

BUDGET SPEECH

2011

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President

Minister of Finance and Planning

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BUDGET SPEECH

Introduction

1. *Hon. Speaker, as you chair the proceedings of this august assembly, the image of my father late Mr. D A Rajapaksa who occupied your seat once as the Deputy Speaker comes into my mind. I recall him crossing over to the opposition with late Mr. S W R D Bandaranaike and several others to give a leadership to transform Sri Lanka to be a truly independent and prosperous country in Asia. It was a transformation based on our national heritage, culture, value system and our own identity. That mission was not accomplished.*
2. *Having ended the 26 year old conflict and implemented a major country-wide development program since 2006, I sought a fresh mandate from the people prior to ending the first term of my office. I presented “Mahinda Chintana –Vision for the Future” at the 2010 Presidential Election. When introducing it to the people, I reminded that in my first term of office I won them the peace that they were yearning for. I also assured my deepest commitment to fulfill their future aspirations. I was elected with a majority of 1.84 million votes. This was a stronger mandate than the majority of 180,786 votes that I received at the 2005 Presidential Election. At the subsequent Parliamentary Elections, the United People Freedom Alliance led by me won 144 seats out of the 225 member Parliament. Today the Government commands a 2/3 majority in this Parliament.*
3. *Hon. Speaker, people have placed their confidence in us to lead our beloved motherland to a brighter future. They want a decent living, a clean environment and a better life for their children. I remain firmly committed to give an uncompromising leadership to fulfill their aspirations. It is with that commitment I rise here today to present the 2011 Budget. I am also humbly proud as the Minister of Finance and Planning for being able to reduce poverty to 7.6 percent during last 5 years while taking our country forward as an emerging economy in Asia.*

Background

4. *Hon. Speaker, at the time I took office as President, there was no stability in the country. I did not have even a majority in Parliament. Challenges were many. The country was in the midst of a prolonged conflict and on the verge of being a divided. The country was overshadowed by separatism, terrorism, communalism and external interferences. The popular view was that LTTE was an unbeatable force. Even confronting the LTTE was considered a grave mistake. The country had been shattered by the 2004 Tsunami. Our environment had been destroyed over many*

years. Forest cover had been reduced. Above all, I inherited a large budget deficit that had prevailed even much longer than the LTTE terrorism. There was no fiscal space. Funds required even to protect the sovereign state from terrorists were not available. Neo-liberal policies had taken deep roots. Hence home grown solutions, local competencies and capabilities were considered inferior. The sale of state assets, pruning capital spending and subsidies to the poor, granting lucrative tax amenities etc. were regular policy prescriptions. The outcome was, the country being without a clear direction.

5. *Hon. Speaker, Hon. Members, this legacy is now history. The war has ended and the country is unified. No room can be left for separatism and terrorism again. We have entered in to a new phase to emerge as a strong middle income economy by 2016 while rebuilding damaged areas as rapidly as possible. We all know that the brave men and women in our security forces, paved way for this journey forward. Many of our soldiers lost their lives. Some were injured and disabled. It is our duty to look after their long term welfare. Therefore Hon. Speaker, I propose at the very outset to allocate Rs. 3,000 million over a period of 3 years to address economic difficulties of service men and women who have suffered as well as their families. I also propose to grant an allowance of Rs. 100,000 per family for a live birth of a third child of families of armed force personnel, to promote their family environment.*

Development Approach

6. *Unlike past Governments, we did not forget the economy while fighting the war. With the victory in 2006 we immediately embarked on a massive infrastructure development drive. We have created adequate capacity in power generation and port services. The entire nation must have access to electricity and global trade. We expanded public investments in building roads and bridges island wide. The construction of Moragahakanda, Uma Oya and Deduru Oya irrigation schemes together with the rehabilitation of 32 major irrigation systems and reservoirs have been undertaken. Government expenditure has also been diverted to expand the availability of drinking water at both national and community level to ensure that people will have access to quality drinking water. Investments in education and health to modernize school facilities and universities as well as hospital facilities*

have also been our priority. All of us now witness the massive development activities taking place in our country.

- 7. Hon. Speaker, empowering the village is our central theme in development. In this endeavour we focus on rural development initiatives to ensure that people in every village will have access to electricity, a road network, drinking water, telecommunication facilities, market places and townships. Above all they must have food and energy security and a green environment to live in. "Gama Neguma" program has completed 72,105 small projects at a cost of Rs. Rs. 27,888 million during 2006-2010. These projects have benefited 11.9 million people up to now. The rural centric initiatives have enabled community participation in a big way. Credible expectations have therefore been created that every single village will be developed through "Gama Neguma". No village in Sri Lanka will be left out of this massive development drive during the next 3 years. We implemented "Mathata Thitha" a special initiative to liberate our people from the use of illicit liquor and narcotics. Smoking has declined by 18 percent over the last 4 years. A survey conducted by the Colombo University, reveals that the consumption of illicit liquor is also on the decline.*
- 8. I undertook a Pre Budget Review of all 25 districts and provincial level work. I wish to share some evidence of progress. Sri Lanka's poverty which was 15.2 percent in 2006 has declined to 7.6 percent in 2010. Most important development is that poverty in rural areas has declined from 15.7 percent to 7.6 percent while in the estate areas, it has declined from 32 percent to 9.2 percent. We will direct our strategies to reduce poverty below 5 percent within the next 5 years.*
- 9. Let me show you how this progress has been achieved. Access to electricity in the rural sector has increased from 78.5 percent in 2006 to 83.2 percent in 2009, while it has raised from 62.3 percent to 84 percent in the estate sector. Access to safe drinking water has increased from 84 percent to 87 percent countrywide, while in the estate sector, it has increased from 46 percent to 65 percent. In 2006, only 98 percent of the children in urban and rural areas attended school. It has increased to almost 100 percent in 2009. Estates sector school attendance has increased from 92 percent in 2006 to 97.4 percent in 2009. Hon. Speaker, let me assure this Parliament that we will place Sri Lanka as the leading nation in achieving the Millennium Development Goals.*

10. *All island unemployment which was 7.2 percent in 2005 has dropped to 5.8 percent by 2009. In addition, earnings of our farmers and the labour force have increased. In 2005, farmers could not secure even Rs.10 for a kilo of paddy they produced. We managed to maintain it in the range of Rs. 24 – 28 per kilo. Higher producer prices also prevail for several other crops such as maize, onion, potatoes, and soya beans. We give fertilizer at Rs. 350 per 50kg bag to paddy farmers. Dairy farmers who were receiving Rs. 18 per liter of fresh milk now receive Rs. 44 per liter. Tea, rubber and spice growers have been able to attract remunerative prices. Daily wages of our working people in agriculture, industry and services have also increased by 100 percent between 2005 and 2009. So, Hon. Speaker, our economic program has given them widespread benefits regardless of whether they live in the urban, rural or estate areas.*
11. *Hon. Speaker, even in the liberated areas, the progress we have achieved since the date of liberation is remarkable. The Government has been able to resettle 263,000 people. Only 15,000 people remain to be resettled. A vast area of farm lands, public places, and residential areas have been demined. Provision of electricity, irrigation facilities, construction of roads and bridges, restoration of schools, health facilities and other public places have turned the Northern and the Eastern provinces to normalcy. The economic connectivity established through these initiatives also aims at connecting hearts and minds of our multi ethnic and multi cultural society. The Government has implemented a US\$ 2 billion reconstruction program in the North. These major reconstruction activities are expected to be completed by 2012.*
12. *Due credit must be given to our public servants and Security forces who spearheaded such peace and development initiatives. I believe that public sector has a special role to play. As we all know, there was a period within which the public sector was marginalized. During the last 5 years our Government reversed this trend. Public servants have been increased to 1.3 million. Wage increases have been given to all categories of employees and many of their grievances have been resolved. They are also given a Cost-of-Living allowance and housing and other loans at subsidized interest rates.*
13. *In 2006 I introduced a contributory medical scheme to provide relief to public servants. I propose to extend these insurance benefits to pensioners. Therefore, I propose the National Insurance Trust Fund to upgrade and maintain selected wards in national and district hospitals, dedicated for public servants and pensioners. Such hospitals can recover the expenses of medicine and surgeries under this scheme.*

National Insurance Trust Fund will allocate Rs. 1,000 million to upgrade and maintain such facilities in key hospitals. I expect this proposal to provide considerable relief to nearly 450,000 pensioners and 1.3 million public servants.

The Way Forward

14. *Hon. Speaker, our economy took over 25 years from 1977 to 2004 to increase the per capita income from US\$ 300 to US\$ 1,000. But we took only 5 years to double the per capita income despite several adversities. The per capita income this year is expected to be around US\$ 2,375 in comparison to US\$ 1,000, five years ago. While consolidating as a middle income country within the overall “Mahinda Chintana” Policy Framework, we have been able to correct several ill conceived economic ideologies and strategies to make development an inclusive and a beneficial process to the ordinary people. We have been able to bring back several assets such as Telecom, SriLankan, Insurance and Gas to public ownership for the greater benefit of the people.*
15. *Having ended the war, and with vital infrastructure in place, we are now in a better position to engage in an accelerated development process within the next 6 years. Liberation of the Eastern and Northern districts from terrorists has enabled us to use massive areas of land and sea for development. Our country has now become a safe and preferred destination for tourism. Our country is ranked first in the world in the health and survival indicators, sixth in the political empowerment indicators and among the top 20 in the world in gender equality indicators as well as a location attractive for outsourcing. Our performance in education and health is above average.*
16. *These are added strengths and potentials that must be fully exploited to ensure that the 26 year suffering will never be repeated in this land. What we now need is to devolve development rapidly to the provinces and our villages equitably. That is also the thrust of a political solution. The global economy is slowly recovering with a growth rate of around 5 percent. More encouragingly India, China, and all other major countries in Asia are providing a major impetus for regional and global growth that is beneficial for us. This is why Mr. Speaker, in “Mahinda Chintana - Vision for the Future” we projected Sri Lanka as a dynamic global hub. Taking advantage of Sri Lanka’s strategic location, our next massive leap forward is to develop our motherland as a navel, aviation, commercial, energy and knowledge hub being a key link between the east and the west.*

17. *“Mahinda Chintana - Vision for the Future” targets a per capita income in excess of US\$ 4,000 by 2016. A high per capita economy will help us to regain many opportunities we have lost during the last 26 years. This will provide a better life for the present and future generations. We have targeted to increase private investments from both foreign and domestic sources from the present level of 19-21 percent of GDP to a range of 26 -28 percent over the next 6 years. This together with public investment of around 6-7 percent, our total investment can be raised from around 25-27 percent to 32 - 35 percent of GDP, to support the targeted economic growth in excess of 8 percent in the medium term and 10 percent thereafter.*

The Tax Structure for a Value Added Economy

18. *Hon. Speaker, in support of this overall vision, I intend to revamp our entire taxation strategy. The findings of the Presidential Commission of Taxation provided some valuable ideas. We all agree that our tax system is complex, tax rates are too high and taxation is narrowly based. I propose to make some drastic changes. Let me focus on the import and export of goods and services which was about US\$ 21 billion or about 50 percent of GDP in 2009. The export-import economy is strategic for our growth. A remarkable progress has been achieved in diversifying export products and their markets. However, most exports of tea, garments, leather, rubber, gem and jewellery products, several valuable spices as well as many raw materials are without sufficient value addition. Our manufactured products can be promoted through branding and better marketing efforts. The export potential of value added, branded exports has been estimated in excess of US\$ 5 billion over the medium term. We still rely heavily on the importation of pharmaceuticals, wheat flour, food grains and energy sources. Space for import substitution in these areas is well in excess of US\$ 2 billion.*
19. *Our production drive in this decade should aim at expanding exports and replacing imports. Our international trade strategy must aim at phasing out the trade deficit. Therefore, we need to be more productive and competitive in export and import activities. In this context, I propose the following. First, I propose to impose a CESS on all exports in raw and semi processed form to encourage value added exports from Sri Lanka. Exports of finished goods will only be free from such CESS. Second, I propose to reduce duties and taxes on machinery, equipment and raw material to enable our enterprises to have affordable access to world class technology. Third, I propose to lower income tax from 15 percent to 10 percent for industries with*

domestic value addition in excess of 65 percent and Sri Lankan brand names with patent rights reserved in Sri Lanka. Fourth, income tax of all export companies will be reduced from 15 percent to 12 percent to encourage general exports. Fifth, in order to promote domestic manufacturing enterprises to increase their production, I propose to reduce income tax on profits from 35 percent to 28 percent. Hon. Speaker, I hope these drastic reductions of taxes will promote our export- import economy to increase its contribution from 50 percent to 60 percent during this decade.

20. *Hon. Speaker, Sri Lanka has immense prospects in generating income and employment from tourism. Tourism should be a billion dollar business. Although tourist arrivals have picked up and expected to be around 600,000 this year, earnings from tourism shows only a moderate increase. This is largely because the industry as a whole is underpriced. Therefore, I propose to impose a levy of US\$ 20 per bed on all five star hotels which charge a room rate that is less than US\$ 125 per night from January 2011 in order to compel all hotels to charge better rates.*

21. *We must get ready to facilitate 2.5 million high spending tourists by 2016. Tourists must see our richness and diversity. Over the next few years the capacity of this industry need to be tripled from the current level of around 15,000 rooms. Since our country is emerging as a middle income country, local tourism itself is expected to increase significantly. In this investment drive we must link with domestic construction companies and architects and other professionals. I also propose to refurbish all rest houses and Government circuit bungalows in support of local tourism. The tourist industry must use our local agriculture and industries in its expansion strategy for greater benefits to the local economy. Therefore, I propose to reduce tax on income earnings from tourism and related business from 15 percent to 12 percent. I also propose to reduce duties and taxes on passenger transportation vehicles by 25 percent. I propose to exempt the importation of electric and highbred vehicles from Excise Tax and VAT in order to promote environmental friendly tourism. Custom duties and VAT on various machinery and equipment which are not available here will also be reduced to facilitate refurbishment and expansion. I have already reduced excessive taxes on branded consumer durable to popularize domestic shopping for tourists and local consumers.*

22. *Hon. Speaker, We must make our banking and financial institutions to make a greater contribution to our development efforts. We will continue to engage in our efforts to maintain low interest rates. We will promote our people to get closer to*

banking and financial institutions. Therefore, I propose to abolish the bank debit tax so that withdrawals from banks will not be liable for any tax. I also propose to reduce VAT on financial services from 20 percent to 12 percent. Further, I propose to reduce tax on profits of banking and financial institutions, from 35 percent to 28 percent. This will apply uniformly to all off-shore and domestic banks as well as to finance companies, leasing, insurance and other specialized banking and financial services.

