reduce the Personal Income Tax of all those engaged in research and technology from 24 percent to 16 percent. I propose that income tax on all institutions engaged in research and technology will be reduced to 20 percent and that such institutions will be exempt from VAT. I also propose to introduce amendments to tax laws to enable a triple reduction in relation to research and development expenditure undertaken by enterprises through Government institutions, to promote private institutions to use Government research facilities. In order to ensure that SMEs would benefit from research related knowledge, I propose that Government institutions would extend research facilities to SMEs at a nominal fee. I also propose to allocate 50 percent of research related income earned by Government institutions by carrying out research for the private sector, to be shared among such researchers as a promotional allowance. Hon. Speaker, I propose to allocate Rs. 300 million to the National Research Council to

encourage special research that would facilitate economic development.

### **A Sports Economy**

66. Our country has already achieved world repute in cricket, and several other sports. School children and youth should be encouraged towards pursuing sports. The economy can be fed by projecting our country as a sports hub in the region providing sports related services and goods. Hence it is important that we give priority to build infrastructure required for international sports and events. The international stadiums already built at Diyagama, Kundasale, Sooriyawewa and Dambulla are a great strength to this endeavour. I propose to allocate a further Rs. 500 million to build such facilities, including the *Doraiappa* Stadium in Jaffna and the Reid Avenue Stadium Sports Complex over the next 2 years, so as to ensure that the youth of our country would have the opportunity of being involved in broader sports related opportunities around which a new economy needs to be expeditiously built.

67. I propose to extend tax relief and other facilities to promote contractual arrangements with internationally renowned sports Management Companies. In order to promote the maintenance and management of sports facilities, I propose that all related maintenance costs incurred by the private sector would be permitted to be deducted from their taxable income and also to exempt from income tax, any income derived from the management of such facilities. Since international trainers are required to train our sportsmen, I propose to exempt them from income tax. Since fitness centers need to be established in all sports complexes, I propose to exempt related equipment from customs duty and VAT to promote the private sector to develop such facilities while protecting the local manufacturers of sports goods. I propose to introduce a ceiling of 35 percent on tax imposed at the point of import, on sports-gear and sports-ware so that school children and the youth could have access to such branded products at affordable prices.

### **Skills Based Foreign Employment**

68. Foreign employment has become our highest foreign exchange earner and also a source of saving of our nation. The Ministry of Foreign Employment Promotion and Welfare has extended a commendable service towards the promotion of foreign employment and related employment generation, having identified countries that are developing and are paying higher wages. Recognizing the demand for jobs in tourism, nursing, technical and construction sectors, I propose to improve identified hotel schools and technical colleges situated at provincial level as special foreign employment training institutions, in which our youth can be trained.

69. It is very important to provide project and enterprise related management skills to facilitate those who are returning from foreign employment to invest their savings as capital to commence new businesses. As a measure to promote such initiatives, I propose that all new income avenues from such projects will be exempt from all taxes for a period of

5 years. I also propose to permit such projects to purchase the required machinery and equipment, free from customs duties. It is proposed to launch a Credit Assurance Scheme to enable such persons to have easy access to credit, at low interest.

### **New Investment Priorities**

70. Hon. Speaker, having achieved an 8 percent growth in 2010, our economy is poised to register a further 8 percent growth in 2011. This growth momentum will be conducive to realize our per capita target of US\$ 4,000 by 2016, as envisaged in *Mahinda Chintana - Vision for the Future*. This would create a US\$ 1,00 billion economy. This growth should be achieved while narrowing the gap that has prevailed for years between imports and exports as well as foreign income and expenditure. Annually, we spend around US\$ 3,000 for the importation of cement, steel, pharmaceutical and textile. Further, we spend around US\$ 1,500 for the importation of food, milk powder, wheat and sugar. There is a possibility of manufacturing these items

within the country and reducing related import costs. Based on the progress achieved in oil and gas explorations and in renewable energy, there is hope that over US\$ 3,000 million spent on oil imports could well be saved.

71. We have been exporting tea, rubber, coconut, spices and several other natural resources as primary raw material, for many years. A higher growth can be achieved if they can be exported as finished goods. There are greater opportunities for knowledge based foreign exchange earnings, targeting information technology that is advancing, as well as education and health. We could also improve the foreign exchange surplus in the service account, through port and aviation related industries and services. Tourism is transforming to be a US\$ 1 billion industry. New opportunities have been created since the foreign employment market that is presently generating around US\$ 5 billion has become a lucrative foreign exchange earning source.

72. I have just brought to the attention of this august assembly, the

extent to which investment potential could be exploited to save foreign exchange outflows and several investment opportunities through which foreign exchange could be further raised. While maintaining public investment at around 6 - 7 percent of GDP during the next 6 years private investments will be incentivized to reach 26 - 28 percent of GDP by increasing priority sectors to engage in more export oriented an import replacement activities. Hence I propose to provide incentives for manufacturers and new investors to invest in such fields.

73. Many such investment incentives were announced in my last Budget. There is good progress shown in that regard. A substantial investment has been made within a short time-span in cement, steel, tyre and the garment industry. I am happy to note that few garment factories have been approved to be setup in the North as well as in the East. Further, there is investment taking place in the areas of food and dairy production. Several hotel projects which are bound to make a significant change in the economic landscape have

commenced. Further, several port infrastructure and production related investments have also been approved to be setup in Freeport areas in Magampura, Colombo and Trincomalee.

74. Hon. Speaker, we must take further steps to expand these sectors so as to reduce import expenditure and enhance export earnings. I propose to take several steps in this regard. Firstly, as our country has experienced the strengthening of the exchange rate, in the backdrop of those countries that are competing with our country, as well as our neighbouring countries have depreciated their exchange rates significantly. Hence, I propose to depreciate our exchange rate by 3 percent with immediate effect, to correct this disadvantageous position and to encourage our exports. I expect that the Central Bank will adopt appropriate modifications to the Monetary Policy accordingly.

75. Secondly, in order to encourage our exporters to explore the markets in emerging economies in Asia, Africa and South America, I propose to enter into

agreements with such countries on trade, tourism, foreign employment, and investment. Measures will also be taken to remove any barriers and strengthen ties with our traditional markets in Europe and America. So as to strengthen our trade ties, total reforms will be made with regard to our Foreign Service and those attached to our Foreign Missions. Thirdly, in order to improve the quality of products such as leather goods, textiles and jewellery, I propose to extend further financial support to Universities to commence related degree and diploma programs. Fourthly, investment incentives to both the exports and import replacement activities will be expanded.

### **Investment Incentives**

76. The Legal provisions applicable in relation to the grant of tax concessions to promote private investments, are contained in the Inland Revenue Act and the Strategic Development Projects Act. I propose to amend such provisions to encourage SMEs and to provide further clarity to ensure that such incentives are available

to both new and existing enterprises. Accordingly, I propose to extend a tax holiday of 4-6 years with regard to investments in the range of Rs. 50-300 million. The investment required to be made in areas such as agriculture and information technology will be Rs. 25 million. With a view to encourage large investment projects, I propose to extend a 6-12 year tax holiday and other tax incentives to investments in the range of Rs. 300- 2,500 million. Incentives to encourage the expansion of existing enterprises will also be granted. I propose to make relevant amendments to reduce the upfront cost incurred on account of importation of related machinery and equipment. The details of the proposed tax related changes are contained in the technical note that will be tabled with this Speech.

77. All large investment proposals that require state land or tax and other concessions are now examined by a Standing Cabinet Appointed Review Committee consisting of senior officials, so as to ensure that credentials and financial standing of proposed investors are sound. All concessions granted under the Strategic Project Act are subject to

Cabinet and parliamentary approval. It is also proposed that all long term concessions granted by the BOI will also be gazetted in the future.

### **Trends in Employment**

78. Hon Speaker, with the expansion of the economy, unemployment has dropped to below 5 percent. Many entrepreneurs, who met me during Budget discussions, expressed that it is difficult to find required employees. Since unemployment has dropped and several sectors in the economy have expanded, our entrepreneurs should improve labour skills so as to enhance productivity. Although custom duties on many machinery and equipment have been reduced, steps will be taken through this Budget to further reduce such duties. Provisions have been made to conduct various programs to ensure productivity improvements. In the meantime, steps will also be taken to encourage entrepreneurs towards productivity improvements. It has become necessary for universities and other higher education institutions to

formulate new courses to be able to meet skills development demands.

79. Universities could address this medium term need by using a substantial part of Rs. 24,400 million allocated to them towards improving new skills development. Priority is given to expand the scope of Sri Lanka Advance Technical Education Institute and it is planned to broaden areas of diplomas it offers, with emphasis on engineering, ICT, nursing, health services and tourism and also to increase the student intake.

### **Land Utilization**

80. Hon. Speaker, our country has only a very limited extent of land. We need to use such lands while preserving nature and ensuring bio diversity. As also agreed by the opposition, it has been decided not to transfer state land on outright basis to private investors but to give such lands only on long term leases, subject to a ceiling of 99 years. We have made it mandatory that related payments must be made on the basis of the value determined by the Government Chief

Valuer. Provisions will be made in lease documentations to enable the Government to cancel such leases, if any such land is not put into productive use for the purpose for which it was given, within a period of 1 year.

81. In my last Budget Speech I proposed that all land given to the private sector that are not utilized for the purpose for which lands were given, will be taken back by the Government. We have identified around 37,000 hectares of land that are not being used, in the plantation sector. As these lands have not been put into productive use since the privatization of plantation land in the year 1992, I propose to take steps to enter into alternate 30 year lease arrangements, having demarcated 2 acre blocks from such identified lands to be distributed among smallholders. Steps will also be taken to extend suitable financial assistance to such smallholder families to enable them to develop the lands. In addition, high quality seeds and planting material will also be provided to them.