- 23. I also propose that all banking and financial institutions will be required to register separate Investment Fund Accounts with the Central Bank to transfer all tax savings arising from these proposals. The Central Bank and the Department of Inland Revenue will issue specific Regulations requiring banks to adopt low interest rates and longer term maturity for lending these funds since tax savings must be used more productively in our economy. Hon. Speaker, I also propose to appoint a Presidential Commission on Banking and Financial Services to examine the changes required to develop the sectors further in the context of emerging economy status and towards transforming Sri Lanka as a regional financial hub.*
- 24. Hon. Speaker, in order to increase the market capitalization from Rs. 2 trillion to Rs. 3 trillion, we need to encourage listing of new companies and debt instruments. Therefore, I propose to recognize expenditure in relation to such activities as a deductible expenditure for tax purposes subject to a 1 percent of the value of the IPO. As there is no capital gains tax in our country, I propose to increase the Share Transaction Levy from 0.2 percent to 0.3 percent. Withholding tax on corporate debt securities will be treated on par with government securities. I also propose to exempt re-insurance commissions and claims from VAT to reduce the transaction cost of insurance. In order to promote unit trusts to mobilize savings, I propose to exempt them from the Economic Service Charge. Exchange control restrictions on foreigners and foreign funds investing in unit trusts will also be exempted. I also propose to exempt income derived by unit trusts from investments in listed debentures and equity, from income tax.*
- 25. Sri Lanka is fast emerging as a niche global destination attracting outsourcing of IT and BPO services. It has become the fifth largest exporter. At present, the country is ranked seventh among the 50 best emerging global cities that attract outsourcing. More and more e-governance applications are now in the pipeline to serve people and businesses. The Government has launched various programs to increase ICT literacy to 75 percent by 2016. A widespread tele-center network consisting of*

Nanasalas, Vidhatha centers and school PC labs, has been established. Universities and vocational training institutions have been geared towards popularizing ICT education. I propose to establish a knowledge city in each province linked to university townships. I also propose to intensify the tax incentives already available for IT/BPO businesses. I further propose to remove VAT and Nation Building Tax on software. Our aim is to make this industry a US\$ 2 billion export activity by 2016.

26. *Hon. Speaker, the Telecommunications industry is the backbone of modern economies. The tax applicable to this sector is complex. Therefore, I propose to combine all such taxes and impose a Telecommunications Levy of 20 percent. In place of licence fees and CESS imposed by the Telecommunication Regulatory Commission, I propose a 2 percent licence fee on gross revenue. As the industry depends heavily on high-tech equipment and machinery, I also propose to exempt those items from duties and VAT at the point of Customs. I propose a levy of Rs. 2 per minute for outgoing International calls. I also propose to reduce the minimum floor rate for local calls from Rs. 2 per minute to Rs. 1.50 per minute from July 2011 for the benefit of consumers. I have requested the Telecommunication Regulatory Commission to regulate the broadband costs in order to increase broadband penetration.*
27. *Various incentives introduced during last 5 years to promote the gem and jewellery industry have worked effectively. Its foreign exchange earnings have increased to about US\$ 400 million from US\$ 200 million in 2005. This industry has the potential to double its foreign exchange earnings by 2015. Therefore, as a further incentive, I propose to increase the foreign exchange allowances granted to import raw gem stone from US\$ 10,000 to US\$ 50,000 per person. A simplified procedure will be introduced jointly by the Customs, Exchange Control and Export and Import Control Departments to facilitate importation of gems to the country for processing and value addition. I also propose to remove all taxes on raw gem stones at the point of import. The Geological and Mines Bureau will undertake a national survey to assess country's gemming resources and to work out a long term strategy relating to gem mining in Sri Lanka.*
28. *Sri Lanka's export industry is often hampered by anti competitive practices of shipping lines. As a result, Sri Lankan exporters are often subject to various charges imposed by shipping lines. Most of these collections from FOB exporters are not legally backed by international shipping rules. These charges not only result in anti competitive practices but also cause a serious drain of foreign exchange and tax*

evasions. These charges are also imposed on imports. Consequently Sri Lanka's trade oriented SME centric economy is in a disadvantage position. Therefore, I propose to introduce a new legislation within first 100 days of 2011, towards countering anti competitive practices in shipping and trade.

29. *Sri Lanka's Apparel industry continues to manufacture world renowned quality apparels for global brands. It has always adhered to ethical practices and environment standards. The industry has a huge potential to become a US\$ 5 billion industry. Towards this, further facilities will be arranged to promote entrepot trade involving imports, processing and re-exports as well as transshipment business in apparel clothing. Incentives have been given to promote textile, apparel and leather product related high value added activities. As such, machinery and equipment to manufacture textile, leather, footwear and bags will be exempted from import duties and VAT. The Government also plans to attract leading buyers to establish their headquarters in Sri Lanka for management, finance, supply chain and billing operations. I also propose to exempt foreign exchange earnings from such activities from income taxes. In order to promote these activities the exchange control requirements and Custom procedures will be simplified.*

A Productive Economy

30. *Hon. Speaker, our key goal in this decade of development is to improve our productivity by 5-6 percent per annum. This will require skills development, enterprise restructuring, improved access to financing, simplified taxation and access to technology. Therefore, I propose several measures. First, the Government will commit its own resources through the Ministry of Youth Affairs and Skills Development to train 300,000 youths in a wide range of new skills. Out of a 3 year commitment of Rs. 16 billion, an allocation of Rs. 5 billion is provided in this Budget for investment in skills development. Second, all SMEs and underperforming business activities, will be assisted to restructure to optimize their businesses. The Government has mobilized Rs. 5,000 million from the World Bank for this. Third, I propose to write off unpaid tax liabilities up to March 2009 of all enterprises with a turnover below Rs. 100 million since our SMEs have functioned under high interest rates and a very unfavourable conflict environment during the past 26 years. Fourth, as most SMEs operate on sub contracting arrangements, I propose to exempt*

them from the Economic Service Charge from 1st January 2011. Fifth, I propose to offer a concessionary income tax rate of 10 percent for SMEs.

- 31. Domestic economy particularly the SME sector can get a meaningful stimulus from Government programs such as Thripasha, surgical gauze, selected pharmaceutical products, school text books, uniforms, furniture etc. which are produced locally. The Government procurement expenditure on account of these items exceeds Rs. 10 billion annually. Therefore, the relevant line ministries and Provincial Councils must promote local suppliers to ensure the timely availability of such products in the domestic economy.*
- 32. Hon. Speaker, in our effort to push the economy towards high value activities, our enterprises must re-engineer their work processes and invest in new skills and innovations. Towards this, I propose to encourage enterprises to undertake Research and Development, registration of patent, trademarks and designs, automation through technology and training of their work force. Such enterprises are encouraged to get assistance from universities, research and technology institutions and skills development agencies. Therefore, I propose to give a 200 percent deduction of expenditure incurred on such activities to enterprises.*
- 33. The productivity of our workforce is adversely weakened by alcoholism. We must ensure that our society will not be a victim of crimes, drugs, illicit activities, money laundering, and financial frauds. Our academia, clergy, civil society and above all, teachers and parents must participate in family and community based activities to rescue our younger generation from this menace. Therefore, I propose to allocate a sum of Rs. 200 million to implement “Mathata Thitha” initiative aggressively in every single village and township as a national priority. Hon. Speaker, the Government will also use taxation measures and other regulatory arrangements to discourage the consumption of liquor and cigarettes. Therefore, excise tax on cigarettes and liquor has been already increased. I also propose to increase tax on profits of businesses engaged in the manufacture and distribution of liquor, cigarettes, and casinos from 35 percent to 40 percent.*
- 34. Hon Speaker, Our national research and development expenditure by both the public and private sectors must increase to at least 2 percent of GDP during this decade. In this Budget, the total funds allocated to public sector research institutions for mission oriented researches, amount to about 0.5 percent of GDP. Further, the double deduction for a wide range of R&D and related expenditure is expected to*

raise private sector R&D expenditure also to 0.5 percent of GDP. As the public sector commands a good resources pool and the private sector commands the capacity of commercial applications, I encourage partnerships between Government and private sector research centers and universities to undertake joint R&D initiatives for high productive economic activities. I propose to relax administrative procedures obstructing the two sectors to work together. I also propose to allocate Rs 1,000 million to set up an Innovation and Technology Development Fund to finance high quality research and innovations.

Human Resources

35. *Hon. Speaker, capital expenditure of Rs. 54 billion is provided for education and health. This is in addition to Rs. 152 billion of recurrent expenditure on these two services. Therefore, the total expenditure on human resource development is in excess of Rs. 200 billion. This reflects our commitment to position our motherland as a knowledge economy and a healthy society. The inequitable distribution of the school network has resulted in the closure of certain rural schools while creating overcrowded urban schools. Therefore, I propose to develop 1,000 well equipped secondary schools throughout the island over a period of 5 years. Each secondary school will be linked to a number of primary schools. Required funding of Rs. 15 billion has been mobilized from the World Bank and the Asian Development Bank. “English as a Life Skill” initiative that was commenced in 2009 will be formally expanded in 2011 by the Ministry of Education. For this, I propose an allocation of RS. 750 million in 2011.*
36. *Hon. Speaker, I propose to launch a “Trilingual Sri Lanka” initiative in 2011 under a ten year action plan. This plan is designed to ensure the rights of every citizen to liaise with any government institution in Sinhala, Tamil or English. It will evolve an integrated society with a skilled workforce that is capable of employment of any part of Sri Lanka. This plan will be implemented together with ministries of National Languages and Social Integration, Education, Higher Education, Public Administration and Provincial Councils. I propose to allocate Rs. 100 million in 2011 to support programs under the relevant line ministries for this “Trilingual Sri Lanka” initiative.*

37. *Hon. Speaker, our 17 universities are at various stages of development. While many of our state universities have acceptable facilities, the recently established universities need considerable investments to be upgraded. Therefore, I propose a 3 year development initiative with Rs. 3,000 million from 2011 for all those state universities to project with a unique core identity for each university. This accelerated development program will also aim at developing university townships with required facilities such as transportation, accommodation and recreation. I also propose to grant a further Rs. 600 million to transform Peradeniya, Moratuwa, Colombo, Sri Jayawardanapura, Kelaniya and Ruhuna universities to become world class universities in their chosen fields. I also propose to introduce a Presidential Awards System to our national universities to be assessed based on their academic and research performances. Our university intake is only 22,000 out of about 50,000 eligible for higher education. That is also after the Government having spent about Rs. 20 billion in higher education annually. This is why we need more investments in higher education. Therefore, universities and higher education institutions must be regulated within a sound legal framework and under a strict supervisory mechanism. We cannot permit ‘educational shops’ to operate under the guise of educational institutions and universities. We need quality education. Our objective is to move away from profit orientation and maintain high standards for higher education. We all must guarantee that no one is left out when it comes to education. Let us not forget that education is the future of our children.*

38. *Demographic transitions with the increased share of elderly population and the surge in non communicable diseases have brought up new challenges to our health system. A 3 year action plan targeting the control of non communicable diseases will be implemented from 2011 through improvements in the primary healthcare system. I propose an additional allocation of Rs 900 million for this proposal. I propose to exempt the import of pharmaceutical products from Port and Airport Levy to reduce the cost of medicine. I also propose to exempt high tech medical and laboratory equipment from import duties and VAT to promote investments in health services.*

Port and Aviation Hub

39. *Hon. Speaker, we propose to transform Sri Lanka as a strategically important economic center in the world. As our port sector is emerging with large international port facilities investment in industrial zones and port related services will be encouraged. A port city development initiative in Magam Ruhunupura will*

be implemented under strategic investment. In the aviation sector, we encourage Maintenance, Repairs and Overhauling (MRO) businesses and cargo operations for joint ventures. A Graduates School of Aviation will be promoted to train pilots and other aviation professionals. Increased frequencies will be granted to international airlines to promote Sri Lanka as a popular destination. New regulatory arrangements have placed us high in international regulatory standards. SriLankan Airline and Mihin Lanka will be expanded with new aircrafts to increase the fleet to 30 by 2012. I propose to exempt SriLankan and Mihin Lanka from all taxes for a period of 10 years to strengthen the two enterprises.

Investment Climate

40. *Hon. Speaker, we need to reformulate our strategies and the institutional mechanism to improve our investment climate. In the past, all what successive governments have done in this regard, is offering costly tax concessions, cheap labour and our valuable assets free of charge. A skilled labour force, political stability, a low tax regime and efficient government institutions to facilitate investment must be the basis of our investment promotion strategy. Therefore, the Board of Investment (BOI) will be required to focus on 3 core activities. First, is to manage Export Processing Zones efficiently. Investment will be attracted to fill vacant positions in all 12 zones. Second, to concentrate on promoting quality investment from abroad. Such investment must add value to our economy. They must be environment friendly and socially responsible. Large investment will be promoted under the strategic investment law and income tax laws. I propose to revise BOI Regulations to offer its incentives to carefully targeted priority sectors. Third, is to devote time for monitoring and follow-up. Further, despite having been approved, since many BOI investments are non-performing, I propose to cancel forthwith, all BOI approvals granted before 30th June 2010, if such investment has not commenced or has remained closed as of today. Those who have not commenced work but wish to proceed must obtain fresh approvals. The BOI law will be amended to create a position for a Director General to ensure continuity in executive responsibilities.*
41. *The separation of the former Sri Lanka Tourist Board into four agencies has not served the intended purpose. I propose to merge all agencies except the Hotel School as a single agency capable of effectively promoting tourism. New legislation will be introduced to enable this in the first 100 days of 2011.*

42. *Hon Speaker, approval procedure of Urban Development Authority with regard to housing and property development is very complex and time consuming. The operation of multiple administrative systems by local authorities, provincial councils, line ministries and such other agencies have caused further complexities. I propose to appoint a full time Cabinet Sub Committee to review all such administrative procedures and regulations and to simplify them within 6 months. I have also directed the Treasury to review all fees and levies being charged by various agencies and to simplify them within the first 100 days of 2011.*
43. *Information and Communication Technology Agency of Sri Lanka (ICTA) has initiated several electronic processing systems. Several departments have already adopted such systems. All government agencies will adopt an electronic approval procedure in 2011. The E-governance project will enable all regulatory agencies to link with each other to share information. The Financial Regulations have also been amended to authorize all government agencies to accept credit cards, to pay for government services. The Department of Immigration and Emigration will use an electronic approval system to grant visas and monitor visa regulations. Government has already initiated action to transform the Department of Customs and the Board of Investments to provide required facilities in trade documentation through an electronic data processing documentation procedure. A 3 year Fiscal Efficiency Management Program has been undertaken to introduce a technology based tax administration within the next 3 years.*
44. *Hon. Speaker, foreign offices maintained by the Foreign Employment Bureau, the Tea Board, Department of Commerce, and other agencies will be brought directly under the supervision of the Sri Lankan Embassies abroad so as to provide a one stop service. Once officials are posted, they will be required to work under the direction and supervision of the respective Ambassador. All promotional activities will be undertaken only through this coordinated strategy. The scope of the responsibilities of Ambassadors will expand beyond the traditional diplomatic functions to include responsibilities relating to investment, trade and economic affairs.*
45. *Hon Speaker, foreign exchange controls and import and export control arrangements will be simplified to facilitate foreign exchange inflows to our country. This will facilitate to operate bank accounts abroad, payment of import bills, margin requirement for advance payments, forward contact arrangements etc. The Central Bank of Sri Lanka will shortly issue new guidelines on foreign exchange transactions. The Central Bank will also publish a revised guide, showing further*

improvements in “Doing Business” in Sri Lanka in terms of my proposals, in the first 100 days of 2011.

A Simple Income Tax System

46. *Hon. Speaker, our development thrust over the next decade is to become the knowledge hub in the region. The promotion of knowledge based industries requires professionals. As I intend to mobilize our professionals and build a knowledge reserve in our country, I propose to create the region’s best personal income tax regime. Therefore, I propose to reduce the current tax rates on personal income ranging from 5 to 35 percent to 4 to 24 percent. I propose to increase the tax free threshold income from Rs. 300,000 to Rs. 500,000 and the tax slabs from Rs. 400,000 to Rs 500,000. I also propose to extend this to non-resident Sri Lankans. Our professionals need not worry about high taxes any more.*
47. *Hon. Speaker, the wage earning middle income employees who are subject to PAYE tax needs a simpler system. Therefore, I propose to exempt any employee earning Rs.600,000 per year (Rs.50,000 per month) from PAYE tax. Applicable tax rates for employees earning over Rs. 600,000 will be reduced subject to a maximum rate of 24 percent. The new PAYE system will be a final tax at source. Employees will not be required to file returns unless they have other sources of income. I also propose to apply the new PAYE system to the public sector as well. This will correct the long standing discrimination between public and private sectors..*
48. *Hon. Speaker, I propose to increase the tax free threshold on interest income from Rs. 300,000 to Rs. 500,000. The applicable tax slab will also be increased to reduce the tax burden on those who live from interest income.*
49. *Hon. Speaker, at present the Provident Fund income of employees are taxed three times. I consider this is not correct. Further certain employees and employers operate outside provident fund schemes to evade tax. Therefore, I propose to exempt terminal benefits from Employees Provident Fund from income taxation.*

Social Security

50. *Hon. Speaker, our working class is our biggest asset. They sacrificed a lot during the 26 year old conflict. They stood for a united Sri Lanka and helped to defeat terrorism. We have regular consultations with them. Ever since I became the Minister of Labour in 1994, I tried to understand the prevailing dual treatment relating to pension rights. I think everybody must have an income after retirement.*

Therefore, I propose to set up a Employees' Pension Fund to provide post retirement pension benefits to employees in the private and corporate sectors. Towards this, I propose a 2 percent contribution from employees and a 2 percent contribution from employers to this fund. The employers will be required to transfer the entirety of the gratuity payment to this fund. Employees too will be required to transfer 2 percent of their Pension Fund balance at the time they withdraw the Pension Fund, in lieu of future pension benefits from the Employees' Pension Fund. I also propose that everybody must contribute for a minimum 10 year period to earn a pension. The Employees' Pension Fund will be managed by the Monetary Board of the Central Bank.

51. *Hon. Speaker, nearly 3 million Sri Lankans are engaged in overseas employment. The remittance income to the country is expected to be nearly US\$ 4 billion this year. However, there is no proper social security system for these people when they reach old age. Therefore, I propose to set up an Overseas Employees' Pension Fund (OEPF). Each employee is required to contribute at least Rs. 12,000 per annum to this fund. The contribution can be made in stages during the year. Each employee must contribute for a minimum period of 2 years. Pension will be paid after reaching the age of 65 years in the case of men and 60 years in the case of women. The Foreign Employment Bureau will transfer its unused funds to this pension fund. In appreciation of the valuable contribution made by such overseas employees, to improve country's foreign exchange earnings, the Government will contribute Rs. 1,000 million as an initial capital for this fund in 2011.*
52. *Hon. Speaker, I promised to introduce a pension scheme for every citizen over 65 year of age. We need to prepare for a larger elderly population by 2020. A successful pension scheme can be worked out only by making it a contributory scheme. Therefore for the unorganized sector, I propose to set up a Citizens' Pension and Insurance Fund (CPIF). I propose to merge all existing schemes under various agencies to this new Citizens' Pension and Insurance Fund. Every one seeking membership would have to contribute a minimum of Rs 5,000 per year as and when they have money. Pension will be available after contributing for a period of 10 years and after reaching 65 years of age. The Government will contribute Rs 1,000 million in 2011 to form this new fund. Nearly 3 million persons engaged in agriculture, fisheries, transport, construction, self employment etc. will be the target groups of this fund.*

Common Amenities and Housing

53. *In response to our invitation to the public to participate in the formation of this Budget, a number of people have expressed concerns over incomplete projects, unused public buildings, playgrounds etc. standing unattended by government agencies. As rightly pointed out, we need to put them in to productive use. Therefore, all line agencies and ministers must ensure that these concerns are addressed within the first 100 days of 2011. I propose to allocate Rs. 1,000 million to attend such neglected public assets for the benefit of the community.*
54. *Hon. Speaker, we have committed to develop one million housing units during the next 6 years. Our first priority in this initiative is to ensure that all displaced people will have access to decent housing before the end of 2012. We are grateful for the assistance extended by the Prime Minister of India to build 50,000 houses. The Government has also mobilized funding through donor agencies, friendly countries and its own budgetary resources to rehabilitate further 80,000 houses. Our next priority is to develop 70,000 housing facilities for shanty dwellers in urban areas. The “Gama Neguma” initiative, Jana Sevana initiative, provincial councils and other regional development initiatives will target building 80,000 housing units for low income rural and estate households each year, over the next 6 years. Public and private sector employees will be supported with expanded housing loan schemes.*
55. *Hon. Speaker there is also an urgent need to modernize housing facilities built over 40 years ago. 19,300 housing units providing shelter to about 75,000 people belong to 176 old housing schemes. As phase one, housing schemes such as Maligawatta, Serpentine etc. will be rehabilitated in 2011. I propose to allocate Rs. 1,000 million for a 3 year rehabilitation initiative of these housing schemes requiring the relevant households to assume future responsibilities of maintenance of the respective housing units. The National Housing Development Authority (NHDA) will provide planning and technical assistance for low income households to build and improve quality housing. State banking facilities and the internally generated income of NHDA will be utilized to promote low income housing. A Construction Technology Park will be established to popularize technical skills and low cost housing technology among peoples. In order to further promote our construction industry, foreign contractors will be required to establish working partnerships with local construction companies. I propose to reduce income tax on the construction industry from 15 percent to 12 percent. In order to maintain a proper data base and to ensure that every house is added to the system, an Information Secretariat will be*

established. I also propose to allocate Rs. 500 million for the early completion of the already initiated housing schemes.

56. *Hon. Speaker, Our objective as a middle income country is not to build concrete structures all over. As such, the Government has planned its urban development strategy while ensuring the protection of public places, playgrounds, water reservoirs and green belts in townships. Certain government premises will be relocated and old housing schemes will be redeveloped. To facilitate urban development initiatives, an Urban Development Fund will be established to meet relocation expenditure. Priority will be given to provide modern housing for shanty dwellers and payment hawkers within the same localities that they presently operate. In all urban development planning, dedicated common facilities will be reserved for three wheeler and taxi parking and self employment opportunities.*

Plantation Economy

57. *Hon. Speaker, plantation agriculture plays a strategic role in our economy. The export income from plantation industries can be doubled by improving cultivation, processing and promoting higher value added export products. In order to maintain tea production at 300 million kg per year, we need to expand the cultivation of tea. Therefore in order to encourage replanting and new planting, I propose to increase the subsidy by Rs. 50,000 per hectare to small holder tea growers. I expect an extra 1,500 hectares of plantation annually under this program. A revolving fund facility will be arranged to provide related credit facilities. Re-plantation under plantation companies will be promoted through the proposed investment fund in the banking system. Since a large area of land under plantation companies remains unutilized, I propose to give a 6 months notice period for such companies to put unused lands in to productive use. If plantation companies do not comply with this deadline, such unutilized lands will be distributed among small holders for re-plantation. Tea Research Institute will promote technology and research to improve quality tea, propagate high yielding varieties and minimize post harvest losses. The tea sector must move forward with very high value added exports with Sri Lankan brands. Therefore, I propose to increase the export CESS on bulk tea to Rs. 10 per kg.*
58. *In the Budget estimates, Rs. 500 million has been provided to give subsidies for replanting, new planting, inter cropping and productivity improvements in the coconut sector. In addition, Rs 200 million has been provided to curtail the crop*

diseases spreading in the Weligama area. Intermediate cropping and drip irrigation technology will be introduced for these areas to be able to adopt alternate crops. Coconut cultivation is also encouraged in the Northern and Eastern provinces. Our intention is to raise coconut production to 3,500 million nuts per year from the current level of 2,800 million, over the medium term. Lease agreements of unutilized lands given by the Land Reform Commission and the Mahaweli Development Authority will be terminated unless such lease holders put such lands in to development work before end of June 2011.

59. *Hon. Speaker, 35 percent of the raw rubber production is still exported as a primary commodity. As the world demand is shifting towards natural rubber, we plan to increase rubber production by almost 50 percent over the next 10 years. This requires new plantation and re-plantation. New plantation is promoted in Monaragala, Vavuniya and Mullative districts. I propose to increase the re-plantation and new plantation subsidy in support of this goal. In addition it is proposed to give a 50 percent subsidy to popularize the use of rain guards, to increase production from the existing plantations. Therefore, I propose to increase the budgetary allocation of the Department of Rubber from Rs. 500 million to 750 million.*
60. *Hon. Speaker. I am of the view that our rubber based industry could be made a one billion dollar export earning industry, if we increase manufacturing rubber based products in this country. The annual cost of tyres and tubes in which is US\$ 50 million could also be reduced, if local raw rubber could be channeled to industrial production. Therefore to encourage value added exports, I propose to increase the CESS on the export of raw rubber from Rs. 4 per kg to Rs. 8 per kg.*

Agrarian Economy and Food Security

61. *Our country can reach self sufficiency in many agricultural products. This requires an increase in the supply of high quality seeds and planting material. The research talents in the Department of Agriculture and our universities must focus on high yielding, quality crops that are abundantly cultivable in Sri Lanka. The development of such crops will raise rural income and reduce the cost of imports by US\$ 500 million. Therefore, 19 seed farms and all unutilized lands in agricultural research centers such as Mahalluppallama belonging to the Department of Agriculture must be developed as a national priority. I propose a 3 year accelerated seed farm development initiative from 2011 at a cost of Rs. 700 million. The Department will*

work with the private sector seed farms to expand seed development programs. As an incentive to the private sector, I propose to grant a 5 year tax exemption for investment in seed farming. The seed certification service of the Department of Agriculture must also intensify its extension services to farmers who are keen to develop seed and planting materials. Fertilizer subsidy provides a big relief to paddy farmers. In order to increase its productivity, we encourage the use of organic fertilizer as well. Any irregularities occurring in the distribution and use of fertilizer will be curtailed and the subsidy scheme will be continued.

62. *A wide range of spices and cocoa grown in Sri Lanka has a unique advantage in earning foreign exchange. The unused land owned by the plantation companies will be required to enter into cocoa cultivation. I propose to implement a 5 year subsidy scheme for planting and replanting of spices. Financial assistance will be extended under the SME program for spice processing industrialists to promote value added products in this sector. The Department of Minor Export Agriculture will implement a special program to develop spice gardens and highbred planting material. The “Gama Neguma” initiative will also promote infrastructure required to support livelihood activities, based on small holder spice cultivation.*
63. *Hon. Speaker, the global demand for flowers, ornamental plants and foliage is growing rapidly. This sector can be an attractive employment source for women and youth. In order to promote floriculture particularly in Awissawella, Gampaha and Kegalle areas, I propose to implement a special incentive package to establish nurseries to produce high quality flowers and ornamental plants. This will be spearheaded by the Department of Botanic Garden which will provide free training on related cultivation, give advice on how to avoid post harvest losses, packaging and the scientific know how. I propose to allocate Rs. 100 million for this venture.*
64. *There are more than 25,000 minor irrigation schemes in our country. These are vital for agriculture, to preserve the environment and to meet animal and human needs. Therefore, I propose an allocation of Rs. 900 million for a 3 year partnership initiative between the Provincial Councils and the Department of Agrarian Services to rehabilitate all minor irrigation schemes in our country. Special focus will be given to rehabilitate all minor irrigation systems in the Western Province to be able to use over 50,000 hectares of abandoned lands.*
65. *Hon. Speaker, we have ample opportunities to increase fish production. We propose to increase the fish production from the North and East, to get 50 percent of the*

total production. I propose to remove registration fees, renewal fees and operational charges on annual licences for fishery boats to give relief to small holder fishery activities and simplify administration. I propose to grant credit facilities at a concessionary interest rate of 8 percent to promote inland fishery and aquatic resources activities. I also propose to implement a long term concessionary loan facility for deep sea fishing. In order to promote the fisheries industry, I propose to exempt the fisheries industry from income tax for period of 5 years. The Tourism Development Authority will allocate Rs. 300 million for the development of traditional fishery villages and improve fishery industry based tourism.