82. The Parliament passed an Act recently, to vest back in the Government 37 enterprises and assets. It is not a

statute that is opposed to private property rights. All such assets were owned by the state. They were given to the private sector with the intention of putting them into more productive use in the interest of the national economy. Virtually, all such entities have also got long term concessions granted by the Board of Investment. Intended benefits can accrue to the society only if such investors make use of the assets in a responsible manner. There is no way that any party can be permitted to disregard this social responsibility in the guise of private investment. It is the responsibility of the Government to ensure that these assets are put into productive use. Steps will be taken to develop such assets with the involvement of the private sector, while also rectifying the mistakes made in the past.

### **Banking and Business Development**

83. Hon. Speaker, in order to promote long term lending to revive businesses, the Government introduced considerable incentives through the 2011 Budget to banking and financial institutions. Debit tax was removed and VAT was reduced

from 20 percent to 12 percent. By reducing tax on profits from 37 to 28 percent, the banks were facilitated to retain more funds to increase lending. Steps were taken to require all banks to maintain an Investment Fund Account through provisions in the Inland Revenue Act. As of now, the banks have approximately Rs. 10 billion in such accounts. Certain banks having come forward to provide funding for road development has resulted in a major support to the construction industry. I am hopeful that these investment accounts will become a strong pool of resources that will enable banks to venture into long term lending during the next 2 years.

84. The Exchange Control Department has authority to approve commercial banks to borrow from abroad. This will assist banks to borrow from outside Sri Lanka and meet the demands of the private sector, which in turn will facilitate Sri Lanka to become a financial hub in the region. Dealings with international banking and financial institutions provide an excellent opportunity to commercial banks to demonstrate their financial strength. Private businesses that are operating at a

very high corporate level and are financially strong will also be permitted to borrow abroad. I propose to further simplify taxes applicable to the credit and interest payments involving such international financial transactions.

### **Export Development**

85. Annually our country earns around US\$ 3,000 million through the export of agricultural produce such as tea, rubber and cinnamon and through other related businesses. However, we fail to reap the broad economic benefits since most exports are in the form of primary raw material. If we are to get a high export earning, we need to aim at developing best cultivation practices as well as value added products. If a high yield is to be ensured in tea production, a minimum 2 percent of new tea plantation needs to be maintained. Hence, I propose to increase the subsidy given to tea smallholders for re-plantation from Rs. 250,000 to 300,000 and for new plantation from Rs.50,000 to Rs. 150,000. I also propose to introduce a concessionary loan scheme at 8 percent annual interest, repayable in 7 years, to assist plantation

companies to plant and re-plant. The Tea Board has been permitted to be engaged in promoting and popularizing international markets for tea produced in Sri Lanka using special income earned from the CESS imposed on tea at the rate of Rs. 3.50 per Kg. We will be able to give a broad publicity to Sri Lankan tea through the World Tea Summit proposed to be held in Sri Lanka next year.

86. Hon. Speaker, I propose to promote joint ventures between tea producers and export companies to encourage tea exports under trade names registered in Sri Lanka. I propose to reduce income tax payable by such joint ventures which will be engaged in tea exports under Sri Lankan brand names, up to 12 percent. This concession will also apply to those producers who are parties of the joint ventures to the extent of the income derived from tea manufactured by them. The 28 percent tax applicable to traditional tea production and exports will remain at the same level. In order to further enhance rubber cultivation, I propose to develop 10,000 hectares of small holder rubber land in the Ampara and Mahaoya areas. As such, an allocation will be made to provide high

quality plants and improve plant nurseries. I propose to enhance the allocations made to improve tea and rubber cultivation and develop related research by a further Rs. 200 million. It has been decided to continue with the CESS imposed on primary exports, so as to develop and promote industrial goods produced from rubber and tea.

87. Our country is the key exporter of high quality natural spices such as cinnamon. In order to further advance this sector I propose to enhance the allocation made to the Export Agriculture Department, by a further Rs. 150 million to provide cultivation aid to promote intercropping of cinnamon, pepper, cardamoms and cocoa. I also propose to reduce taxes on equipment required for the promotion of high quality water management techniques. We need to improve these industries to ensure that such crops will be exported only after value addition, instead of being exported as primary goods. Hence, I propose to give tax concessions to promote the private sector to setup high standard processing factories. Research and development expenditure will be permitted to be deducted from taxes, so

as to promote the manufacturing of new products of high quality.

### **Textile Industry**

88. Hon. Speaker, although our country export garments to the value of US\$ 4,000 million, we import material and other related accessories to the tune of around US\$ 2,500 million. We need to target to produce at least half of such material requirement, in our country within the next 5 years. Therefore, I propose to exempt all taxes imposed at the point of Customs on the importation of yarn. I propose to remove VAT and Customs Duty on equipment required to modernize this industry. I propose to introduce an all inclusive tax of Rs.75 on a kilo of material so imported, to simplify the tax payable and to enable the industry to face challenges from imports. I also propose to reduce the income tax burden, if substantial new investments have been made to modernize existing textile factories and to extend long term tax holidays for related new investments.

89. Many conferences, including the Commonwealth Parliamentary Sessions ,

Commonwealth Heads of State Meeting are scheduled to be held in Sri Lanka in 2012-2013. Tourist arrivals are expected to exceed the one million benchmark. The demand of the people, specially from school children and youth for garments and sportswear is also on the rise. Hence, it is proposed to permit related export producers to supply of such goods to the local market while assuring that exports will be maintained at 75 percent of their total production. I propose to impose a CESS of Rs. 25 on each item released to the local market by exporters. High taxes will be imposed on the importation of such garments, so as to reduce expenditure associated with such imports.

### **Pharmaceutical Manufacturing Industry**

90. Despite the fact that we maintain a free health service at an annual cost of Rs. 100 billion, we have not witnessed any development in related industries. Saline, pharmaceuticals and other equipment are imported at an annual cost of around US\$ 400 million. We have failed to produce even sufficient quantities of *Thripasha* and surgical gauze. Therefore, it is propose to

encourage the private sector to produce nutritious cereals such as *Thripasha* and improve such products to export standards. Procurement procedures will be amended to provide the necessary protection required by small and medium entrepreneurs who could manufacture surgical gauze. Upon a request made by the Government, the Government of Japan has agreed to extend financial and technical support required to improve the manufacturing of pharmaceuticals by the State Pharmaceutical Manufacturing Corporation. It is proposed to extend tax relief to the private sector to promote production of pharmaceuticals and to enter into contracts to import high quality pharmaceuticals. Steps are underway to set up a separate investment promotion zone to promote the private sector towards pharmaceutical production. I also propose to reduce income tax on health services to 12 per cent to promote private healthcare investments.

91. Hon. Speaker, although the cost-of-living in relation to food has reduced the prices of clothing and essential pharmaceuticals prevailing in the country, are not justifiable. We need to control such prices through price

regulations and also ensure that high quality products are amply available in the market. It is also required to encourage domestic production of those items to replace imports. Hence, I am hopeful that the proposals I made in relation to the manufacture of *Thripasha*, surgical gauze, textiles and pharmaceuticals within the country will result in reducing the cost-of-living.

#### **Small and Medium Enterprises (SMEs)**

92. Hon. Speaker, SMEs are the backbone of our economy due to the recognition given to this sector in the Budgets that I have presented. Income tax was reduced to 10 percent. Steps were taken to shield the sector from unfair import competition. Steps were also taken to increase bank loans and reduce interest rates. In order to further strengthen this sector, I now propose to amend tax laws to permit SMEs, whose annual turnover does not exceed Rs. 500 million, to deduct expenditure of the year prior to the commencement of the enterprise, from the income of the first year in which tax become payable. Small enterprise engaged in the collection of fresh milk,

green tea leaves, cinnamon, latex, will be exempted from Nation Building Tax.

93. In my last Budget, SMEs with a quarterly turnover of less than Rs.100 million was exempted from having to pay the Economic Service Charge. In order to extend this to a larger category, I propose that SMEs with a quarterly turnover of less than Rs.500 million to be also exempt from having to pay Economic Service Charge, up to Rs.100 million. In order to promote the modernization of such factories, I propose to reduce taxes on the importation of machinery and equipment, where such items are not manufactured in Sri Lanka. It will be made mandatory that out of the funds available in the Investment Fund Accounts in Banking and Financial Institutions that has been setup to ensure the provision of long term funds for lending a 10 percent be lent to the agricultural sector and a further 10 percent be lent to SMEs.

94. Although access to credit has improved, what the representatives of the SME sector who met me brought to my attention was that banks and financial institutions do not pay sufficient attention to the problems faced by them. Hence, in

order to fill this gap, I propose that the Bank of Ceylon, People's Bank and Regional Development Bank will each setup a special SME bank branch in all districts within 2012. I invite all other banking and financial institutions also to setup such branches in all districts. I propose to reduce the prevailing income tax rate from 28 percent to 24 percent for the interest income from such banking and other fee levying activities. A 50 percent Government Guarantee will be given for those banks providing loans to restructure SMEs to improve their performance. As a measure of relief to those engaged in small enterprises, I propose to increase the threshold income of the Economic Service Charge from Rs. 25 million to Rs. 50 million and thereby simplify the application of such tax.

### **Public Enterprises**

95. There are many challenges when it comes to strengthening public enterprises which have been neglected over a long period of time. One challenge is find competent and professionally qualified persons to manage such enterprises. Since, the Governments over

the last 25 years have been giving priority to privatization strategies, sufficient capital infusions have also not been made to these enterprises. Since, Srilankan Airlines, Sri Lanka Insurance Corporation, National Development Bank, the CWE and Paddy Marketing Board were privatized, there was no way that the Government could intervene in the interest of the public in such important areas. Hence, Mihin Lanka Airline, National Insurance Trust Fund, Lankaputra Development Bank, Laksathosa and the Paddy Marketing Board had to be setup. Since, many of such enterprises are now vested with the Government it is possible to merge them suitably.

96. Institutions which were earmarked to be privatized such as the People's Bank, Ports Authority have shown substantial progress during the recent past. Several state enterprises including Laksathosa, Sri Lanka Insurance Corporation and Litro Gas are functioning very effectively. Although key public enterprises such as Ceylon Electricity Board, Ceylon Petroleum Corporation, Sri Lanka Transport Board and Water Resources and Drainage Board

are in fact incurring losses, such enterprises have made substantial investments for economic development in the country within the last 5 years. Further, one reason for such enterprises to record losses is the fact that they maintain concessionary prices in the interest of consumers. Although, the unit price of electricity charged from a household which consumes less than 125 units is only Rs.4.50, the actual cost is around Rs.15.00. Ceylon Petroleum Corporation provides kerosene, diesel and furnace oil at concessionary rates. If the pricing formula that was in operation during the time of the last Government is used, a liter of diesel, kerosene or furnace oil would have cost over Rs. 30 more and hence bus fares, electricity and water charges etc. should have been accordingly raised. Therefore, losses recorded by these state enterprises correspond to the economic benefits and subsidies that the general public enjoys.

97. We have not made any capital infusion to the SriLankan Airline either during the time it remained as a privatized entity or after it became a state enterprise. It is planned to strengthen SriLankan, as an airline with a fleet of 30

aircrafts recognizing the needs of the booming tourism industry. In addition to flying direct to European destinations countries, it is planned for SriLankan Airline to commence direct flights to Russia, Africa, Asia, Middle East, Fareast, China, Japan and Australia. It is also planned that Mihin Lanka will cater to the low income segment and operate joint services with SriLankan Airlines. Hence, Rs. 10,000 million has been provided to make necessary capital infusions to the airlines.

98. Hon. Speaker, 39 more public enterprises have been transformed as profit earning entities in the year 2011 in comparison to the year 2005. Steps will also be taken to merge public enterprises that are carrying on similar tasks, having restructured them while taking in to consideration the timely needs. I also propose to introduce the relevant amendments to the Finance Act No. 38 of 1971 to improve the efficiency of state corporations and institutions. The assistance given by the Committee on Public Enterprises by highlighting the shortcomings of these enterprises is much appreciated.

## **Tax Administration and Income and Expenditure Management**

99. Although the tax system was simplified, there is large scale tax evasion. Substantial undervaluation is also observed in relation to taxes imposed at the point of Customs on motor vehicles and spares, vegetable oil, building material, textiles, food, pharmaceuticals products etc. Many do not submit correct assessments of their income and turnover to the Inland Revenue Department. Even the Excise Department loses substantial revenue because of illicit liquor. In order to build public confidence in the tax administration, we need to reform related departments and change their image while ensuring that those who are paying taxes and engaged in businesses in a justifiable manner are not harassed. Hence, steps are underway to improve these departments, by computerizing their administration with the use of management information technology, within the next two years. I also propose to take the following measures;

- i. I propose that the revenue loss at the point of Customs due to gross undervaluation to be contained by

introducing a mechanism using accepted norms to determine a minimum value on selected goods and remain constantly vigilant in that regard. Goods such as fruits, textile etc. will be made liable to a unit based specific tax, as opposed to *ad - valorem* taxes.

- ii. I propose that illicit liquor manufacturing places be raided to minimize the revenue loss caused by such activities. Steps will also be taken to have a close supervision on the quantum of spirit provided to the industry as a raw material, and to conduct stringent audits with regard to molasses and spirit imported as well as supplied by Pelwatte and Sevenagala Sugar industries.
- iii. While creating public awareness on the need to provide accurate information to the Inland Revenue Department, the assessment methods used with regard to selected sectors will be rationalized. Steps will be taken from next year to declare a Tax Week and create greater social

awareness on taxes. Steps will also be taken to obtain assistance of District Secretaries to strengthen the tax administration at divisional level and also to create public awareness on the various tax concessions available to tax payers engaged in various development work. In order to strengthen tax administration a new service minute that will enable reforms in administration and in the cadre will be implemented.

- iv. There is also a need to target high-risk sectors and expand tax audits while ensuring that there is close scrutiny on the existing management systems.
- v. Attention is also being given to introduce a mandatory insurance requirement for importers so as to ensure that only food items with a quality assurance will be permitted to be imported in the interest of consumers.

100. Hon Speaker, estimated revenue of Rs. 14,500 million is expected from the measures that I was referred to in my

proposals. The revenue expected from profits of the Central Bank, surplus funds of Public Enterprises and the revisions affected in respect of excise taxes and custom duty waivers is around Rs. 19,700 million. The Treasury has taken steps to manage expenditure within limits approved by the Parliament by using savings from identified expenditure heads towards rehabilitating infrastructure affected by floods and earth slips in January 2011, to meet the approved requests of expenditure of various Ministries. A compulsory saving of 2 percent of recurrent expenditure and 9 percent of capital expenditure is proposed in 2012, with a view to encourage Ministries to effectively manage expenditure.

### **Overseas Economic Cooperation**

101. I intend to strengthen our foreign economic ties with other friendly countries with an income level on par with ours or an economic development lower than ours, by exchanging technical services with them. The experiences we have gained and the advancements we have made in the areas of alleviating

poverty, strengthening the rural economy, advancements made in education, health and irrigation, construction activities and banking and accountancy services could be realized for such assistance. This Budget has planned to provide such services through technical assistance and small project financing, using expertise available in several ministries. I hope that around Rs. 2,500 million could be used towards this endeavour. As an initial steps in this process, around Rs. 1,000 million was offered this year to the Maldives, and the friendly ties that prevailed between the two countries were further strengthened.

### **The Public Service**

102. Hon. Speaker, public servants and security forces are extending a commendable service. I take this opportunity to appreciate, all those engaged in the public service with utmost dedication. Hon. Speaker, since assuming office, I have resolved many issues faced by public servants. Their salaries were revised, virtually every year. Housing facilities and foreign training facilities were enhanced. Medical insurance

scheme was implemented. Salary anomalies which remained unsettled were removed. Modern office facilities were established. The acceptability of the public services was improved by having a close dialogue with them.

103. During the last Presidential Election, I promised a salary increase of Rs.2,500 per month to public servants. I made that promise when my opponents had instead promised Rs.10,000. I made a moderate salary increase since I was not ready to make a political mileage through such promises by putting country's production and the export sector into a crisis.

104. Nevertheless, I granted a minimum salary increase of Rs. 1,200 in the 2011 Budget. All anomalies were corrected. Hence, most public servants enjoyed a salary increase in the range of Rs. 1,700 to Rs. 3,000. University Lecturers enjoyed a wage increase in the range of Rs. 12,000 to Rs. 38,700. The salary arrears of teachers were settled.

105. Hon. Speaker, I am now ready to fulfill the promise to give Rs. 2,500 as a wage increase. Therefore, I propose a wage increase of 10 percent of the basic

salary to all public servants. Non staff category will be given this increase from January 2012. I propose that staff grade officers to be given a 5 percent salary increase from January and a further 5 percent salary increase from July 2012. As per the recommendations of the Salaries and Cadre Commission, an allocation will be made to remove salary anomalies of academic and non-academic staff of universities, and to improve service related and transport allowances of Judges, Engineers, Doctors, Registered Medical Practitioners, Grama Niladharis and other field officers. I wish to note that every public servant will get a salary increase of over Rs. 2,500 within 2011/2012. Hon. Speaker, since field level officers of the Government are making a wide contribution in carrying out rural development programs, I propose to reduce the applicable tax by 50 percent, to enable them to purchase motor bicycles.

106. I also propose to reduce pension anomalies. Hence, I propose to give an additional monthly allowance of Rs.1,000 to those who have retired prior to 2004 and Rs.500 to those who have retired in 2004 - 2006. Half of this allowance will be given from January 2012 and the other

half will be given from July 2012. It is estimated that the total cost of salaries, pensions and other allowances will be around Rs.38,000 million. Expenditure in relation to all proposals made by me can be covered from treasury allocations as provisions have been made.

### **Conclusion**

107. Hon. Speaker, I wish to draw your attention to a few aspects prior to concluding this speech. The Budget deficit that has prevailed for a long period of time due to recurrent expenditure exceeding Government income has been reduced to Rs.1.8 billion in 2012. This was in the level of Rs. 120 billion in 2010.

108. This progress has been made, having provided Rs.40 billion for the fertilizer subsidy, Rs. 32 billion for *Samurdhi* and other welfare measures, and a further Rs.40 billion for the benefit of public servants, pensioners, low income earners, families of armed forces and various other needy segments of the society. I also proposed a further Rs.15 billion for development activities in education, health services, skills

development, coast conservation and flood protection and to uplift most difficult villages. If such expenditure on account of welfare and development activities and for the salary increase of public servants were not incurred, there could have been a surplus of around Rs.59 billion, in place of the deficit of around Rs. 1.8 billion, referred to above. I did not do so, since I firmly believe that a Budget deficit or surplus should be looked at while also taking into consideration the connected social welfare and development expenditure.

109. As continuously done during the last 6 years, Rs.496 billion has been allocated in 2012 to take forward the development projects. I was therefore able to include a considerable number of development proposals suggested by the Hon. Members of Parliament in various fields such as highways, irrigation, electricity, water resources, education and health, in to this Budget speech. Hence, the Budget deficit we have to manage during the year 2012 is Rs.469 billion. This is 6.8 percent of GDP where as it was 8 percent of GDP in 2010. Since virtually the entire Budget deficit is on account of development and welfare expenditure, I

believe that it will contribute towards long term development of the country while addressing many facets of poverty. I propose to bridge this deficit from domestic savings and foreign borrowings approved by the development partners who facilitate our development activities.