66. *The livestock sector is critical in food security, income generation and foreign exchange savings. Towards improving this sector, the Ministry of Livestock and Rural Community Development will import high yielding dairy animals to supply breeding materials to dairy farmers. Investment by private sector will be encouraged to increase the availability of liquid milk. I propose to increase the farm gate price for liquid milk to Rs. 50 per liter. Special credit facilities at 8 percent interest will be extended to promote small scale livestock activities. The Department of Animal Production and Health will engage in veterinary research to provide quality services to farmers. Extension services will be expanded at each divisional secretariat with more veterinary surgeons and technical staff to promote livestock activities of small entrepreneurs.*

Art, Culture and Mass Media

67. *Hon. Speaker, the National Tele-Cinama Park at Ranminithenna for the artist to develop their creations has now become a reality. We did this from the tax on the imported tele-drams shown in our TV channels. It also helped to encourage the local tele-drama industry. As such revenue collection is inadequate to expand this facility further, I propose to allocate Rs 200 million from the budget to commence phase 2 of the project. I have noted that the tele-drama levy is not applicable to cable television services. Therefore, I propose to extend this levy to cover all such television services as well, and use such funds for the benefit of our artists.*
68. *The 1970s was the golden era for our folk art, stage dramas and performing arts. Our internationally reputed artists enriched our art and culture. Next year will be a landmark year for performing arts as we will open a world class Performing Arts Theater in Colombo. This celebrates the long standing China- Sri Lanka friendship which was sealed in 1952 when our two nations signed the rice rubber pact. The*

Government of Korea is assisting us in the development of a new international convention center at Magam Ruhunupura. Promoting our un-separable ties, India is assisting us to develop a cultural centre in the North. Similar facilities will also be developed in Kandy, Trincomalee, Galle and other major townships. Therefore Hon. Speaker, I propose to give a special priority for our performing arts. I propose to set up a Performing Arts Trust to manage all the new facilities. The Trust will encourage our legendary artists and producers to revive performing arts. Therefore, I propose to allocate Rs.100 million as a seed capital for this initiative. Cash grants will be provided to artists towards promoting art and drama. I also invite every single bank and financial institution to sponsor staging at least one award winning old drama during 2011 and 2012. I also propose to increase the allocation for the construction of a SAARC Cultural Centre by Rs. 250 million to accelerate its implementation. Hon. Speaker let us make this decade also a golden decade for the Sri Lankan artists. I also propose to implement a ten year plan to conserve our archeological sites throughout the country. To begin this, I propose to allocate Rs 300 million in 2011.

69. *Hon. Speaker, in the 2007 Budget I gave financial assistance for Media personnel to acquire various work related equipment and computer facilities. As our nation has become an emerging economy in Asia we need to extend them further assistance to acquire modern technology and equipment. Therefore, I propose a fresh allocation of Rs.50 million to provide computer accessories, cameras and other equipments to media personnel to develop their creative skills and quality standards.*

Caring Society

70. *Women and children particularly among low income families must be given greater attention. Our country has a proud record of reducing maternal and infant mortality. However, we have to continue our efforts to resolve nutritional deficiencies of our mothers and children. Therefore, we need to expand the Thriposha program to the entire 1.1 million of estimated expectant mothers in our society. The government food production drive provides the major ingredients including soya beans for the Thriposha nutritional food package. Therefore, I propose to increase the present allocation for the Thriposha program from Rs.1,100 million to Rs. 1,500 million So that it will reach the all disserving mothers. We must equally concentrate on child development at pre-school age. I propose to*

allocate Rs. 200 million to popularize pre-school nurseries particularly in rural areas. The pre-school nurseries will be assisted with classroom material and equipment. Nutritionally rich food could also be popularized through these nurseries. I expect Provincial Councils and Local Authorities to play a pivotal role in this aspect.

71. *Hon. Speaker, our development strategies promote a caring society. We have the elderly, the handicapped, the victims of terrorism and the vulnerable in our society. They need support from all of us. I propose to enhance the related budgetary allocation by Rs. 1,000 million to increase the monthly allowance granted to these people. I also propose to increase the monthly allowance for disabled children, breadwinners and elderly in Samurdhi families to reduce their grief.*

Self Economy

72. *Hon. Speaker, three wheeler operators, lorry and truck operators and private bus operators provide a valuable service in our economy. In order to improve their services further, I propose to remove the VAT on leasing of assets to these services. Custom duties on spare parts will also be reduced to moderate the maintenance costs.*
73. *A substantial number of our people are engaged in self employment activities. I propose to implement a daily credit scheme for self employment activities with the assistance of the People's Bank. Movable stalls to sell their products will be provided under this new credit scheme to improve their marketability in urban townships. A Secretariat for Self Employment will be set up in order to facilitate urban self employment enterprises.*
74. *Hon. Speaker, We have a large small enterprise economy. Over 65 percent of tea, rubber, coconut and paddy are grown by small farmers. Over 60 percent of passenger and goods transportation is provided by small entrepreneurs. Urban and semi urban trade is a small enterprise activity. What these people want from the Government is only security, simple systems and efficient services. Therefore, every government agency must have a special desk with a dedicated officer to attend problems of these small entrepreneurs.*
75. *The efficient operation of a small economy needs considerable organizational improvements. I propose to implement a number of projects such as modernization of weekly fairs, organization of three wheeler stations, mobile shops for self*

employment, retail shopping facilities for handicrafts, fresh fruits, vegetables and home needs, marketing outlets for newspapers and magazines, retail shops around religious and public places, small restaurants, flower shops etc. The “Gama Neguma” program will work with provincial and local authorities to empower this small economy. Institutional arrangements for rural development must be simplified to empower the rural economy. Therefore, a National Secretariat for “Gama Neguma” will be established to bring all relevant agencies in the Economic Development Ministry under one umbrella organization.

76. *Hon. Speaker, with the impending global food insecurity, it is important that the society is prepared to face this challenge. Poultry, livestock, fruits and vegetables are good sources of food supply. All these can be our “backyard economy”. Less expensive organic fertilizer can be used for such activities. Therefore, I propose to launch a National Food Production Drive through the Department of Agriculture and Samurdhi to organize one million home gardens to develop a “backyard economy”.*
77. *Hon. Speaker, the increased popularity of bread and other bakery products as well as fast food has influenced our consumption habits. However, as global grain prices are on the rise, it is necessary to develop appropriate technologies to reduce the reliance on imported flour. Sri Lanka is rapidly emerging as a surplus rice producer. Therefore, I propose to exempt machinery and equipment imported to process grain mixed bakery products from Custom duties and VAT. I also propose to exempt the rice milling and bakery industry activities with a turnover below Rs. 100 million per annum from the Economic Service Charge. Those engaged in rice based bakery products will be given special credit facilities by the state banks.*

Consumer Safety Network

78. *Hon. Speaker, people are not born poor. Poverty is manmade. A prolonged delay in legal disputes is one such cause for poverty. There are approximately 650,000 unsettled legal cases before our judiciary pending justice. As a result people spend valuable time and money. They cannot put lands with disputes for productive use. Therefore, I propose to implement a 3 year accelerated project to facilitate the effective administration of justice from 2011. Rs. 400 million will be committed for this project with an initial provision of Rs. 150 million in 2011.*
79. *Low income people tend to get marginalized as market forces take over production and distribution activities. Their affordability is limited. Therefore, I propose to*

expand the Laksathosa and Co-op city outlets rapidly with financial assistance from banks. I also propose to continue the exemption of Laksathosa and Co-operatives from all taxes. I further propose to issue food security cards for low income households. This will guarantee a minimum quantity of rice, flour, sugar, dhal, dry fish and milk powder at affordable prices. I propose to allocate Rs. 750 million to implement this food security system to the poor through the Samurdhi program.

Sports Economy

80. *We have every advantage to promote a sport economy. Sri Lanka is already in the world's cricket map. Now we have developed tennis, rugby, and other games. We must identify youth from our universities, schools, forces, workplaces, and rural areas to develop their sports skills and prepare them for global events including Olympics. Therefore, the Kreeda Shakthi initiative for sportsmen with notable talents will be expanded to train our youth. New international stadium facilities are being developed in Diyagama, Sooriyawewa, Pallekele and Jaffna in addition to such other facilities already available in the country. Investments in tourism relating to sports activities including golf will be given priority. I propose to set up a National Sports Development Fund as a public-private partnership project to promote all infrastructure facilities and attract international sports events. I also propose to allocate 10 percent of income from the National Lottery and levies on tourist hotel rooms to this fund, to promote sports activities. As we have declared our candidacy to host the 2018 Common Wealth Games, I invite the private sector, particularly the tourism sector, to lead the process to promote Sri Lanka's as a destination for global events.*

Environmental Priorities

81. *Hon. Speaker, Our biological resources are the key pillars of our economy. As our forefathers did, we must recognize the critical link between the country's river system, biological wealth and socio economic development. Water reservoirs, forestry, the coastal belt, mountains, rivers and lagoons are critical factors of environment. In view of this, the Ministry of Environment will introduce necessary legislation and strategies to protect the country's biodiversity. It is also proposed to introduce an integrated water management system based on the country's 103 river basins. The budgetary resources that will be channeled through the Ministry of Environment will be given high priority for a rapid re-forestation program. I also propose that at least one land-filled site is identified for waste management in each*

Pradeshiasabha division to improve waste management systems. I propose to allocate Rs. 500 million from the regional development initiatives, to spend on this program.

Infrastructure Cost

82. *This Budget provides Rs. 413 billion for public investment in roads, electricity, water, irrigation, ports and aviation activities. Capital investment in the continuing expansion of a power generation and distribution system is likely to exceed Rs. 64 billion over the 2 years. We have already prevented power cuts and made electricity available almost to everybody. There is a cost to all these luxuries. Therefore I propose to make a revision to the electricity tariff structure from January 2011. I propose to reduce tariff by 25 percent to religious places, government hospitals, schools, vocational training institutions and universities. The present tariff rate will continue for small businesses and SMEs. I propose a 8 percent increase in tariff for other users except for the first 90 units.*
83. *Hon. Speaker, we have earmarked Rs 109 billion for the continued expansion of the road sector. Our aim is to develop national and provincial roads in the entire country before 2013. Therefore, I propose to allocate a further sum of Rs. 20 billion in support of the provincial road development initiative. Registration fees on motor vehicles need revision, considering improvement in our road network. However, no revision will be made for three wheelers, agricultural and goods transportation vehicles. The proposed revision will increase revenue by Rs 1,000 million. I also request Provincial Council to increase the annual revenue licence fee for motor vehicles by 10 percent.*

Streamlining of Revenue Administration

84. *The operation of the Provincial Turnover Tax and various national taxes results in tax on tax. That causes a high cost particularly to SMEs and consumers. Hence, I propose to remove the Provincial Turnover Tax. The Government will credit one third of revenue collected from the Nation Building Tax and entirety of the stamp duty collection and 70 percent of the motor vehicle registration fee, to the Provincial Council revenue account. As I propose to implement this proposal from January 2011, I request Provincial Councils to adopt applicable changes to their regulations.*
85. *Hon. Speaker, revenue of local authorities has eroded as properties are not valued realistically. Therefore, I propose that the valuation of property based rent income of*

local authorities and other agencies must be done only by the Department of Valuation. Revenue from these arrangements is estimated over Rs. 2,000 million per year. The local authorities can use such income to improve the environment, street lightening, waste disposal, sanitation etc.

86. *The Economic Service Charge will be simplified within a four band rate structure. I propose to reduce the Nation Building Tax from 3 percent to 2 percent. The applicable threshold will be fixed at Rs. 500,000 to broaden its base. Manufacturing and processing industries below Rs.50 million and hotels below the three star category will be exempted. I propose to abolish the Social Responsibility Levy, Rural Infrastructure Development Levy and Debit Tax to simplify taxation. I propose to exempt government agencies from Construction Guarantee Fund Levy to reduce the cost of public investments. I propose to exempt Ceylon Electricity Board, Ceylon Petroleum Corporation, National Water Supply and Drainage Board and Sri Lanka Ports Authority from income taxes for a period of 5 years. They will be required to pay one fourth of their profit as deemed dividend to the Government. The VAT suspension scheme is simplified to encourage SMEs to graduate to the VAT system over 10 years. All tax refunds will be made by account payee cheques only. I propose that tax payments on VAT and NBT will be required to be made on a monthly basis while tax returns will have to be filed on a quarterly basis. I propose to increase the depreciation allowance on plant and machinery to one third and on buildings one tenth and reduce distributable profits for deemed dividend tax to 10 percent to promote investment.*
87. *Hon. Speaker, I propose to appoint an Independent Revenue Commission (IRC) pertaining to Customs, Excise and Inland Revenue to hear disputed tax issues for determination within 90 days. Any further actions after receiving a determination will be allowed only upon the payment of the disputed tax to a special account. The existing Board of Review will be dissolved.*
88. *Idle funds other than 6 months working capital requirements in the hands of government agencies including promotional and regulatory bodies will be transferred to the Consolidated Fund on or before 31st January 2011. Thereafter, such agencies should ensure no funds will be retained with them other than the requirement for 6 months working capital requirements without the approval of the Treasury.*

89. *I propose to further simplify the Custom duty structure as a four band rate structure. The industries with local value addition will be promoted by allowing access to raw materials and machinery at a low rate of duties to encourage advanced technology and upgrade the production processes. The Government will also introduce a new policy framework for bonded cargo to develop Sri Lanka as a trading hub. The special Commodity Levy Act will apply to selected imports to stabilize price fluctuations of sensitive products in the domestic economy. The Government will implement bilateral and multilateral Trade Agreements and the WTO Agreement having regard to environmental, health and security considerations. The new Revenue Protection Order giving effect to the proposed charges will be issued tonight. Antidumping, countervailing as well as a legislation requiring labeling in all three languages will be introduced to safeguard the national interest. The present reward scheme will be reformulated in consultation with the Salaries and Cadre Commission to design a more equitable incentive scheme to all officers in the Customs.*
90. *Hon. Speaker, in the process of my pre budget consultations, I realized that further jobs need to be created at managerial and technical levels, to implement development work. Therefore, I propose to recruit 10,000 graduates to the all island services in the fields of engineering, administration, planning, teaching, technical services, agricultural extension and other skills. A further 1,500 graduates will be recruited as Management Trainees to State Banks and other financial institutions in order to introduce younger staff. The Ministry of Defence has brought to my notice 1,500 nurses are needed for its hospitals. These recruitments will absorb graduates and other qualified youth who are seeking employment.*
91. *Mr. Speaker, I gave serious thoughts to salary related issues of public servants. An increase of Rs. 100/- per month for salaries and pensions will cost Rs. 1.9 billion annually. As such, wage increases are not easy. However, public servants deserve some relief without compromising development priorities. We cannot forget the exemplary manner in which they managed the Tsunami and liberated people from terrorists while also carrying out their routine responsibilities. We need to prompt public servants to work harder and serve the people. Their concerns must be recognized and resolved to motivate them. Many public servants have lost increments due to prevailing anomalies. Certain provincial teachers are yet to receive payments for a previous anomaly correction. Associated anomalies of teachers should be corrected through the new Service Minute.*