110. Hon. Speaker, the *Asgiriya* temple is commemorating its 700<sup>th</sup> anniversary next year. I wish to announce with heartfelt respect that Rs. 100 million has been allocated in this Budget for the work of this temple in preparation for this historic moment, and to conserve its historic value. Since, Sri Lanka will be hosting several important international conferences this year, we must make it an opportunity to display to the world our rich cultural heritage.

111. I wish to sum up this speech while noting that despite a very gloomy global economy and many challenges our country had to face, we have registered a substantial progress in every sector, within the last 6 years. We need to further strengthen this progress. However, the economic crises faced by developed nations have brought about many challenges to us. We have to face

the escalating oil prices. We are also faced with many challenges in the political front. To be able to face all this, we need to gather strength through unity and by having one voice. At this moment of presenting my 7<sup>th</sup> Budget, I wish to assure this august assembly that I will always stand firm for the unity of our alliance Government and to ensure unity and security of the people of our country. The tendency of those in the opposition parties to work in separate groups, is not healthy for the country. Like us, they should also should standby together for the political vision of their parties while setting aside personal differences and being humble and matured enough to rectify any wrongs of the past. I feel it is their duty to become a strong opposition to us, having moved away from insulting and venomous politics, and that they should support the Government when steps are taken in the interest of the nation.

112. Hon. Speaker, people have strong expectations to see a united Sri Lanka and to see the country becoming the emerging economy in Asia, as envisaged the *Mahinda Chintana* - Vision for the Future. I wish to conclude my speech by stating

that we should be committed to build a nation that all of us can be proud of, for the sake of our children and future generations as that is the sole aspiration of our people and nothing else.

*May the Blessings of the Sacred Tooth Relic, be with you All !*

*BUDGET SPEECH*

*2012*

*SUPPORTING DOCUMENTS*

*AND*

*TECHNICAL NOTES*

## **DOCUMENTS CONNECTED TO THE BUDGET 2012**

### **DOCUMENTS:**

1. *Fiscal Management Report 2012- The Ministry of Finance and Planning (The Department of Fiscal Policy)*
2. *Budget Estimates ( Volume 1,2,3) 2012- The Ministry of Finance and Planning (The Department of National Budget)*
3. *Global Partnership in Development- The Ministry of Finance and Planning (The Department of External Resources)*
4. *Towards an Equitable Development- The Ministry of Finance and Planning (The Department of Project Management and Monitoring)*

### **TECHNICAL EXPLANATIONS:**

5. *Statistical Tables-(Department of Fiscal Policy and The Department of National Budget)*
  - i. *The Impact of Revenue Proposals-2012 (Table I)*
  - ii. *The Impact of Expenditure Proposals-2012 (Table II)*
  - iii. *Gross Borrowing Requirements ( Provisioning for Accounting Transactions) (Table III)*
  - iv. *Budget Outturn(Economic Format) (Table IV)*
6. *Technical Notes to the Budget Proposals- The Ministry of Finance and Planning (The Department of Fiscal Policy)( Annex 1)*
  - i. *Income Tax- Amendments to Inland Revenue Act No 10 of 2006*
  - ii. *Textile and Apparel Industry*
  - iii. *Value Added Tax -Amendments to Value Added Tax Act No 14 of 2002*
  - iv. *Nation Building Tax- Amendments to Nation Building Tax Act No 09 of 2009*
  - v. *Economic Service Charge- Amendments to Economic Service Charge Act No 13 of 2006*

- vi. Registrations and Licensing of of Motor Vehicles*
- vii. Cess*
- viii. Excise Duty*
- ix. Excise ( Special Provision) Duty*
- x. Customs Duty*
- xi. Ports and Airports Development Levy - Amendments to Ports and Airports Development Levy Act No 18 of 2011*
- xii. Special Commodity Levy*
- xiii. Telecommunication Levy*
- xiv. Tax exemptions for SriLankan Air Lines Limited, SriLankan Catering Limited , Mihin Lanka (Pot.) Limited*
- xv. Levy on Rooms of Five Star Hotels under the Finance Act*
- xvi. Visa Fee*
- xvii. Time bar Provisions for Taxes at the point of Customs*
- xviii. Technical Rectifications*
- xix. International Financial Reporting Standards*
- xx. Hub Service ( Special Provisions) Act*
- xxi. Effective Dates*

**Table 1 .**  
**Impact of New Revenue Measures - 2012**

Item	Amount (Rs. Mn)
<b>1. Tax Administration</b>	<b>14,500</b>
i. Taxation Administered by the Department of Inland Revenue	<b>3,500</b>
- Personal and Corporate Income Tax	2,500
- Tax on Interest Income	1,000
ii. Taxation Administered by the Department of Customs	<b>9,000</b>
- Import Cess	3,000
- Import Duties	1,500
- Special Commodity Levy	3,000
- Excise (Special Provisions) Tax	1,500
iii. Taxation Administered by the Commissioner General of Excise	<b>2,000</b>
- Liquor Related Products	2,000
<b>2. New Revenue Proposals</b>	<b>19,700</b>
i. Adjustment in Excise Tax on Cigarettes	1,000
ii. Adjustment in Excise Tax on Liquor	1,000
iii. Adjustment in Customs Duty Waivers	1,000
iv. Revision of Motor Vehicles registration Revenue Licenses and Luxury Taxes	1,200
v. Electronic Visa System	2,000
vi. Telecommunication Charges (Outgoing & Incoming International Calls)	2,000
vii. Profit Transfers from the Central Bank of Sri Lanka	7,500
viii. Profit Transfers from the State Owned Enterprises	4,000
<b>Total</b>	<b>34,200</b>

*Compiled by the Department of Fiscal Policy*

**Table II- Expenditure Proposals-2012**  
**Allocations to be made from Treasury Votes**

<b>Proposal</b>		<b>Rs.Mn</b>
1	Salaries and Allowances of Public Sector Employees and Pensioners ;	
	General Salary Increase	32,000
	Correction of Pensioners Anomaly	3,200
	Revision of Allowances for Judges, Doctors and Registered/ Assistant Medical Practitioners, Engineers, Grama Niladhari, Field Officers and Anomaly Correction of Salaries of University academic and Non-Academic Staff	1,800
2	National Reconciliation Initiatives	125
3	Living Allowance to Parents of the Employees of the Security Forces	1,300
4	'Ranaviru Divineguma' Special Loan Scheme	400
5	Income support to Elderly	1,100
6	Income Support for Low Income Families	3,000
7	Special Programme for Child Protection, Pre-schools and Dhaham Education	150
8	Development of most difficult Villages and Religious Places	300
9	Special Funding Assistance to Artists	50
10	Assistance to Law Commission and Mediation Boards	100
11	Relocation of Selected Prisons	500
12	'Uruma Aruna' Fund	100
13	Restoration of Wayamba Square and Ruhunu Magampura Ancient Town	100
14	Traditional Craft Villages	100
15	Kala Pola	100
16	Agricultural Research and Extension for Rice Export zones	200
17	Seed Development	100
18	Development of Ornamental Fish Centers and Exports	50
19	Insurance Protection against Destructions caused by Elephants	100
20	Flood Protection in Urban and Sub-Urban Areas	800
21	Coast Conservation	500
22	Rural Transport	500
23	Domestic Airport Facilities	750
24	Legal Reform and International Arbitration Centre	100
25	Development of Permanent Quarters and Human Resource Development for the Security Forces	3,000
26	Information Technology	500
27	Housing Facilities for Underserved	500
28	Thousand Hospital Development Project	1,000
29	OPD Facilities for National Hospital	500
30	6000 School Development Project	2,500
31	Vocational Education in Highly Unemployed Districts	500
32	Special Research Projects for SMEs development	500
33	Sports Infrastructure	500
34	Tea and Rubber Research	200
35	Intercropping Assistance for Export Agricultural Crops	150
36	Asgiriya Restoration Programme-700 Anniversary	100
	<b>Total</b>	<b>57,475</b>

*Compiled by the Department of National Budget*

**Table III**  
**Gross Borrowing Requirement- 2012**  
**(Provisioning for Accounting Transactions)**

*Rs. Billion*

Total Receipts other than Government Borrowings	1,150
Total Payments Including Debt Repayments	2,190
Provision for Advanced Accounts	4
Restructuring Bonds to Capitalize CPC Dues	60
Risk Provision	35
Total Gross Borrowing Requirement to be recorded in Government Accounts	1,139
O/W total Debt Repayments	570

*Compiled by the Department of National Budget and Department of Treasury Operations*

**Table IV Summary of the Budget: 2010-2012**

	<b>Rs. Bn.</b>		
	<b>2010</b>	<b>2011</b>	<b>2012</b>
	<b>Budget</b>		
<b>Total Revenue and Grants</b>	<b>834.2</b>	<b>937.0</b>	<b>1,126.1</b>
Total Revenue	817.3	923.2	1,106.1
Tax Revenue	724.8	827.5	1,000.6
Income Tax	135.6	159.9	190.3
Taxes on Goods and Services	435.4	478.2	569.4
Taxes on External Trade	153.7	189.4	240.9
Non Tax Revenue	92.5	95.7	105.5
Grants	17.0	13.8	20.0
<b>Total Expenditure</b>	<b>1,280.2</b>	<b>1,397.2</b>	<b>1,594.9</b>
Recurrent	937.1	1,018.8	1,107.9
Salaries and Wages	300.6	321.2	367.9
Interest	352.6	355.4	370.0
Subsidies and Transfers	196.2	212.9	236.4
Other Goods and Services	87.7	129.3	133.5
Public Investment	356.5	389.0	497.5
Education and Health	32.5	39.8	45.4
Other Infrastructure Development	324.0	349.2	452.1
Other	(13.4)	(10.5)	(10.4)
<b>Revenue Surplus/Deficit(-)</b>	<b>(119.8)</b>	<b>(95.2)</b>	<b>(1.8)</b>
<b>Budget Deficit</b>	<b>(446.0)</b>	<b>(460.0)</b>	<b>(468.9)</b>
<b>Total Financing</b>	<b>446.0</b>	<b>460.0</b>	<b>468.9</b>
Total Foreign Financing	194.9	183.1	175.3
Net Foreign Borrowings	83.0	73.6	120.3
Gross Concessional Foreign Borrowings	158.1	163.6	270.3
Debt Repayments	75.1	90.0	150.0
Foreign Commercial	111.9	109.5	55.0
Total Domestic Financing	251.1	277.1	293.6
Non-Bank Borrowings	204.1	95.1	207.6
Foreign Investment on T Bills and T Bonds	48.9	22.0	22.0
Bank Borrowings	(1.9)	160.0	64.0
Revenue and Grants/GDP (%)	14.9	14.3	15.0
Revenue /GDP (%)	14.6	14.1	14.7
Tax/GDP (%)	12.9	12.7	13.3
Expenditure/GDP (%)	22.9	21.4	21.2
Current Expenditure/GDP (%)	16.7	15.6	14.7
Public Investment/GDP (%)	6.4	6.0	6.6
<b>Revenue Surplus (+) / Deficit (-) GDP (%)</b>	<b>(2.1)</b>	<b>(1.5)</b>	<b>(0.0)</b>
<b>Budget Deficit/GDP (%) (Excluding Grants)</b>	<b>(8.0)</b>	<b>(7.0)</b>	<b>(6.2)</b>

*Compiled by the Department of Fiscal Policy*

**Budget Proposals 2012 – Taxation**

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

**1.1 Exemptions/ Taxation at concessionary rates**

**1.1.1 Exemption under Section 16 C**

The present tax holiday regime stipulated in Section 16C of the Inland Revenue Act applicable in relation to manufacture of any product will be extended to new enterprises engaged in any of the following activities as well, provided that the investment is made on or before 31<sup>st</sup> March 2015.

- i. Agriculture and/or Agro processing
- ii. Animal Husbandry and/or processing
- iii. Fisheries and/or Fish processing
- iv. Information Technology
- v. Business/ Knowledge Process Outsourcing
- vi. Health Care
- vii. Education
- viii. Beauty care
- ix. Cold room and storage
- x. Tourism
- xi. Sports and fitness centers
- xii. Creative work including art work

**1.1.2 Investment Limits (for New Enterprises)**

1.1.2.1 **Small scale enterprises** engaged in Agriculture and/or Agro processing, Animal Husbandry and/or processing, Fisheries and/or Fish processing or Creative work including art work will be eligible for 4 year tax holiday if a minimum sum of Rs. 25 mn is invested.

1.1.2.2. **Medium scale enterprises** engaged in any specified activity will be eligible to a tax holiday as follows:

<b>Investment</b>	<b>-</b>	<b>Tax Holiday</b>
Rs. 50 mn – Rs. 100 mn	-	4 years
Rs. 100 mn – Rs. 200 mn	-	5 years
Over Rs. 200 mn	-	6 years

1.1.2.3 **Large scale enterprises** engaged in specified activities including any processing and solid waste management will be eligible for tax holiday as

specified in section 17A. The period of tax holiday depending on the size of investment is as follows:

<b>Investment</b>	<b>Period of Tax Holiday</b>
Rs. 300 mn - Rs. 500 mn	6 years
Rs. 500 mn - Rs. 700 mn	7 years
Rs. 700 mn - Rs. 1000 mn	8 years
Rs.1,000 mn - Rs. 1,500 mn	9 years
Rs 1,500 mn - Rs. 2,500 mn	10 years
Rs. 2500 mn and above	12 years

The qualifying activities will be expanded and included under the respective section of the Act.

### 1.1.3 Expansion of existing Enterprises

If an existing enterprise is investing in such enterprise itself (an expansion) a minimum of Rs 50mn prior to 31<sup>st</sup> March 2015, such investment will be treated as a qualifying payment deductible from the assessable income of the enterprise subject to a maximum of 25% of the investment for each year of assessment falling within the period of 4 years commencing from the year of investment.

### 1.1.4 Strategic Import Replacement Enterprises

Having recognized that Sri Lanka is a net importer, the production of the following items to replace imports either by a new enterprise or by way on an expansion of an existing enterprise with the corresponding investment will be eligible for following concessions:

- **New enterprises:** a 5 year tax holiday followed by the concessionary income tax rate;
- **Existing enterprises :** the concessionary income tax rate for a period of 5 years couple with qualifying payment relief ( described in item 1.1.3)

<b>Product</b>	<b>Investment limit</b>	<b>Concessionary Tax rate</b>
Cement	US\$ 50 mn	12%
Steel	US\$ 30 mn	12%
Pharmaceuticals	US\$ 10 mn	12%
Fabric	US\$ 5 mn	12%
Milk Powder	US\$ 30 mn	12%

1.1.5 VAT, Customs Duty, Cess, and PAL on the importation of plant, machinery or equipment by enterprises referred to in above will be deferred during the project implementation period, and such deferment will be treated as an exemption on the fulfillment of the conditions specified by the Board of Investment of Sri Lanka with the concurrence of Commissioner General of Inland Revenue.

1.1.6 *Enterprises exporting more than 75% of their output will continue to get the same privileges that are prevalent today for such enterprises in relation to the above taxes.*

1.1.7 *The BOI will be authorized through an amendment under the Inland Revenue Act to extend these concessions together with the other relevant concessions to qualified enterprises referred to in above.*

*For the purpose of the above provisions, the investment means as 'investment in fixed assets' such as land, plant, machinery or equipment.*

1.1.8 *Advance ruling mechanism will be introduced for investors eligible for tax exemptions, to ensure consistency in the application of respective provisions of relevant tax laws.*

1.1.9 **Other tax exemptions**

(a) **Institutions**

*Profits and income ( other than dividends and interest ) of the following will be exempt from income tax :*

(i) *The Institute of Certified Management Accountants of Sri Lanka;*

(ii) *The Child Protection Authority*

*(Section 7 of the Inland Revenue Act will be amended)*

(b) **Source specific exemptions:**

(i) *Royalty received from outside Sri Lanka will be exempt, if remitted to Sri Lanka through a bank;*

(ii) *Profits and income from the redemption of a Unit of a Unit Trust or a Mutual Fund ;*

(iii) *Interest accruing to any person or partnership outside Sri Lanka on a loan granted to any person or partnership in Sri Lanka ;*

(iv) *Profits and income from the administration of any sport ground , stadium or sport complex ;*

(v) *Profits and income of a trainer of any sport, being a non citizen individual who is brought to Sri Lanka for that purpose*

*(Section 13 of the Inland Revenue Act will be amended)*

1.2 **Concessionary rates**

(a) **Development activities carried out by specified bank branches**

*The profits and income of newly set up branch of a commercial bank dedicated to development banking will be taxed at a lower rate of 24%.*

**(b) Research and development**

*The profits and income from the activities carried out as research and development by a person other than a company will be reduced to a maximum rate of 16% and in the case of a company the rate will be reduced to 20%.*

**(c) Value Added Tea**

*A grower cum manufacturer or a manufacturer of tea, who establishes a joint venture with a tea exporter for the purposes of exporting pure Sri Lankan tea (Ceylon Tea), in value added form, with a Sri Lankan brand name, will be eligible to be taxed at the rate of 12% on the manufacturing income attributable to the quantum of tea purchased for that purposes by the joint venture.*

**(d) Handloom Industry**

*The rate of tax applicable on the profits and income of a person or partnership from the locally manufacture of handlooms products will be reduced to 12% (maximum)*

**(e) Health Care Services**

*The rate of tax applicable on the profits and income from the health care services will be reduced to a maximum of 12%.*

**(f)** *Consequent to rate changes introduced, low rates will be accommodated in Third and Fifth Schedules to the Inland Revenue Act.*

**1.3 Ascertainment of profits and income**

***Deductions ( allowable under section 25 of the Act )***

***- Capital Expenditure***

*Cost of any high tech plant, machinery or equipment acquired on or after April 1, 2012 for energy efficiency purposes ,will be allowed at the rate of 50% on the cost of acquisition;*

***- Travelling expenses***

**(a)** *Consequential amendments will be made with effect from April 1, 2011, to allow expenses incurred by an employer on any motor vehicle used by an employee irrespective of whether such vehicle benefit is taxable on such employee.*

**(b)** *Companies exclusively providing the services of design development, product*

*development or product innovation will be permitted to deduct in full, any travel expenditure ( whether local or foreign) incurred in relation to such services.*

- *Maintenance and management expenses incurred by any person in respect of any Sports ground , Stadium or Sports Complex will be deductible without any restriction*

*(Section 25 of the Inland Revenue Act will be amended)*

#### **1.4 Pre – commencement expenses of Small and Medium Scale Enterprises**

*In order to help new Small and Medium Scale Enterprises with expected turnover not exceeding Rs 500mn, the pre- commencement expenses incurred on any such enterprises in the year of assessment immediately preceding the year in which the enterprise commences commercial operations will be allowed for deduction from the total statutory income of year of commercial operation*

*(Section 32 of the Inland Revenue Act will be amended)*

#### **1.5 Qualifying payments**

*Expenditure incurred by any person under any community development project carried out in most difficult villages as identified and published in the Gazette by the Commissioner General of Inland Revenue, will be a qualifying payment deductible subject to a upper limit of Rupees one million in the case on an individual and Rupees ten million in the case of a company.*

*(Section 34 of the Inland Revenue Act will be amended)*

#### **1.6 Requirement of furnishing Audit Certificate:**

*Where a Quoted Public Company is a member of a group of companies, the requirement of furnishing compulsory audit certificate will be extended to all the member companies and associate companies of that group.*

*(Section 107 of the Inland Revenue Act will be amended)*

#### **1.7 Definition of Dividends**

*Definition of dividends will be amended to cover scrip dividends  
(Section 217 of the Inland Revenue Act will be amended)*