92. *In this background, I propose to grant a 5 percent increase as a non pensionable allowance to all public servants and security forces. This will maintain the present structure of 1:4 in the public service salaries. I also propose to increase the Cost-of-Living allowance by Rs. 600 per month from January 2011 to all public servants and security forces in non staff categories. I propose to increase this allowance to staff categories from July 2011. I propose to implement the recommendations of the Salaries and Cadre Commission with effect from July 2011 to correct prevailing anomalies of all non staff employees in the public service. I further propose to implement the applicable salaries to teachers in terms of the new Service Minute with effect from January 2011. I also propose to settle salary arrears of teachers at provincial level.*
93. *Hon. Speaker, for all pensioners, I propose to increase their Cost-of-Living allowance by Rs.250 per month from January 2011. In order to correct anomalies in the pension structure, I propose an increase of Rs. 750 per month to those who retired prior to 2003 and Rs. 250 for those who retired between 2003 and 2006. This will be effective from July 2011. My proposals to increase salaries and the Cost-of-Living allowance will benefit nearly 450,000 pensioners and 1.3 million public servants.*
94. *The professional categories of public servants need to be incentivized to sustain improved quality standards. Academic and research staff of our universities and research institutions, medical, engineering, legal and specific managerial categories perform distinctly different responsibilities. As such, their services need to be valued. Therefore, I propose to increase the specific professional allowances to university academic staff, medical professionals and other specific professionals based on their professional and research specialties, to 25 percent of their salaries. I also propose to extend concessionary duty to import motor vehicles for professional and managerial categories of public servants working in the Government and public enterprises. The proposed changes of salaries and pensions as well as recruitments will cost Rs. 33 billion in 2011.*
95. *I wish to table relevant technical notes to my proposals. Amendments to the Appropriation Bill to incorporate borrowing limits and related revised estimates to the Draft Budget Estimates will be presented to the Parliament before the commencement of the Committee stage debate.*

Concluding Thoughts

96. *Hon. Speaker, let me summarize this Budget. The total revenue in 2011 is projected at Rs. 963 billion. Recurrent expenditure is likely to be Rs.1,017 billion. Therefore the basic deficit in our Budget is around Rs. 54 billion. As our major investments in infrastructure, human resources, rural development and social security will be over this deficit, the Budget deficit will amount to Rs. 434 billion which is 6.8 percent of GDP in 2011. Our medium term objective is to eliminate our basic deficit and move towards a budget deficit of around of 5 percent of GDP. The Fiscal Management Report 2011 provides relevant details. Hon. Speaker, neo liberal ideologists must understand that this deficit is not to bailout failed bankrupt companies. This deficit involves provisions for free services, social security and development expenditure.*
97. *My attempt in this Budget is to sustain our achievements and manage future risks in our economy. We have achieved an economic growth rate of near 8 percent. Inflation has stabilized at around 6 percent. Poverty has come down to 7.6 percent and unemployment to 5 percent. These are all achievements within 5 years. This argues well in favour of our development strategy. The Central Bank has built up US\$7 billion reserves. Our banking system has a further US\$ 1.5 billion. So the economy has sufficient external assets. All these are achievements that all of us must be proud of. A low rate of inflation of around 5-6 percent, economic growth rate of around 7-8 percent and a society free from poverty are our medium term targets. Our collective effort now onwards must be to maintain these positive trends in our economy over the medium term.*
98. *Hon. Speaker, raising income beyond US\$ 4,000 per capita is not the only objective in our strategy. People need equitable opportunities to enjoy such high income. They must have equal access to roads, electricity, water, communications, housing and health facilities. These infrastructures provide opportunities for a meaningful economic life for them. Farmers ask for water, seeds, credit and fertilizer. Self employed people ask for a trouble free environment to do their own businesses.*
99. *Hon. Speaker, above all, everybody in the society must have equal access to education. That is the surest way of providing equality in economic growth. We must understand that we cannot let our young people to leave our country or turn to other options, because they cannot have better education, quality jobs and secured living, here. These facilities must be made available to everybody in our society, in Sri Lanka itself. It is then that such facilities currently confined only to*

those who can afford, can be made available even to those who cannot afford. Our Government under no circumstance will privatize or abolish free education or health services. They will not only be protected but strengthened with greater resources from the National Budget. Equally, we will introduce laws, regulations and standards to encourage all other private educational institutions to comply with our national requirements. We must guarantee meaningful educational opportunities to our children.

100. Hon. Speaker, we have to be futuristic. Our sole responsibility is to manage the present to build a better future. That should be a future with opportunities. Let us leave our differences aside and place the country first. Let us place the future of our children first. Mr. Speaker, my policy strategy, commitment and leadership aims at building a prosperous future for our children. Their future lies in a knowledge economy. Let us join hands to make our country the Emerging Wonder of Asia.

May the Triple Gem Bless You!

BUDGET SPEECH
2011
SUPPORTING DOCUMENTS
AND
TECHNICAL NOTES

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DOCUMENTS CONNECTED TO THE BUDGET 2011

DOCUMENTS :

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

TECHNICAL EXPLANATIONS:

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The Impact of Revenue Proposals - 2011

Table I

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

Table II**The Impact of Expenditure Proposals - 2011**

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

Table III

Gross Borrowing Requirements- 2011
(Provisioning for Accounting Transactions)

	<i>Rs. Billion</i>
<i>Total Receipts other than Government Borrowings</i>	<i>986.1</i>
<i>Total Payments including Debt Repayments</i>	<i>1,981.8</i>
<i>Provision for Advance Account</i>	<i>4.0</i>
<i>Risk Premium</i>	<i>25.0</i>
<i>Total Gross Borrowings Requirements to be Recorded in Government Accounts</i>	<i>1,024.7</i>
<i>of which Total Debt Repayment</i>	<i>528.5</i>

Table IV

Summary of the Budget, 2010-2011

	<i>2010 Revised</i>	<i>Rs. Bn 2011 Budget</i>
Total Revenue and Grants	828.3	986.1
Total Revenue	812.1	963.5
Tax Revenue	720.0	862.1
Income Tax	135.0	154.9
Taxes on Goods and Services	429.5	495.5
Taxes on External Trade	155.5	211.8
Non Tax Revenue	92.0	101.4
Grants	16.2	22.6
Total Expenditure	1,275.0	1,419.9
Recurrent	926.0	1,017.0
Salaries and wages	295.3	344.0
Interest	350.3	353.9
Subsidies and Transfers	197.2	207.3
Other Goods and Services	83.2	111.7
Public Investment	359.0	413.7
Education and Health	29.4	54.0
Other Infrastructure Development	329.6	359.7
Other	(10.0)	(10.8)
Revenue surplus(+) / Deficit(-)	(113.9)	(53.4)
Budget Deficit	(446.7)	(433.7)
Total Financing	446.7	433.7
Total Foreign Financing	205.5	94.5
Net Foreign Borrowings	93.5	74.5
Gross Concessional Foreign	172.5	189.5
Borrowings		
Debt Repayments	79.0	115.0
Foreign Commercial	112.0	20.0
Total Domestic Financing	241.2	339.2
Non-Bank Borrowings	166.2	257.7
Foreign Owned T Bills and Bonds	40.0	39.6
Bank Borrowings	35.0	42.0
Revenue and Grants/GDP (%)	14.9	15.6
Revenue /GDP%	14.6	15.2
Tax/GDP (%)	13.0	13.6
Expenditure/GDP (%)	23.0	22.4
Current Expenditure/GDP (%)	16.7	16.1
Public Investment/GDP (%)	6.5	6.5
Revenue surplus (+) / Deficit(-)/GDP (%)	(2.1)	(0.8)
Budget Deficit/GDP (%) (Excluding Grants)	(8.0)	(6.8)

Source: Compiled by Department of Fiscal Policy

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

1.1. Personal Income Tax

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

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

1.1.2. Tax Slabs

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

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

1.1.3. Employment Income

- (a) The tax deducted from employment income (of both Government and private sector employees), under the PAYE Scheme will be treated as final. Considering the deductions which they are entitled to from the statutory income and the assessable income, a tax free allowance of Rs.600, 000/- will be allowed in the computation of tax on the employment income. The facility of applying for directions or refunds will not be available in relation to the employment income. Accordingly, the requirement of filing returns by them will not arise unless they have any other source of income, the tax in respect of which is not treated as final.

In the case of an individual employed under several employers, the normal PAYE table will be applicable only in respect of the income from the main employer, and tax will be deducted at the rate of 16% from profits from other employments. Such income will be aggregated with the other income (if any) and tax is to be computed under normal rates. The employee is entitled to a credit for such tax deducted.

The payments to Directors etc., referred to in section 117 will also be subject to WHT tax at 16%, if such payments received from an employer exceeds Rs.25, 000/- per month. Otherwise, the existing rate of 10% will be applicable.

(Section 32 and section 117 of the Act will be amended)

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

- (i) The present provisions referred to in section 132A of the Inland Revenue Act will be removed. Accordingly, the tax credit allowed on the tax on emoluments of employees and individuals in the public sector referred to in section 8 (1) (b), will not be applicable effective from April 1, 2011.
- (ii) The following payments and benefits , however, will not be liable to tax:
 - Pension or any retiring benefits referred to in section 4(1)(c).
 - Motor vehicle provided or/and any vehicle allowance paid up to Rs.50, 000/- per month.
 - Rental value of any Official bungalow provided by the Government.
- (iii) Any rewards or distribution of a share of fine received in the official capacity (referred to in section 157 of the Act) will continue to be taxed at the normal rates.
- (iv) Tax will be deducted under PAYE and files will not be opened, where the employment is the only source of income.

(c) Taxation of the employment income of the private sector

- (i) **Motor vehicle benefits** – The benefits (as specified in the Gazette) under section 4 (2), will be exempted from liability under employment income. If an allowance is paid instead of providing a motor vehicle, the exemption will be applicable up to a maximum limit of Rs.50, 000/- per month.
- (ii) **Allotment of Shares to employees** – The present exemption of the benefit from Share allotment referred to in section 8 (1) (b) will be removed.

(Section 8 of the Act will be amended)

(iii) **Terminal benefits from employment**

The sum paid from a Provident Fund referred to in section 35(2) (d) and (e) of section 35 of the Act, will be excluded from the liability.

(Section 8 and section 35 of the Act will be amended)

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

1.1.4. Interest Income

The present exemption on income from interest available to Senior Citizens on moneys deposited in State Banks referred to in paragraph (h) of section 9 will be extended from Rs.200,000/- to Rs.500,000/-.

(Section 9 (h) of the Act will be amended)

1.1.5. Cancellation of existing files of Individuals

The existing files of individuals, whose taxes (paid at source) on all relevant sources are treated as final need not be maintained, and will be cancelled.

(Section 106 of the Act will be amended and

an administrative mechanism will be strengthened to cancel the existing non effective files)

1. 2. Ascertainment of profits and income

1.2.1. Deductions (allowable under sections 25 of the Act)

(a) Capital Allowances

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

(b) Research Expenditure

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

(c) Listing Expenses

Expenses on listing a company will be deductible subject to a limit of 1% of the value of the Initial Public Offer.

(Section 25 of the Act will be amended)

1.2.2. Deductions (limited under section 26 of the Act)

(a) Advertisements

The present restriction of 50% will be reduced to 25%. Accordingly, 75% of advertisement expenses will be allowed.

(b) Foreign Travel Expenses

The present restrictions referred to in paragraphs (c) and (d) of section 26 will be removed and the deduction of expenses on foreign travel will be allowed if incurred in the production of income, subject to the restriction specified in paragraph (g) below.

(c) Foreign Training Expenses

The present restriction will be removed and the deduction will be allowed subject to the restriction specified in paragraph (g) below.

(d) Management Fees

The present limit of, “Rs 1 million or 1% of the turnover whichever is less,” will be increased to “Rs 2 million or 1% of the turnover whichever is less” The other conditions referred to in section 26(1) (j) will remain unchanged.

(e) Tax on Tax on Employment Income

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

(f) The limitation on deduction of Nation Building Tax (NBT)

The present restriction (for income tax purposes) in the deduction of 2/3 of the NBT payable will be removed. Accordingly, the full NBT payable will be deductible.

(g) Limitation of specific deductions

The aggregate of allowable expenditure on foreign travel and foreign training will be subject to a maximum limit of 2% of the previous year's statutory income from the respective trade or business.
(Section 26 of the Act will be amended.)

1.3. Qualifying Payments

The present structure of the qualifying payments referred to in section 34 will be revised revisited and the deductions will be restricted to the following:

- Donation to the Government in money or otherwise remained to be deductible in full ;
- Investments in specific projects (already considered under certain tax holiday schemes) will be deductible as already specified ;
- Donations in money to an approved charity will be allowed for deductions only if the charity is established for the provision of institutional care for sick and needy.

In the case of an individual the following specific deductions in addition to the above deductions:

- (i) Premia paid for life or health insurance and donations to approved charitable institutions (referred to above), will be deductible subject to 1/3rd of the assessable income, or Rs 75,000/- whichever is less.
- (ii) A deduction in respect of a premia paid for a special health insurance schemes which cover incurable sicknesses etc, the deduction will be allowed in full but without a carry forward facility
(Section 34 of the Act will be amended)

1.4. Withholding Tax (WHT)

1.4.1. Withholding tax on interest from deposits in banks or financial institutions and interest payable to persons outside Sri Lanka

- (a) In consequence to the proposed changes to the income tax rate structure,
 - The assessable income limit of individuals and charitable institutions for the self direction purposes referred to in section 133 (4) (b) and (c) will be extended from Rs.300, 000/- to Rs.500, 000/-.
 - The next level of assessable income for direction purposes (for the purposes of the application of the concessionary rate of 2. 5%) will be increased from Rs 1 m to Rs 1.5 m.
 - The WHT rate of persons other than companies will be 8%.
 - For companies, the 10% rate will remain unchanged.
 (Section 133 of the Act will be amended).

(b) Provisions will be made in section 95 of the Act to remove the application of the tax deduction requirement under that section on any interest, which is exempt from tax under any of the provision of the Inland Revenue Act.

(c) Withholding tax on corporate debt securities will be treated on par with Government Securities.

(d) The provisions relating to Government Securities will remain unchanged.

1.4.2. Withholding Tax on Specified Fees

The present WHT applicable on specified fees will be discontinued with effect from April 01. 2011.

(Sections 151 and 153 of the Act will be amended)

1.5. Tax Rates (other than for individuals as referred to in item 1.1.2)

- (a) The present rates of 30%, 33 1/3% or 35% applicable to companies or NGOs etc, other than any person engaged in a business which deals in liquor or tobacco based products (being the manufacturer or the importer of such products), will be reduced to 28%;
- (b) The rate applicable to banks and other financial institutions will also be reduced from 35% to 28%. This rate will apply uniformly to all off- shore banking activities as well as to finance companies, leasing, insurance and other specialized banking services;

- (c) The rate applicable to any person engaged in the manufacture or import of liquor or tobacco products on such part of taxable income as consists of profits or income from the sale of such products, will be increased to 40%;
- (d) The present concessionary rate of 15% will be reduced to 12%;
- (e) The maximum rate applicable to any person engaged in an undertaking for the manufacture of any product, having domestic value addition in excess of 65% and Sri Lankan brand name with patent rights reserved in Sri Lanka, on such part of taxable income consists of profits or income from the export of or by supply to an exporter for the export of such product, will be not exceeding 10%;
- (f) Clubs and Associations, undertaking for operation and maintenance of facilities for storage, local software development or supply of labour - the rate will be reduced to 10%.
- (g) Venture capital companies, petroleum exploration, entertainer or artist – the rate of tax will be reduced to 12%
- (h) Tax rate on the divisible profits of a partnership will be reduced from 10% to 8%.