## **2 Textile and Apparel Industry**

*All yarn except sewing thread and vegetable fibre based yarn will be free from all taxes to facilitate handloom manufacturing or fabric manufacturing with a value addition and import replacement.*

## 2.1 **Fabric**

*Imported fabric for domestic consumption will be subject to an all-inclusive tax of Rs.75 per kg. Sale of excess fabric of export oriented apparel manufacturers will also be subject to the above all inclusive rate. However, in order to assist small industrialist engaged in the manufacture of various items ( soft toys, hand bags etc) such cut pieces of fabric not more than two meters can be sold subject to a tax of Rs 25/- per kg.*

*Fabric sold in the local market by export oriented textile millers, will be permitted to sell 25% of their production in the local market on the payment of all inclusive tax of Rs. 40 per kg in the domestic market if they do not opt to be under the import replacement programme. Domestic manufacturers of fabric who are not enjoying BOI concessions will be exempted from Value Added Tax.*

## 2.2 **Apparel**

*All imports of branded apparel products including sportswear will be subject to a maximum of 35% of all inclusive tax at the point of Customs.*

*Export oriented apparel manufacturers who are exporting a minimum of 75% of their production will be permitted to sell the balance in the local market on the payment of all inclusive tax of Rs. 25 per piece and Rs. 25 for a bundle of 6 pieces of selected categories.*

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

### 3.1 **Exemptions**

#### (a) **The import of:**

- *Speakers & amplifiers, Digital Stereo Processors & accessories, Cinema Media players and Digital readers under HS Code 8518.29, 8518.40, 8519.81, 8519.89 for the improvement of Film Theatres with digital technology ( the present exemption applicable to the import of equipment for the cinema industry will be extended by addition of the above items)*
- *Pharmaceutical machinery and spare parts under HS Code Nos 8479.89.90, 8424.20, 8413.81 and 8481.80, by manufacturer of pharmaceuticals (w.e.f. June 1, 2011)*
- *Machinery for the manufacture of bio mass briquettes and pallets by the manufacturer of such products under HS Code 8479.30 (w.e.f. June 1, 2011)*

- *Green Houses , Poly Tunnels and materials for the construction of green houses and poly tunnels by the growers*

**(b) The supply of:**

**(i) locally manufactured:**

- *hydropower machinery and equipment*
- *Products using locally procured raw materials for the required specification of the tourist hotels and airlines which promote local value added products*
- *Canned fish*
- *Turbines*
- *Specified products to identified State Institution replacing imports*
- *Pottery product by the manufacturer*

**(ii) -Research and development services**

- *Services by the Department of Commerce*
- *Paintings by the creator of such painting*

**(c) The import or the supply of:**

- *Lorries and Trucks under the HS Code Nos 8704.10 8704.21.11, 8704.21.20, 8704.22.10 , 8704.23 10 and 8704.23.30*
- *Buses under HS Code No 8702.10.59*
- *Sport equipments under HS Heading No 95.06*
- *Machinery use for the production of rubber and plastic prodcuts under HS Heading 84.77*
- *Wood sawn under HS Heading Nos 44.07, 44.08 and 44.09*
- *Sunglasses under H S Code Nos 9004.10 and 9004.90*
- *Perfumes under H S Code No 3303.00 .10*
- *Mammoties under H S Code No 8201.30.10 and fork under H S Code No 8201.20*

- *Artemia eggs under HS Code No. 0511.91.20 and Peat moss - under HS Code No2703.00*
- *Moulding (steel, glass, rubber and plastic) under H S Heading 84.80*
- *Items and spares needed in the poultry industry under HS Code Nos. 3926.90.30, 3926.90.50, 8418.61.30,8418.61.40 and 8418.69.30*
- *Photo sensitive semi – conductor devices under H S Code No 8541.40*
- *In order to protect local industries the raw materials exclusively used for the manufacture of following articles:*
  - ***for the manufacture of spectacles** under HS Codes 3824.90.90, 2916.14.00, 2916.32, 3919.10, 3405.40.90, 5901.90, 6805.20,6805.30, 8302.10 and 8466.92*
  - ***for the manufacture of spectacle frames** under H.S. Code Nos. 2825.90, 7505.22, 8479.90, 7506.20*

(d) *VAT on Financial Services: The value addition attributable to a Unit Trust or a Mutual Fund from interest , dividend or dealing in debt instruments*

**(Part II of the First Schedule to the VAT Act will be amended)**

### 3.2 **Input tax restriction**

*The mechanism introduced in 2011 to deduct unabsorbed input tax as at 31<sup>st</sup> December 2010, will be further extended to facilitate claiming the balance (if any) in the following manner:*

- *effective from July 13, 2011, up to December 31, 2011 the set off is permitted against taxes payable at the point of Customs subject to the limit of 5% specified in the VAT Act, if no liability to VAT;*
- *effective from January 1, 2012, the 5% restriction will be removed and the tax payers will be permitted to claim the balance against any tax administrated by the Commissioner General of Inland Revenue, or the Director General of Telecommunication Regulatory Commission subject to the limit of 10% of the unabsorbed balance as at December 31, 2010, until the residue of the unabsorbed balance as at December 31, 2010, ( after deducting the amount already set off up to December 31, 2011) is fully absorbed;*
- *In addition , in the case where there is no liability to VAT , the set off is extended against to cover up the taxes payable at the point of Customs, subject to the same restriction.*

*(Section 22 of the VAT Act will be amended)*

### 3.3 VAT Suspension Scheme

Certain changes will be incorporated to the VAT Act, which are already been administratively carried out and communicated to tax payers through Guidelines etc for the proper implementation of the SVAT system.

## 4 Nation Building Tax (NBT) [Amendments to NBT Act No 9 of 2009]

### 4.1 Exemptions :

- (a) *Importation of air craft or ships under HS Code Nos 8802.11, 8802.12, 8802.20, 8802.30 ,8802.40, 89.01, 89.02, 89.05, 89.06, 89.07 and 89.08*
- (b) *Importation of artificial limbs, crutches, wheel chairs, hearing aids, accessories for such aids, white canes for the blind, Braille typewriters and parts , Braille writing papers and boards under HS Code Nos relevant HS Codes : 87.13, 90.21 ,6602.00.10 , 8473.10.10 and 8469.00.10*
- (c) *Importation of timber logs under HS Heading No 44.03*
- (d) *Importation of yarn except sewing thread and vegetable fiber based yarn under HS Heading Nos 50.01, 50.02, 50.03, 50.04, 50.06, 51.01, 51.02, 51.03, 51.04, 51.05, 51.06, 51.07, 51.08, 51.09, 51.10, 52.01, 52.03, 52.05, 52.06, 53.01, 53.02, 53.03, 53.06, 53.07, 54.02, 54.03, 54.04, 54.06, 55.01, 55.02, 55.03, 55.04, 55.06, 55.07, 55.09, 55.10, 55.11, 56.04, 56.05 and 56.06*
- (e) *Importation of fabric under H S Code Nos 5007.10,,5007.20,,5007.90, 51.11, 51.12, 51.13, 52.08, 52.09, 52.10, 52.11, 52.12, 53.09, 53.10, 54.07, 54.08, 55.12, 55.13, 55.14, 55.15, 55.16, 58.01, 58.02, 58.04, 58.06, 58.09, 58.11, 60.01, 60.02, 60.03, 60.04, 60.05 and 60.06*

*(Part I of the first schedule of the NBT Act will be amended.)*

(f) *Wholesale or retail sale of :*

- *printed books with effect from 1/7/2011*
- *goods to exporters*
- *Fresh milk, green leaf, cinnamon, rubber( latex , crape or sheet rubber) by collectors*
- *Petrol, diesel or kerosene in a filling station*

*( Section 3 of the NBT Act will be amended )*

(g) Sale of locally manufactured clay roof tiles and pottery product by the manufacturer

(Part I of the First Schedule of the NBT Act will be amended)

(h) Sale of paintings by the creator of such painting

(Part II of the First Schedule of the NBT Act will be amended)

4.2 The definition of the exporter for the purpose of the NBT Act will be adjusted to cover a manufacturer of goods who is exporting his produce through a Trading House established for export purposes as well effective from 2009.

## 5. Economic Service Charge (ESC) [Amendments to ESC Act No 13 of 2006]

### 5.1 Exemptions

- The chargeability to ESC will be further simplified by removing the liability to ESC on the turnover of any business of which the profits are subject to Income Tax. Accordingly, ESC is payable only on the turnover of any business, the profits for any year of assessment of which are not liable to income tax due to the application of any tax exemption or incurring losses during that period.
- Sale of locally manufactured clay roof tiles and pottery product by the manufacturer

5.2 The threshold of ESC will be expanded from Rs 25mn to Rs 50mn per quarter.

## 6 New Registrations and licensing of Motor Vehicles

### (a) New Registration Charges for Motor Vehicles

In order to simplify the charges payable on registration of vehicle, the presently applicable relevant withholding tax would be amalgamated with vehicle registration charges. The applicable new vehicle registration charges will be as follow

Rs.

Vehicle Category	Existing	Proposed
Hand Tractor	1,500	1,500
Motor coach ( Bus)	3,000	3,000
Motor Lorry	3,000	3,000
Tractor Trailer	6,000	6,000
Four Wheel Tractor	7,000	7,000
Land Vehicle	7,000	7,000
Lorry Trailer	7,500	7,500
Hearse	10,000	10,000
Motor Ambulance	10,000	10,000
Motor Cycle	1,500	2,000

Motor Tricycle	2,000	2,500
Motor Tricycle Van	2,500	3,000
Motor Car ( not exceeding 1600 cc)	10,000	15,000
Motor Car ( exceeding 1600 cc)	10,000	20,000
Prime Mover	10,000	15,000
Fork lift	15,000	20,000
Dual Purpose Vehicle	10,000	15,000

(b) **Revenue Licensing Annual Fee for Motor Vehicle**

Vehicle Category	Changing revenue license fee
Lorries, Tractors, Busses and Trailers ( for tractors or trailers)	No change
Motor Bicycles, Three-wheelers	Existing fee increased by Rs 150
Other vehicle categories	Existing fee increased by Rs 500

(c) **Luxury, , Semi Luxury and Dual Purpose Motor Vehicle Taxes**

Rs.

Year	Vehicle Category and cylinder capacity					
	Luxury Diesel - cars over 2,500 and Petrol - cars over 2,000		Semi Luxury Diesel - cars 2,201 to 2,500, Jeeps over 2,201, Petrol - cars over 1801 to 2,000 and jeeps over 1801		Dual Purpose Diesel - cabs over 2,200, Petrol - cabs over 1,800	
	Existing Rate	New Rate	Existing Rate	New Rate	Existing Rate	New Rate
Year 1	100,000	150,000	50,000	60,000	20,000	40,000
Year 2	78,000	100,000	39,375	50,000	15,750	25,000
Year 3	68,000	75,000	34,000	40,000	13,600	20,000
Year 4	57,000	60,000	28,875	30,000	11,550	12,000
Year 5	48,000	50,000	24,000	25,000	9,600	10,000
Year 6	38,750	40,000	19,375	20,000	7,750	8,000
Year 7	30,000	30,000	15,000	15,000	6,000	6,000

## 7 Cess

### 7.1 To reduce the upfront cost of local manufactures, cess on import of following raw materials have been removed/reduced:

Item	H S Headings / H S Code
Starch	11.08
Polymers of ethylene in primary forms	39.02 3903.11, 3903.19, 3903.20, 3903.30,3903.90.90,3904, 3905.19,3905.29, 3905.30, 3905.91, 3905.99, 3907.10, 3907.20, 3907.30, 3907.40, 3907.60, 39.08 and 39.15
Pipes for mini hydropower project	3917.29.10 and 3917.40.10
Butyle rubber and rubber threads	4005.10.19 , 4005.10.29 and 40.07
Scrap Iron	7204.10
Sanitary wear of plastics, steel sink and baths	3922.10 3922.20, 3922.90 and 73.24
Buckles	83.08
Easy open ends for metal cans	8309.90.30

### 7.2 To enhance the availability of branded products, cess on import of following items has been reduced/ removed:

Item	H S Headings / H S Code
Beauty or make -up preparations	33.04, 33.05, 33.06 and 33.07
luggage, travel bags, hand bags and belts	42.02, 42.03 and 42.05
Apparel	61.01 through 61.17,62.01 through 62.16, 63.02 through 63.04
Footwear	64.01 through 64.05,
Hats	65.01 through 65.05
Ornamental porcelain and ceramic products	69.10 through 69.14
Glass wear	70.09, 70.13, 70.16
Cutlery and razors	82.11,82.12, 82.14 ,82.15
Toys	95.03

**7.3 To encourage the local value added industries, Cess has been increased or imposed on import of following items**

Item	H S Headings / H S Code
Dried Vegetables/Dried Fruit	07.12, 0803.00.90, 0804.20.20, 0804.30.20, 0804.40.20, 0804.50.20, 0804.50.40, 0804.50.60, 0805.10.20, 0805.20.20, 0805.40.20, 0805.50.20, 0805.90.20, 0806.20 and 08.13
Wheat flour	1101.00.10
Thripasha	1901.90.91, 1901.90.92 and 1901.90.93
Gauze and bandage	30.05
Joss- stick	33.07.41
Vinyl chloride	3917.23
Refrigerators	84.18.10.10, 8418.10.90, 8418.21.90, 8418.21.30, 8418.29.10, 8418.29.20, 8418.29.30 and 8418.29.30
Bicycle rim	8714.92.10

**7.4 To boost the sport economy and to build a healthy nation Cess on import of following items has been reduced/ removed**

Item	H S Headings / H S Code
T- shirts and shorts	61.09 , 6103.42 and 6104.62
Track- suits and swim wear	61.12 and 62.11
Shoes	64.01 through 64.05

**7.5 To encourage local value addition, Cess has been increased / imposed on export of following items**

Item	H S Headings / H S Code
Raw rubber	4001.10 and 4001.21
Natural graphite	2504.90.90
Clay	25.07,
Sand	2505.90
Phosphate	2510.10
Stones	2513.20
Granite, sand stones	2516.20, 2516.90
Mica	2525.10
Ilmanite	2614.00.10
Rutile	2614.00.20
Titanium	2614.00.90
Zirconium	2615.10
Timber logs	4403.99, 44.07, 44.08 and 44.09

## 8 Excise Duty

Liquor produced from local plant material or plant product will be subject to a lower excise duty of Rs 100/- per proof liter.

## 9 Excise (Special Provisions) Duty

Electric motor bicycles ( H S Code 8711.90.10 ) and Polymers of ethylene in primary forms ( H S Heading 39.01) are exempted from Excise (Special Provisions ) Duty.

## 10 Customs Duty

Considering requests received from industries and importers concerning reduction or increase of customs duty on imports were studied and duty revisions are proposed in order to protect the local industries adequately. Locally produced commodities are protected from imported goods by customs duties at levels of 30% (highest), 15% (intermediate) and 5% (low). The protection levels were reviewed and Customs duties are proposed to reduce on the products that have been protected for a long period of time. The local value addition, potential for exports and effect on the consumer were also considered to determine the level of protection. The protection levels are suggested to allow the local industry to compete with the imported products and promote to be competitive in the international market. The policy on Customs Duty structure remained unchanged except for the revisions proposed.

<b>Hs Code</b>	<b>Prevailing Customs Duty</b>	<b>Proposed Customs Duty (%)</b>
<b>1. To strengthening caring society</b>		
<i>Braille typewriters</i>		
8469.00.10	5%	Free
<i>Parts for Braille type writers</i>		
8473.10.10	5%	Free
<b>2. To reduce upfront cost of raw materials</b>		
<i>Prepared glues &amp; other prepared adhesives</i>		
3506.10.10	15%	Free
3506.91.10	15%	Free
3506.99.10	15%	Free
<i>Saturated other polyesters</i>		
3907.99.10	5%	Free

<i>Polymers of vinyl acetate</i>		
3905.12	15%	5%
<i>Hardened gelatin capsules</i>		
3926.90.80	15% or Rs. 20/kg	Free
<i>Compounded rubber, unvulcanised</i>		
4005.10.19	15%	Free
4005.10.29	15%	Free
<i>Vulcanised rubber thread</i>		
4007.00	15%	5%
<i>Raw materials for spectacle</i>		
9003.90.10	15%	Free
9003.90.90	15%	Free
9001.90	5%	Free
9001.50.10	5%	Free
<b>3. To encourage local value addition industries</b>		
<i>Food preparations based on maize, soya bean and green gram</i>		
1901.90.91	Free	15%
1901.90.92	Free	15%
1901.90.93	Free	15%
<i>Pneumatic tyres of rubber</i>		
4011.10	30% or Rs.90/kg	30% or Rs.100/Kg
<i>Steel &amp; parts of structures</i>		
7308.90.90	30%	5%
<i>Razor blades</i>		
8212.20.10	15%	Free
8212.20.90	30%	5%
<i>Easy open lids</i>		
8309.90.30	15%	Free
<i>Refrigerators</i>		
8418.10.10	30%	15%
8418.10.90	30%	15%
8418.21.10	30%	15%
8418.21.20	30%	15%
8418.21.30	30%	15%
8418.29.10	30%	15%
8418.29.20	30%	15%
8418.29.30	30%	15%
8418.29.90	30%	15%
<i>Moulds for rubber &amp; plastics</i>		
8480.71	15%	5%
8480.79	15%	5%
<i>Prefabricated buildings</i>		
9406.00	30%	5%

<b>4. To boost the sport economy and to build the healthy society</b>		
<i>Sports footwear</i>		
6402.12	30% or Rs. 100/pair	Free
6402.19	15%	Free
6403.12	30% or Rs. 100/pair	Free
6403.19	15%	Free
6403.12	30% or Rs. 100/pair	Free
<b>5. To support transport ( passengers and goods )</b>		
<i>Buses / Lorries</i>		
4011.20	30% or Rs 90 /kg	15% or Rs 50 /kg
<i>Diesel engines (New)</i>		
8408.20.90	15%	Free
<i>Motor vehicles for the transport of goods/Lorries</i>		
8704.21.61	15%	5%
8704.22.10	5%	Free
8704.22.20	5%	Free
8704.23.10	5%	Free
8704.23.20	5%	Free
8704.23.30	5%	Free
8704.23.40	5%	Free
<b>6. To promote use of energy serving lamp</b>		
<i>Lamps/LED mounted in one housing &amp; Solar lanterns &amp; Sets for decorative lightening</i>		
9405.10.10	15%	Free
9405.20.10	15%	Free
9405.10.20	15%	Free
9405.20.20	15%	Free
9405.30	30%	Free
9405.40.30	15%	Free
9405.40.40	15%	Free
<b>7. To promote ICT and BPO Sector</b>		
<i>Automated data processing machines/ computers</i>		
8471.30.10	5%	Free
8471.30.90	5%	Free
8471.41.10	5%	Free
8471.41.90	5%	Free
8471.49.10	5%	Free
8471.49.90	5%	Free