(The Rate Schedule to the Act will be amended).

- (i) The profits and income of any agricultural undertaking referred to in section 16 of the Act will be taxed at the rate not exceeding 10%
(Section 16 will be amended and section 48B will be introduced to the Act)
- (j) The minimum quantum of dividends to be distributed out of the distributable profits to relieve from the liability referred to in section 61(1)(b)(ii) will be reduced from 25% to 10% .

(Section 61 will be amended)
- (k) The other rates will remain unchanged.

1.6. Creation of an Investment Fund Account

- Every person or partnership who or which is in the business of banking or financial services will be required for three years commencing from the 1st of April 2011 or from the year of assessment in which businesses operations commenced, whichever is later; to invest at the end of each year of assessment, in an Investment Fund Account, which will be established at the Central Bank of Sri Lanka, an amount equal to the aggregate of :
 - (i) 8% of the profits calculated for VAT on Financial Services; and
 - (ii) 5% of the adjusted profits calculated for income tax purposes before tax

for that year of assessment in lieu of having single rate at 28 percent for off-shore and on-shore transaction

- The investment in an investment fund shall only be utilized by the investor to grant long term loans at a lower rate of interest.
- The interest on investments by a bank or financial institution in the Fund will be exempt from income tax.

(Inland Revenue Act will be amended accordingly)

1.7. Charitable Institutions

(i) The present exemption applicable on profits of a business carried on by charitable institutions as referred to in section 7(e) of the Act will be removed.

(ii) The definition of charitable purpose will be amended by:

- excluding educational activities carried out by any institution established under the Companies Act or for business purposes; and
- adding activities carried out by institutions engaged in activities of environmental protection and eco friendliness.

(Section 7 and section 217 of the Act will be amended.)

1.8. Taxation of Non Governmental Organizations (NGOs)

The taxation provisions of NGOs on the funds received will remain unchanged. However, the scope of tax remission provisions will be expanded considering requirements of the society. (Section 102 of the Act will be amended)

1.9. Income Earned in Foreign Currency

The present exemption referred to in Section 13(ddd) will be extended to cover any service provided to a person or partnership outside Sri Lanka but will not cover commissions, discounts or similar type of receipts for activities carried out in Sri Lanka.

(Section 13(ddd) of the Act will be amended)

1.10. Tax Exemptions

1.10.1. Tax Holiday for New Investments

A five year tax holiday will be offered for any company, which carries on a new undertaking, with a minimum investment of not less than US\$ 5000 (but not more than US\$ 10 mn) or an amount equal to such amount in rupees in such activities as specified by the Minister from time to time by order published in the Gazette having regard to the development of the national economy. The prior approval is required to be obtained on the basis of criteria specified and a mechanism will be introduced to monitor the specified activities.

1.10.2. Sector Wise Exemptions

The following sectors will be exempted from income tax for a period of five years reckoned from the year of assessment commencing from April 1, 2011.

- Fishing;
- Cultivation and primary processing of agricultural seeds or planting material

1.10.3. Institution Wise Exemptions

(a) The following institutions will be exempted from income tax from all sources for a period of 10 years with effect from the year of assessment commencing from April 1, 2011.

- (i) Sri Lankan Airlines Ltd
- (ii) Mihini Lanka (Pvt) Ltd

(b) The following institutions will be exempted from income tax from all sources for a period of 5 years with effect from the year of assessment commencing from April 1, 2011

- (i) Ceylon Electricity Board
- (ii) National Water Supply and Drainage Board
- (iii) Ceylon Petroleum Corporation
- (iv) Sri Lanka Ports Authority

However, these institutions will be subjected to payment of a dividend to the Government at 25% on the annual gross profits.

- (c) Unit Trusts or Mutual Funds from investment in listed debentures and equity.
- (d) Foreign exchange earnings from supplies made to foreign buyers, who establish their headquarters in Sri Lanka for management, finance, supply chain and billing, by manufacturers of textile, leather products, and footwear and bags

(Sections 7, 13 and section 61 of the Act will be amended)

1.10.4. Existing Tax Holidays

- (a) Tax Holiday under section 17 – The areas for which the exemption is applicable will be specified to avoid ambiguities.
- (b) Tax holidays under section 24C and 24D – The application of the exemption will be restricted to profits from the specific business.

1.11. Administrative Provisions

1.11.1 Amendment to Section 106(11)

Provision will be incorporated in this subsection to specify the requirement of maintaining separate accounts in relation to separate units or undertakings carried out as one business.

1.11.2 Time bar on assessments

The time bar for making assessments will be reckoned from the statutory date for the submission of the return. (Section 163(5) of the Act will be amended).

1.11.3 Partnership Tax

Necessary amendments will be made to avoid the disadvantageous position in cases where the partners are also subject to tax on salaries under PAYE with regard to the credit available for partnership tax paid on the profit sharing basis. (Section 78 of the Inland Revenue Act will be amended.)

1.11.4 The collection of tax pending decision of the courts

Provisions will be made in section 170(7) of the Act, where the Court shall order the appellant to pay the full tax in dispute or part thereof where the appellant has not paid tax up to the date of hearing in any manner the courts may consider reasonable pending determination of the appeal. Any excess tax arises as a result of final determination will be refunded.

1.11.5 Provisions relating to recovery of tax

Provisions similar to section 48 of the VAT Act will be made to the Inland Revenue Act with regards to recovery of tax from the principal officer and others of a company.

1.11 .6 Inclusion of members of the Association of Accounting Technicians (AAT)

The members of AAT will be recognized as authorized representatives for the purposes of the Inland Revenue Act. (Section 217 of the Act will be amended).

1.11.7 Penal provisions to Auditors/ tax practitioners:

Penal provisions will be introduced for auditors and tax practitioners who misuse statutory provisions of any Act or regulation by deliberate misinterpretation of any provisions therein.

1.11.8 Provisions will be made to credit refunds directly to the bank account of the tax payer.

1.11.9 Ambiguities or omissions

- The translation errors in both Sinhala and English versions identified of the Act will be corrected where necessary.

- Section 61(1) (a) of the Inland revenue Act will be amended to accommodate the other rates applicable to companies other than the rates specified in the second Schedule.

2. Value Added Tax (Value Added Tax Act No 14 of 2002)

2.1. Rates

The present 20% rate will be reduced to 12%. Accordingly, there will be only one rate applicable other than the Zero Rate. (Section 2 of the Act will be amended).

2.2. New Exemptions

(a) The supply of:

- Telecommunication services;
- Locally manufactured briquettes and pallets using bio mass wastes.
- Any goods (including importation) or services to a specific project carried on, out of foreign funds or donation received by the Government, as approved by the Minister considering the economic benefit to the country;
- Any goods or services by an institution set up by the Ministry of Defense for the rehabilitation of disable soldiers, so far as the activities are carried out by the participation of such soldiers ;
- Locally developed software ;
- Services being receipts from re-insurance by way of commission or compensation in a insurance business ;
- Leasing facilities for:
 - (i) Motor coaches with seating capacity not less than 28 passengers seats and used for public transport service;
 - (ii) Lorries; or
 - (iii) Tractors;

(b) The import or Supply of :

- Coal specified under HS Code Nos under 2701.11, 2701.12 and 2701.19;
- Bitumen under HS CodesNos. 27.14 and 2713.20
- Petrol under HS Code No 2710.11.20
- Machinery and equipment for leather or footwear industry or manufacture of bags under HS Headings Codes.8453.10,8453.20, 8453.80
- High tech medical and laboratory equipment under HS Codes 8479.89.10 and items under H S Headings from 90.01 through 90.33

- To promote International Shopping
Items under H S Codes 8516.32, 8516.33, 8516.50, 8516.60.10, 8516.90.10, 8516.71, 8516.72, 8516.79.20, 8517.11, 8521.10, 8521.90, 8527.91, 8527.92, 8528.72.41, 8528.72.91, 9101.91, 9101.99, 9105.11, 9105.19, 9105.21, 9105.29, 9105.91, 9105.99, 9207.10, 8414.51
- Fashion Jewellery

Items under H S codes 3926.90.70, 7018.10, 7113.11.90, 7113.19.90, 7113.20.90
- Machinery and equipment for manufacture of grain mixed bakery products under HS Code Nos 8437.10 and 8437.80
- Machinery and high – tech equipment imported for the telecom industry which are specifically identified and approved by the Ministry of Finance.
- Aircraft simulators and parts under HS Codes 8805.21 and 8805.29

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

2.3. Registration Threshold

The present registration threshold of the normal VAT will remain unchanged.

2.4. Input tax restriction

The present restriction of 85% of the output tax will be extended to 100%, in respect of any tax invoice or custom declaration issued on or after January 1, 2011. The unabsorbed input credit as at 31, December 2010 calculated within the provisions of the VAT Act, will be allowable to be deducted for income tax purposes in the following manner:

- if such input credit is related to a revenue expenditure , deduction will be allowed in 4 equal annual installments which would be set off in 4 years of assessment commencing from the year of assessment from 2010/2011, subject to the provisions specified in section 25 and 26 of the Inland Revenue Act;
- If the input credit is related to a capital expenditure, the unabsorbed input credit will be treated as part of the capital asset for the purposes of deduction for capital allowances.

(Section 22 of the VAT Act and section 25 of the Inland Revenue Act will be amended).

2.5. VAT Suspension Scheme

- (a) The VAT Suspension Scheme presently monitored through EDB and TQB will be removed from those institutions and administrated in a separate Unit established for this purposes in the Department of Inland Revenue.
- (b) Apart from the above suspension schemes, a special category of supplies will be identified so far as such supplies are made to the persons specified below, and a scheme of VAT suspension, which will be monitored in a Special Unit established under the supervision of the Commissioner General be incorporated:
- To a registered person who/which carries out any special project exempted under the VAT Act ;
 - To any exporter of any goods or services other than supplies covered under the existing suspension schemes;
 - To a deemed exporter who manufactures goods in Sri Lanka to be supplied to an exporter ; or
 - To a supplier who provides value added supplies to any article exported;

The necessary guidelines will be published for the implementation of the above Schemes. (Section 2 of the Act will be amended and the date of implementation will be informed after making the necessary arrangements)

2.6. Optional VAT

The present threshold for the registration for optional VAT will not be changed. However, the rates applicable and the period in which the business could remain in the status of optional VAT will be expanded as follows.

Period	Rate
Up to the end of the 3 rd year from the date of registration	2%
From the commencement of the 4 th year to the end of the 6 th year	4%
From the commencement of the 7 th year to the end of the 9 th year	8%
From the commencement of the 10 th year to the end of the 12 th year	12%

- There is no upper limit of turnover for the application of the above rates. However, the option is available to register for normal VAT at any stage.(Chapter IIIB of the Act will be amended)

2.7. VAT on Financial services

- (a) The present rate applicable will be reduced from 20% to 12%.
- (b) The value addition for tax purposes will be calculated after deducting the VAT on financial services payable.
- (c) To ensure an uniformity in the calculation of VAT on financial services, the Commissioner General will issue a guideline specifying the following:

- The basis of calculation of the profits liable to VAT on financial services;
 - The adjustments to be made where necessary on an acceptable realistic basis
- (d) The submission of returns will be bi-annually with payments on monthly basis.

(Chapter IIIA of the Act will be amended).

2.8. Administrative Provisions

(a) Refunds

- Provisions will be made to credit VAT refund cheques directly to the bank account of the tax payer.
- 15 day refunds will be removed and a suspension scheme will be introduced.
- A proper mechanism to cross check input credit will be introduced.
- Provisions will be incorporated to disregard the claim of refunds in cases where there is no response within a reasonable time. The time frame will be fixed considering the circumstances of the case.

(b) Appeal provisions

Certain administration provisions applicable to income tax appeals (and objections) will be extended to the VAT Act as well.

(c) Agent

Provisions relating to the taxation of Agent on the liability on behalf of the principal will be incorporated.

(d) Time bar relating to assessments

The present time bar provisions relating to fraud or willful evasion will be removed.

(e) VAT advance payments (WHT)

The present provisions referred to in section 26A will be removed.

(f) Proceedings for recovery before a Magistrate

The time frame for deferment of proceeding, similar to section 179(2) of the Inland Revenue Act will be introduced in section 43(1) of the VAT Act.

(g) Penal provisions will be introduced for nonpayment of VAT on self assessment basis under installments and the non submission of return for VAT on Financial services.

(h) Filing of VAT returns on quarterly basis

Provisions will be made to file VAT returns on quarterly basis other than zero rated persons.

(i) Ambiguities or omissions

The translation errors in both Sinhala and English versions identified in the above Acts will be corrected where necessary.

(The amendments to the Value Added Tax Act will be effective from January 1, 2011 unless the date specifically stated)

3. Nation Building Tax (NBT) (Nation Building Tax Act No: 9 of 2009)

3.1. Rates

The present rate of 3% will be reduced to 2%. The concessionary rate of 1.5% applicable on the liable turnover from the sale of rice manufactured from locally procured paddy will be removed with effect from April 1, 2011. (Section 3 of the Act will be amended).

3.2. Liability to Tax

The present scope of chargeability will be extended to include the carrying on the business of wholesale or retail trade of goods (Section 3 of the Act will be amended).

3.3. Threshold

The present threshold of Rs 650,000 per quarter will be reduced to Rs 500,000/- per quarter. However, in the following categories the threshold will be increased from Rs500, 000/- per quarter to Rs 12,500,000/- per quarter

- operating a hotel, guest house, restaurant or other similar business;
- local value added agricultural produce, rice based products;
- Local educational institutions ;
- Supply of labour (man power) or employment

(Section 3 of the Act will be amended).

3.4. Exclusions from the Liability

3.4.1. New Exclusions

(a) Institutions:

- (i) Government Institutions (Departments) including schools funded by the Government;
- (ii) Sri Lanka Airline Ltd;
- (iii) Mihin Air (Pvt) Ltd;
- (iv) Air Lanka Catering Services Ltd

(b) Goods or Services

- (i) Supply of any goods (including importation) or services to a specific project carried on, out of foreign funds or donations received by the Government, as approved by the Minister considering the economic benefit to the country;
- (ii) Importation of raw materials and packing materials for the manufacture of ayurvedic preparations which belong to the Ayurveda Pharmacopoeia or ayurveda preparation subject to the approval of the relevant authority;
- (iii) Services provided to the port or airline in relation to international transportation;
- (iv) Services provided in relation to ship building for the international market for payments made in foreign currency;
- (v) Services of sub contractors in a construction contract;
- (vi) Telecommunication services;

- (vii) Supply of locally developed software;
- (viii) Import or supply of following articles:
 - Bitumen under HS Code No 2714
 - Tractors

3.4.2. Removal of exemptions

- Services of star hotels above the rank of three Star
- Any person registered for optional VAT

3.5. Differences in the Sinhala and English versions

Translation errors of the following words and phrases will be corrected:

- Article
- Person
- rent of property
- Commission agents
- Local produce will be corrected as local agricultural produce

4. Economic Service Charges (ESC) (Economic Service Charge Act No: 13 of 2006)

4.1. Exemptions

The turnover of following businesses will be exempt from ESC

- Distributors as defined in the ESC Act;
- Dealers in Lottery ;
- Unit trust or mutual fund
- All air lines and shipping lines

4.2. Threshold

The present threshold of Rs. 7.5 mn per Quarter will be increased to Rs 25 mn.