8471.50.10	5%	Free
8471.50.90	5%	Free
8471.90	5%	Free
<b>8. Branded and other goods of Tourists interest</b>		
<i>Footwear</i>		
6401.10	30% or Rs. 100/pair	Rs. 100/pair
6401.92	30% or Rs. 100/pair	Rs. 100/pair
6401.99	30% or Rs. 100/pair	Rs. 100/pair
6402.20	30% or Rs. 100/pair	Rs. 100/pair
6402.91	30% or Rs. 100/pair	Rs. 100/pair
6402.99	30% or Rs. 100/pair	Rs. 100/pair
6403.20	30% or Rs. 100/pair	Rs. 100/pair
6403.40	30% or Rs. 100/pair	Rs. 100/pair
6403.51	30% or Rs. 100/pair	Rs. 100/pair
6403.59	30% or Rs. 100/pair	Rs. 100/pair
6403.91	30% or Rs. 100/pair	Rs. 100/pair
6403.99	30% or Rs. 100/pair	Rs. 100/pair
6404.19	30%	Rs. 100/pair
6404.20	30%	Rs. 100/pair
6405.10	30% or Rs. 100/pair	Rs. 100/pair
6405.20	30% or Rs. 100/pair	Rs. 100/pair
6405.90	30% or Rs. 100/pair	Rs. 100/pair
<i>Ornamental porcelain &amp; ceramic products</i>		
6913.10	30% or Rs 25/kg	Free
6913.90.10	30% or Rs. 20/kg	Free
6913.90.90	30% or Rs. 20/kg	Free
<i>Glassware</i>		
7013.10	30%	5%
7013.22	30%	5%
7013.33	30%	5%
7013.41	30%	5%
7013.91	30%	5
<i>Cutleries</i>		
8211.10	15%	Free
8215.10	30%	Free
8215.20	30%	Free
8215.91	30%	Free
8215.99	30%	Free
<i>Sunglasses</i>		
9004.10	30%	Free
9004.90	15%	Free
<i>Hair accessories</i>		
9615.11	30%	Free
9615.19	30%	Free
9615.90	30%	Free

## 11 Ports and Airports Development Levy (PAL)[Amendments to PAL Act No 18 of 2011]

### 11.1 Exemption on importation of:

Items	H S Heading/ Code
Artificial limbs, crutches, wheel chairs, hearing aids, accessories for such aids, white canes for the blind, Braille typewriters and parts , Braille writing papers and boards	87.13, 90.21 ,6602.00.10 , 8473.10.10 and 8469.00.10
Timber logs	44.03
Yarn except sewing thread and vegetable fibre based yarn	50.01, 50.02, 50.03, 50.04, 50.06, 51.01, 51.02, 51.03, 51.04, 51.05, 51.06, 51.07, 51.08, 51.09, 51.10, 52.01, 52.03, 52.05, 52.06, 53.01, 53.02, 53.03, 53.06, 53.07, 54.02, 54.03, 54.04, 54.06, 55.01, 55.02, 55.03, 55.04, 55.06, 55.07, 55.09, 55.10, 55.11, 56.04, 56.05 and 56.06
Fabric	5007.10,,5007.20,,5007.90, 51.11, 51.12, 51.13, 52.08, 52.09, 52.10, 52.11, 52.12, 53.09, 53.10, 54.07, 54.08, 55.12, 55.13, 55.14, 55.15, 55.16, 58.01, 58.02, 58.04, 58.06, 58.09, 58.11, 60.01, 60.02, 60.03, 60.04, 60.05 and 60.06

## 12 Special Commodity Levy

To simplify the taxation at the point of Customs in lieu of all the applicable taxes one single tax will be imposed for the following items.

Item	HS Code
Maldiv fish	0305.59.10
Dried fish	0305.59.90
Oranges	0805.10.10
Mandarin	0805.20.20
Grapes	0806.10
Apples	0808.10
Coriander	0909.20.10 and 0909.20.90
Saffron	09.10.30.10 and 09.10.30.90

**13 Telecommunication Charges**

13.1 Levy on outgoing international calls to be increased from Rs 2 per minute to Rs 3 per minute;

13.2 Rate of incoming international calls to be increased from US \$ 7 cents per minute to US\$ 9 cents per minute

**14** Importation of goods by Sri Lankan Air Lines Limited, Air Lanka Catering Services Ltd and Mihini Lanka (Pvt) Ltd will be exempted from all applicable taxes on the importation of any goods at the point of Customs ( including transactions through BOI Customs).

**15 Levy on rooms of Five Star Hotels under the Finance Act**

The application of levy will be subject to the concessionary rate specified for Airline crews in the Gazette Order under section 53 of the Tourism Act No 38 of 2005.

**16 Visa Fee**

Visa fees will be revised as follows

SAARC countries- US \$ 10

Other countries - US \$ 20

**17 Time Bar Provisions for taxes at the point of Customs**

Presently there is no time bar provision applicable to taxes collected by the Director General of Customs. A two year time bar provision will be introduced in relation to such taxes.

**18 Technical Rectifications**

Relevant amendment will be made to the Inland Revenue Act No 10 of 2006, Value Added Tax Act No 14 of 2002, Nation Building Tax Act No 9 of 2009, Economic service Charge Act No 13 of 2006, Finance ( Amendment ) Act No 15 of 2011, Telecommunication Levy Act No 21 of 2011, Tax Appeals Commission Act No 23 of 2011 to rectify certain ambiguities (including differences in translations)

**19 International Financial Reporting Standards (IFRS)**

Accounting Standard setters in several countries in the world including Sri Lanka have committed to converge from their existing domestic accounting framework to International Financial Reporting Standards (IFRS) promulgated by the International Accountancy Standards Board.

Necessary adjustments to the respective tax laws would be made after studying the tax implications of financial statements prepared under IFRS.

## **20 Hub Service ( Special Provisions) Act**

20.1 *A new Finance Act will be introduced to exempt the application of Customs Ordinance, Import Export Control Act (including regulations thereunder) and the Exchange Control Act to enterprises recognized by the Board of Investment as companies engaged in:*

- *Entrepot trade in apparel involving import, simple processing and re-export*
- *Transshipment business in apparel clothing where goods can be procured from one country or manufactured in one country and shipped to another country without bringing into Sri Lanka maritime operation*
- *Providing front end services to the apparel manufacturers in the region*
- *Promoting leading buyers to establish headquarters operations in Sri Lanka for management of finance, supply chain and billing operations*
- *Promoting logistics services such as multi country consolidation in Sri Lanka*

20.2 *Provisions will be made in that to ensure the following:*

- i) *Where an enterprise is engaged in an activity involving physical import of goods for re-export under any of the activities referred to above, such operations shall be carried out either in a free port operated under the supervision of the Sri Lanka Ports Authority of Sri Lanka or a bonded area declared under the BOI law or Customs ordinance.*
- ii) *Any movement of goods from and to the identified free port or to a bonded area from or to the domestic territory will be considered either as an export or import as the case may be.*
- iii) *In case of enterprises which are not involved in such physical movement of goods, but engaged in regional headquarter operations, supply chain management, etc., can be located outside such demarcated area.*

## **21 Effective dates of proposed amendments**

*Unless stated otherwise, the proposed amendments in relation to :*

- (i) *Income Tax and Economic Service Charge will be implemented with effect from April 1, 2012.*
- (ii) *Value Added Tax, Nation Building Tax, Telecommunication charges and Visa Fee will be implemented with effect from January 1, 2012.*
- (iii) *New Registration of Motor Vehicles will be implemented with immediate effect from November 24, 2011.*
- (iv) *Luxury Motor Vehicle Tax, Cess, Ports and Airports Development Levy, Excise (Special) Duty, Excise Duty, Customs Duty and Special Commodity Levy will be implemented with immediate effect.*

## 1 Revision of Salaries and Allowances of Public Sector Employees–Budget 2012

- (i) For all public servants, the special allowance of 5% of the basic salary which is being paid at present will be increased by a further 10% making it 15% of the basic salary. For non-staff grade officers this increase will be effective from January 2012 and for staff grade officers 50% of the increase will be paid from January 2012 and the balance from July 2012.
- (ii) The transport expenses and office allowances paid to Grama Niladaries will be increased with effect from January 2012 as follows:
- Transport Allowance per month**
- |                                |                               |
|--------------------------------|-------------------------------|
| Within the Division            | from Rs.200/- to Rs.350/-     |
| Outside the Division           | from Rs.500/- to Rs.750/-     |
| For Supra-Grade Grama Niladari | from Rs.1,000/- to Rs.1,500/- |
- Office Allowance per month**
- |  |                             |
|--|-----------------------------|
| Within the Municipal and Urban Council areas | from Rs.750/- to Rs.1,000/- |
| Within the Pradeshiya-sabha areas            | from Rs.500/- to Rs. 750/-  |
- (iii) The members of the Judiciary coming under the purview of the Judicial Service Commission who are entitled for a "Driver's Allowance" for not obtaining the services of an assigned driver, for the official vehicle will be increased to Rs.15,000/- per month with effect from January 2012.
- (iv) The "On-Call Allowance" given for Doctors and the Registered /Assistant Medical Practitioners will be increased by Rs.2,500/- per month with effect from January 2012.
- (v) Engineers belong to the Sri Lanka Engineering Service and assigned to field related duties will be paid a "Field Attendance and Transport (FAT)" allowance of Rs.15,000/- per month with effect from January 2012.
- (vi) The salaries of University Academic and Non-Academic staff will be adjusted in accordance with the Management Service Circular No 30(1). A circular indicating the adjusted salaries will be issued by 31/12/2011. Adjusted salaries for Non-Academic Staff will be paid in January 2012. For the Academic Staff this will be effective in two stages in July 2012 and October 2012.

## 2. Rectification of Pension anomalies

For correcting pension anomalies on a step-by-step basis, the present payment of Rs.750/- per month for pensioners who retired on or before 31/12/2003 will be increased to Rs.1,750/- (i.e. by Rs.1,000/- per month) and for pensioners who retired during the period 01/01/2004 to 31/12/2005 will be increased from Rs.250/- to Rs.750/- (i.e. by

Rs.500/- per month). 50% of this increase will be paid in January 2012 and the balance 50% will be paid in July 2012.

### **3 Issuing Circulars**

Circulars on all the above revisions will be issued by the Secretary of the respective line Ministry with the recommendation of the Salaries and Cadre Commission and the concurrence of the Ministry of Finance and Planning.