4.3. Rates

The existing rates schedule of ESC will be simplified in the following manner.
(The definition of turnover for ESC purposes remain unchanged)

Type of Turnover	Rate
(i) BOI enterprises (liable to income tax) - Apparel exporters - BOI trading Houses - Manufacturers of textiles to apparel exporters	0.1%
(ii) Exempt/ cessionary rate or others - Exempt from income tax (including tax holiday companies) - During the period which make losses - Subject to tax under concessionary rates - wholesale or retail trade other than manufactured or produced by the seller (except distributors or dealers in motor vehicles or liquor) - primary conversion of any tea, rubber or coconut plantation including desiccated coconut, coconut oil or fiber, copra and sheet rubber, but excluding any conversion which produces any alcoholic beverage.	0.25%
(iii) Commercial operations - Advertising Agents	0.5%
(iv) Others (including dealers in motor vehicles, liquor ,tobacco and petroleum) and turnover of businesses which are defined under the gazette notification	1%

4.4. Submission of Returns

The present concept of submission of quarterly basis returns for ESC will be converted to annual returns with the existing scheme of quarterly payments of tax.

(The amendments to the Economic Service Charge Act will be effective from April 1, 2011 unless the date specifically stated)

5. Debits Tax (Debits Tax Act No 16 of 2002)

Debits tax will be removed with effect April 1, 2011.

6. Social Responsibility Levy (SRL)

SRL on income tax will be removed with effect from April 1, 2011. The SRL on other Levies will be removed with immediate effect. (Relevant amendments will be made to the respective Finance Acts)

7. Construction Industry Guarantee Fund Levy (CIGFL)

The exemption will be considered for special projects approved by the Minister in charge of Finance.

8. Turnover Tax (TT) collected by the Provincial Council

The TT will be abolished with effect from 1.1.2011.

9. Transfer of revenue to the Provincial Council

The revenue collected by the Central Government will be transferred to the Provincial Council as set out below.

- (i) 100% of the total collection of Stamp Duty
- (ii) 70% of the total collection of the motor Registration fee
- (iii) 33 1/3% of the total collection of NBT

10. Regional Infrastructures Development Levy (RIDL)

Regional infrastructures Development Levy under the Regional Infrastructures Development Levy Act No 51 of 2006 will be removed with effect from January 1, 2011.

11. Administrative charges imposed by the Government

Certain identified charges collected by the Government institutions for any specified approvals will be removed with effect from January 1, 2011.

12. Motor Vehicle Concession under PART I of the Finance Act No 11 of 2006

The concession of 25% duty waiver to individuals will be removed with immediate effect. The concession already granted will be valid for the concession.

13. Cellular Mobile Subscribers' Levy

Cellular Mobile Subscribers' Levy will be removed with effect from January 1, 2011. (Part II of the Finance Act No 11 of 2004 will be amended)

14. Environment Conservation Levy

Environment Conservation Levy on telecommunication services will be removed. (Relevant Gazette No 1680/28 dated 19.11.2010)

15. A levy on Telecom Industry

A telecommunication levy of 20% will be introduced on telecom services in lieu of the existing levies which are being removed.

16. Share Transaction Levy

The present rate of 0.2% will be increased to 0.3% with effect from January 1, 2011.
(PART II of the Finance Act No 5 of 2005 will be amended)

17. Registrations and Transfer of Motor Vehicles

The rates applicable for vehicle registration and transfer will be revised with effect from January 1, 2011 in the following manner

(a) Vehicle New Registration Charges (Rs.)

Vehicle Category	
Motor Car	5,000.00
Dual Purpose	5,000.00
Motor Coach	5,000.00
Motor Lorry	1,800.00
Four Wheel Tractor (Brand New)	1,000.00
Four Wheel Tractor (Recondition)	1000.00
Hand Tractor (Brand New)	900.00
Hand Tractor (Recondition)	800.00
Motor Cycle	1,000.00
Motor Tricycle	500.00
Agricultural Land Vehicle	2,000.00
Non Agricultural Land Vehicle	4,000.00
Motor Lorry - Fork lift	4,000.00
Motor Tricycle Van	2,000.00
Motor Lorry - Prime Mover	4,000.00
Hearse	1,800.00
Motor Ambulance	1,800.00
Lorry Trailer	2,000.00
Tractor Trailer	1,000.00

b). Fees for Registration of Ownership Transfer - Normal Service (Rs.)

Vehicle Category	Transfer Fee	First Time Registration of Absolute Ownership	Registration of Absolute Ownership Each time Thereafter	Registration Of Mortgage	Deletion of Absolute Ownership or Mortgage
Motor Car, Dual Purpose, Motor Lorry ,Motor Coach, Prime Mover, Non Agricultural Land Vehicle	1,500	1,250	500	200	300
Agricultural land vehicle Three Wheeler	500	1,250	500	200	300
Motor Cycle	250	1,250	500	200	300

Fees for Registration of Ownership Transfer - One Day Service (Rs.)

Vehicle Category	Transfer Fee	First Time Registration of Absolute Ownership	Registration of Absolute Ownership Each time Thereafter	Registration of Mortgage	Deletion of Absolute Ownership or Mortgage
Motor Car Dual Purpose Motor Lorry Motor Coach Prime Mover, Non Agricultural Land Vehicle	3,000	2,750	2,500	400	500
Agricultural land vehicle Three Wheeler	1,500	2,750	2,500	400	500
Motor Cycle	500	2,750	2,500	400	500

- The relevant gazette will be issued under the Motor Vehicle Act No: 14 of 1951

(c) Luxury, Dual purpose, Semi Luxury Motor Vehicle Taxes

With effect from 01.01.2011, the rates applicable for luxury, dual purpose and semi luxury motor vehicles are as follows

Vehicle category and cylinder capacity	Amount of Tax (Rupees)						
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
<u>Luxury</u> Diesel - Cars Over 2500 and Petrol - Cars Over 2000	100,000	78,750	68,000	57,750	48,000	38,750	30,000
<u>Semi Luxury</u> Diesel - Cars 2201 to 2500 Jeeps Over 2201, Petrol - Cars 1801 to 2000 and Jeeps Over 1801	50,000	39,375	34,000	28,875	24,000	19,375	15,000
<u>Dual Purpose</u> <u>Semi Luxury</u> Diesel - Cabs Over 2200 Petrol - Cabs Over 1800	20,000	15,750	13,600	11,550	9,600	7,750	6,000

- The amendments will be made to the relevant Finance Act No: 16 of 1995

18. Cess

The Cess rates applicable on most of the Raw Materials & Machinery have been removed. Certain Cess rates have been revised considering the local value added industries. The new rates are incorporated in the Gazette Notification No. 1680/25 dated 19.11.2010.

19. Custom Duty

- (a) Exemptions import of goods to a specific project carried on, out of foreign funds or donations received by the Government, as approved by the Minister considering the economic benefit to the country.

(b) Changes of Customs Duty on Imports

The following changes of Customs duty will be effective from 23.11.2010.

- Telecom/ICT/BPO Sectors

Customs duty will be removed for goods relating to telecommunication, Information and Communication Technology (ICT) and Business Process Outsourcing (BPO) sectors. No Customs duties will be applied on software. The WTO decision on the valuation of carrier media bearing software for data processing equipment will be implemented.

HS Code	Prevailing Customs Duty	Proposed Customs Duty
8517.11	15%	Free
8517.12.90	15%	Free
8517.18	5%	Free
8517.61	15% or 5%	Free
8517.62.10	15%	Free
8517.62.90	5%	Free
8517.69	30% or 5%	Free
8528.41	5%	Free
8528.51	5%	Free
8528.61	5%	Free
8443.32.40	5%	Free
8536.69.10	30%	Free
8536.90.10	15%	Free

- **Agriculture Sector**

To improve agriculture through new technology and post harvest storage and transportation systems, Customs duties on relevant goods will be removed/ reduced while protecting the local industries.

HS Code	Prevailing Customs Duty	Proposed Customs Duty
7309.00.10	15%	Free
7308.90.10	30%	Free
8479.89.40	Free	Free
3923.10.30	30%	15%
8201.10	15%	5%
8201.20	15%	5%
8201.30.10	15%	5%
8201.30.90	15%	5%
8201.40	15%	5%
8201.50	15%	5%
8201.60	15%	5%
8201.90	15%	5%

- **Confectionery and Bakery Products Manufacturing**

To assist the confectionery and bakery products manufacturing, Customs duty on selected raw materials used in these industries will be removed/ reduced.

HS Code	Prevailing Customs Duty	Proposed Customs Duty
11.09.00	30%	Free
2106.90.30	30%	15%
1302.31	15%	Free
1302.32	15%	Free
1302.39	15%	Free
1302.20	5%	Free
0404.10	30%	15%
1805.00	30%	15%

- **Health, Pharmaceuticals and Cosmetics (including Ayurvedic)**

Customs duties on naso gastric tube feeding preparations will be removed and Customs duties on certain glass and plastic bottles used for packing of pharmaceuticals and cosmetics including Ayurvedic preparations and process will be reduced.

HS Code	Prevailing Customs Duty	Proposed Customs Duty
2106..90.96	30%	Free
7010.90.10	15%	5%
3923.30.10	30%	15%

- **Tourism and Construction industry**

To support tourism and Construction industry, Customs duties on selected goods and raw materials will be reduced. Furthermore, Customs duty on vehicles referred to as "motor homes" will be reduced.

HS Code	Prevailing Customs Duty	Proposed Customs Duty
6802.23	30%	5%
6802.91.10	30%	5%
7214.10.90	30%	15%
7214.91.10	30%	15%
7214.91.20	30%	15%
7216.21	30%	10%
3903.90.10	Free	5%
3905.21	15%	5%
3906.10.10	15%	5%
3907.50.90	15%	5%
8703.32.93	30%	15%
8703.32.94	30%	15%
8703.32.95	30%	15%
8703.33.71	30%	15%
8703.33.79	30%	15%

- **Shopping for Branded Products**

To promote Sri Lanka as an attractive destination for international shopping for branded items internationally branded items are exempted from VAT and Import duty. (They are liable only to Port and Aviation Levy and Nation Building tax).

HS Code	Prevailing Customs Duty	Proposed Customs Duty
8516.32	30%	Free
8516.33	30%	Free
8516.50	30%	Free
8516.60.10	30%	Free
8516.90.10	30%	Free
8516.71	30%	Free
8516.72	30%	Free
8516.79.20	30%	Free
8517.11	15%	Free
8521.10	15%	Free
8521.90	15%	Free
8527.91	30%	Free
8527.92	30%	Free
8528.72.41	15%	Free
8528.72.91	15%	Free
9101.91	Free	Free
9101.99	Free	Free
9105.11	30%	Free
9105.19	30%	Free
9105.21	30%	Free
9105.29	30%	Free
9105.91	30%	Free
9105.99	30%	Free
9207.10	15%	Free
8414.51	30%	Free

- **Vehicles Assembly**

To support vehicle assembling industry, with local value addition, Customs duty on parts and components will be reduced.

HS Code	Prevailing Customs Duty	Proposed Customs Duty
8707.10	30%	15%
8707.90.90	30%	15%
8708.91	30%	15%
8708.92	30%	15%

- **Instruments and Apparatus for Health, Education and Scientific Research**

Customs duty will be removed on instruments and apparatus for health, education and scientific research, covered under the Chapter 90 of the Harmonized System.

- **Electric and Highbred Electric Vehicles**

To reduce the cost of fuel and damage to the environment, use of electrically operated vehicles and highbred electric vehicles will be encouraged by reducing prevailing Customs duty to a lower duty, i.e. 30% to 15%, 15% to 5% and 5% to zero, on all such vehicles covered within the Chapter 87 of the Harmonized System.

Depreciation Table for Used Motor Vehicles

The depreciation table for the used motor vehicles of HS headings 87.01, 87.02, 87.03, 87.04 and 87.11 will be revised in accordance to the WTO Valuation Agreement.

Period of Use	Depreciated FOB value
Less than or equal 6 months	90%
More than 6 months and less than or equal 1 year	80%
More than 1 year and less than or equal 1 1/2 year	75%
More than 1 1/2 years and less than or equal 2 years	70%
More than 2 years and less than or equal 2 1/2 years	65%
More than 2 1/2 years and less than or equal 3 years	60%
More than 3 years and less than or equal 3 1/2 years	55%
More than 3 1/2 years and less than or equal 4 years	50%
More than 4 years and less than or equal 4 1/2 years	45%
More than 4 1/2 years and less than or equal 5 years	40%
More than 5 years and less than or equal 5 1/2 years	35%
Over 5 1/2 years	30%

- New Policy Framework for Customs bonded Warehouses and Places

Sri Lanka will be developed as a trading hub by taking the maximum benefit from its strategic location to main shipping routes. A new policy framework for the Customs bonded warehouses will be introduced with electronic communication and monitoring systems for effective management and flow of bonded goods. The Magam Ruhunupura port will be mainly utilized for trading wide range of goods such as petroleum bunkering, motor vehicles, electrical and electronic items, sugar, palm oil etc., through the new Customs bonding procedure.

- *Tariff Reductions under the Free trade Agreements*

The agreed tariff reductions under the Pakistan Sri Lanka Free Trade Agreement and South Asia Free Trade Area (SAFTA) will be implemented with effect from 23.11.2010.

(c)

Negative List

Duty free imports under concessional agreements by BOI will be permitted in respect of the following items only if local supplies are unable to meet the required quantities.

- Cement
- Asbestos Sheets
- Spare Parts for Motor Vehicles
- Wires & Cables
- PVC Pipes & Fittings
- Paints
- Furniture including Pantry cupboards
- Steel
- Tiles (Floor, wall & roof)
- Granite
- Electrical Fittings
- Aluminum Extrusion
- Lubricants

20. Levy on Tele- dramas, Films and television Commercials

The present levy imposed under the PART II of the Finance Act No 11 of 2006, will be extended to cover cable television as well. (Refer Gazette No 1680/29 dated 19.11.2019)

21. PAL

PAL exemptions on

- import of goods to a specific project carried on, out of foreign funds or donations received by the Government, as approved by the Minister considering the economic benefit to the country.
- Import of pharmaceutical products under HS Headings 30.01, 30.02, 30.03, 30.04 and 30.06
- Import of bitumen under HS Headings 27.14 and H S Code 2713.20
- Import of aircraft simulators and parts under H S Codes 8805.21 and 8805.29
- Import of parts of aero planes or helicopters under H S Code 8803.30
- Import of turbo- jets or turbo- propellers under H S Code 8411.91

22 Excise Duties

(a) Excise Ordinance

- Excise duty rates applicable under Section 22(1) of the Excise Ordinance have been revised. The new rates are published in the Gazette Notification No. 1680/23 dated 19.11.2010 and will be effective from 23.11.2010.

Category	Rate
Liquor other than Toddy or any Liquor made from Cereal	Rs. 668.00 per
Molasses, Palmyra, Coconut and Processed Arrack	Rs. 813.00 per proof Litre
Country made foreign spirits	Rs. 953.00 per proof Litre
Malt Liquor (Alcohol percentage – below 5%)	Rs. 80.00 per Litre
Malt Liquor (Alcohol percentage – 5% and above)	Rs. 96.00 per Litre

- The License fees enforced under the section 25& 32 of the Excise Ordinance have been revised. The new rates are published in the Gazette Notification No. 1680/24 dated 19.11.2010 and will be effective from 23.11.2010
- Section 15(b) of the Chapter IV of the Excise Ordinance will be amended as follows;
“no toddy-producing tree shall be tapped except Kitul & Palmyra”.

(b) Excise (Special Provisions) Act, No. 13 of 1989

- The rates imposed under the Excise (Special Provisions) Act, No. 13 of 1989 have been revised with the removal of Regional Infrastructure Development Levy (RIDL) and Social Responsibility Levy (SRL). The concessions given to public servants are also incorporated.
- A new gazette No 1680/22 dated 19.11.2010 has been issued under the Section C of the Excise (Special Provisions) Act, No. 13 of 1989, to effect the concessions given to public servants.
- The Excise (Special Provisions) Act, No. 13 of 1989 will be amended to incorporate the changes carried out in the tax base.

23. Tax treatments of Islamic Finance Instruments

Appropriate amendments where necessary will be considered in identifying the financial instrument for tax purposes under the relevant tax laws.

24. Independent Appeal Commission

An independent appeal Commission will be established comprising a team of legal, technical and operational experts in handling any appeal made against the determination of the Commissioner General (the present Board of Review level). The present functions of the Board of Review will be removed from the Relevant Acts administrated by the Commissioner General of Inland Revenue and will be brought under a separate Act . Apart from the Acts administrated by the CGIR the activities of the Commission will cover the appeals on the taxes in dispute under other statues namely, Custom Duty, Excise Duty etc.

The time frame fixed for the determination of appeals forwarded to the Commission will be 90 days. Any further action after receiving the determination will be allowed only upon the payment of the disputed tax to a special account which will be refunded (if applicable) on the final determination of the Courts. The functions of the Board of Review will be discontinued.

(The amendments to the Inland Revenue Act will be effective from April 1, 2011 unless the date specifically stated)

25. Recovery Courts

Necessary steps will be made to establish a separate recovery Court.

26. Write off of Taxes of SME sectors

Income tax, Esc, NSL, GST and obsolete taxes (not charged or paid) due to conflict environment and financial constrains of persons or partnerships with current annual turnover below Rs 100mn, with the assurance of the compliance with tax laws thereafter. For this purposes tax payers will be required to obtain a certificate from the Department for future compliance.

27. Policy decisions implemented subject to formal amendments being made to the respective Acts.

(a) Income tax

- Extension of the period for completion of investment and employment criteria up to 31.3.2010 (from 31.3.2009) referred to in section 20 and 21 and 21A of the Inland Revenue Act.
- The extension of the exemption of Co- operative societies registered under Co- operative Societies Act No 5 of 1972 to Co- operative Societies registered under the respective Provincial Councils Statutes.
- Exemption from income tax of official emoluments earned in Sri Lanka by Non - citizen individuals participating in any international event conducted in Sri Lanka.

(b) Value Added Tax

- Exemption of import and supply of light weight electrical and electronic items with effect from 1/6/2010 under the HS Codes specified for that purposes;
- Exemption of fruit seeds with effect from 16/08/2010
- Exemption of importation and the supply (of imported)
 - (a) chicks under HS codes 0105.11.20 and 0105.11.90

- (b) meat of fowls under HS codes 0207.11, 0207.12, 0207.13 and 0207.14
- (c) eggs (in shells fresh or preserved) under HS Codes 0407.00.01 and 0407.00.90
- (d) eggs, not in shell, including egg white and egg yolks under HS Codes 0408.11, 0408.19, 0408.91, 0408.99, 3502.11 and 3502.19
With effect from 13.10.2010

(c) Nation Building Tax

- The rate of NBT on the turnover of rice manufactured out of locally procured paddy is reduced to 1.5% with effect from 1.7.2009 but prior to 1.4.2011
- Importation of raw materials and packing materials for the manufacture of pharmaceuticals subject to the approval of the relevant authority is made exempt from NBT.
- Importation of Gold is made except from NBT with effect from March 1, 2010.
- Effective from 1/7/2010, the following are excepted articles/services for NBT purposes,
 - a) the plant, machinery and equipment imported for the use of large scale infrastructure development projects which have been approved by the Hon Minister of Finance as beneficial for the economic development of Sri Lanka, on temporary basis on condition that goods will be re-exported after the completion of work, and
 - b) the services obtained from foreign consultancies in respect of those projects.
 - (c) Import of Chicks for breeding under HS Code 0105.11.10 and other chicks under HS Code 0105.11.20, 0105.11.90 with effect from 13.10.2010
 - (d) **Other**
 - Extension of the exemption of Export Development Rebate paid by the Export Development Board to such rebate paid through the Department of Commerce and also to extend the exemption to other taxes as well, such as VAT, NBT and ESC.
 - Exemption on any international events approved by the Minister of Finance in relation to the all taxes other than Income Tax (i.e. Customs Duty, VAT, NBT, Cess, PAL, SRL Excise (SP) Duty and RIDL) with effect from 12th May 2010.
 - Exemption of Value Added Tax, Nation Building Tax and Port and Airport Development Levy on import of foreign currency notes under H S Codes 4907.00.90, with effect from 1st June 2010
 - Exemption of Customs Duty, Import Duty, Value Added Tax, Social Responsibility Levy, Cess, Port and Airport Development Levy and NBT on

the importation of chicks for breeding, other chicks, meat of fowls eggs and egg yolk (refer HS codes are specified under item (ii) above) with effect from 13.10.2010.

28. Modernizations of Customs

A Project has already been launched to upgrade the existing ICT system to the advanced version of the software package (ASYCUDA World) in order to yield new trade facilitation features .

Following are the facilities that have already been introduced.

1.1 Reduction of number of copies of Customs Declaration from 5 to 2 in order to minimize high transaction costs resulting from excessive documentation.

A mechanism has been introduced to share data gathered by Customs with Census and Statistics Department and Banks so that hard copies are not required by these two institutions.

1.2 Introduction of electronic Cargo Manifest.

New features in ASYCUDA World software package are being utilized to resume the cargo accounting function which was abandoned sometime back due to the decentralization of declaration processing function. Individual consignments appear on centralized electronic cargo manifest will be written off against the declarations processed at Customs Offices in various locations giving better control to Customs over the import/export cargo. This centralized electronic copy will be shared among various Customs Divisions so that shipping agents are not required to submit hard copies to each Customs Office.

1.3 Reduction of number of visits to Customs

The facility to lodge Customs Declarations electronically which has been introduced sometime back has been extended lifting restrictions prevailed, reducing significant time and cost savings to the import/export community.

1.4 Deployment of web technologies to share Customs data with other related Government Agencies.

Electronic sharing of Customs Data which started with the introduction of GST Scheme in 1998 has been extended to other Government Agencies and recent initiatives in the deployment of web technologies granted real time access to the centralized data repository at Customs so that the frauds taken place in VAT refunds and vehicle registration can be eradicated.

Following Actions have been planned for implementing by 1st January 2011

2.1 Minimize the clearance time for import cargo yielding trade efficiencies

Risk criteria formulated through cargo intelligence techniques will be fed into the Customs Computer System so that only those hit such criteria will be selected for documentary check (Amber Channel) and physical examination (Red Channel) while allowing the speedier clearance times for complying importers (under the Green Channel).

Necessary departmental orders have already been issued to the officers to ensure the compliance. Customs Ordinance will be amended to give preference to the facilitation of trade.

2.2 Introduction of simplified procedure to register individuals with Customs Computer System.

It has been decided to simplify the registration of natural persons requiring only the submission of National Identity Card for the purpose eliminating hardships to individuals who import only one or two consignments during their lifetime.

2.3 Using ICT to further reduce the forgeries in import cargo clearance process.

Electronic release orders of goods will be issued to terminal handlers using Customs computer system against the Customs declarations which duties are paid/secured for. This would eliminate the duty frauds carried out using forged documents.

2.4 Introducing Electronic Payment Facility for Customs Declarations.

Customs has coordinated with Bank of Ceylon for receiving electronic payments from the traders while changing the existing computer system at Customs to update accounts on the receipt of electronic message from Bank of Ceylon so that the huge bottleneck at updating accounts on bank confirmation of payments, can be completely eradicated.

2.5 Reception of electronic regulatory approvals

A system has been developed to receive license/permits from regulatory agencies electronically adopting modern eCommerce technologies involve digital signatures to ensure the authenticity of the permits so received. This would result in reducing the number of visits of importer/exporters resulting in many cost and time savings.

2.6 Electronic Reception of Duty Waivers.

A web based system will be introduced to transmit duty waivers granted by the Treasury to Customs, so that the ambiguities and delays associated with the process will be eliminated.

2.7 Introduction of Exclusive Customs Bonded Area

A designated geographical zone will be established to deposit import cargo without payment of duties reducing the costs associated with establishing bank guarantees for bonded cargo. This facility will help to fulfill Sri Lanka's endeavors to become the regional logistics hub, allowing the storage of import cargo meant for re-export after manufacturing, after value addition/simple processing and also for ship stores/bunkering. Goods imported for duty free sales at Duty free shops as well as for diplomats can also be stored in this area. It will also be possible to store import cargo until duties are paid and released for home use.

29 Exchange control facilitation to promote exports and develop local capital markets

1. Permission is granted for foreigners to invest in rupee denominated debentures issued by local companies. To give effect to this, relevant Gazette notification has been issued by the Controller of Exchange.
2. Permission is granted for Sri Lankan companies to borrow from foreign sources with effect from 22.11.2010. The procedures and documents required in order to complete the process have been prepared by the Central Bank of Sri Lanka.
3. Permission is granted for foreign companies to open places of business in Sri Lanka with effect from 22.11.2010. To give effect to this, necessary gazette notification to establish the procedure to be followed for this purpose has been issued to all concerned, while the Controller of Exchange has also issued instruction to the authorized dealers covering the bank accounts to be opened for this purpose.
4. Permission is granted to foreigners on tour or businesses in Sri Lanka to open accounts in foreign currency with effect from 22.11.2010. To give effect to this, necessary instructions will be issued by Central Bank of Sri Lanka to all the banks operating in Sri Lanka.
5. Permission is granted to the staff of foreign embassies in Sri Lanka to open new foreign currency accounts with effect from 22.11.2010. To give effect to this, necessary instructions have been issued by the Controller of Exchange to all authorized dealers operating in Sri Lanka.
6. Permission is granted to increase the advanced payments for imports from US \$ 10,000 to US \$ 50,000 with effect from 22.11.2010. To give effect to this, necessary instructions have been issued by the Controller of Import and Export to all authorized dealers operating in Sri Lanka.
7. Permission has been granted to Sri Lankan residents to invest in equity of overseas companies and make payments in respect of setting up of places of business outside Sri Lanka. To give effect to this, relevant orders under the Exchange Control Act have been issued by the Hon Minister of Finance and Planning and the Controller of Exchange has issued the necessary instructions to the authorized dealers operating in Sri Lanka.
8. Permission has been granted to insurers to invest up to 20 percent of the long term fund and technical reserves abroad. To give effect to this, relevant Gazette notification has been issued under the Regulation of Insurance Industries Act and directions have been issued to authorized dealers.
9. Permission is granted to importers and indirect exporters of gem and jewellery to open foreign currency accounts with effect from 22.11.2010. To give effect to this, necessary instructions will be issued by the Controller of Exchange. Already exporters of such items are enjoying this facility.

30 Debt restructuring and Treasury Bill limits

High cost rupee loans amounting to Rs. 43 billion will be retired executing the call option.

Treasury Bill limit will be increased by Rs. 200 billion which would be within the borrowing limit for 2011.

Annex II

Revision of Salaries and Allowances to Public Servants- 2011 Budget

1. All Public Servants will be paid a special allowance equivalent to 5 per cent of the basic salary, with effect from January 2011.
2. The current Cost -of - Living allowance of Rs. 5,250/- per month will be increased to Rs. 5,850/- per month. This increase will be paid to those in the non staff grade with effect from January 2011 and to those in the staff grade with effect from July 2011.
3. Salaries of Principals and teachers will be paid as per the Public Administration Circular No. 6/ 2006 (VIII), with effect from January 2011.
4. Salary arrears due and payable to teachers to rectify anomalies will also be paid.
5. The 'Academic Allowance' paid to university academic staff, the 'Personal Allowance' paid to the members of the Judiciary coming under the purview of the Judicial Services Commission, and the 'On - Call Allowance' paid to Doctors will be increased by 25 per cent, with effect from January 2011.
6. A monthly research allowance equivalent to 25 percent of the basic salary will be paid to university academic staff and staff grade officers of research institutions, who undertake research and publish related findings in an internationally accredited publication. This allowance will be availed for 2 years commencing January 2011, during which period such research has to be completed and the findings published.
7. In Order to remove administrative impediments associated with the implementation of the Public Administration Circular No. 6/ 2006 (IV), a step -by -step salary conversion will be introduced with effect from July 2011.

Revision of the Pension and Allowances to Pensioners- 2011 Budget

1. The current Cost -of - Living allowance of Rs. 2,375/- per month paid to Pensioners will be increased to Rs. 2,675/- per month, with effect from January 2011.
2. Those Pensioners who retired prior to 01.01.2004 will be given an increase of Rs. 750/- per month while those Pensioners who have retired during the period 01.01.2004 to 31.12.2005 will be given an increase of Rs. 250/- per month, with effect from July 2011. This will also correct an existing anomaly in the pensions.