# PERFORMANCE REPORT – 2013
# DEPARTMENT OF FISCAL POLICY
# THE GENERAL TREASURY

# Contents

# Vision

**To Ensure the Establishment of a**

**Sustainable Fiscal Policy**

**Framework**

# Mission

**Formulation and Implementation of**

**Fiscal Policies**

**Within the Broad Developmental**

**Framework of the Government**

# Functions

- Formulation and Implementation of fiscal policy and medium term fiscal strategy by co-ordinating with public, private and international agencies,

- Formulation of tax policy and related statutes other than the Customs Duty and the Special Commodity Levy,

- Management and review of fiscal out-turn and fiscal performance, including government revenue and receipts,

- Implementation of requirements under Fiscal Management (Responsibility) Act No.03 of 2003 including all reporting.

## 1. Fiscal Policy in 2013 – Overview

The budget deficit declined further in 2013 for the fourth consecutive year underpinning the strong efforts taken towards fiscal consolidation within the medium term fiscal management framework as explained in Annual Fiscal Management Report submitted to Parliament along with the National Budget. The deficit has been on a declining path from 9.9 percent of GDP in 2009, 8.0 percent in 2010, 6.9 percent in 2011, 6.5 percent in 2012 and to 5.9 percent in 2013. The gradual decline in the budget deficit was achieved by continued effort to align government expenditure in line with the government revenue. Accordingly, government revenue increased from Rs. 699.6 billion in 2009 to Rs. 1,137.4 billion in 2013 while government expenditure increased from Rs. 1,202 billion to Rs. 1,669.4 billion. Nominal growth of revenue on average was 11.8 percent since 2009 while that that of government expenditure was 11.0 percent underscoring that both revenue and expenditure have increased below the nominal growth in GDP. While this is conducive for the reduction in fiscal imbalances, as reflected above, the government revenue growth was lagging behind the nominal growth in GDP, which underpins the fact that revenue is not buoyant enough to accommodate higher public investment beyond 5.5 percent of GDP. This demands further efforts to strengthen government revenue to reduce debt financing of public investment. Apart from the sustained reduction in the budget deficit, the performance of revenue and recurrent expenditure of the budget showed a further narrowed revenue deficit of Rs. 67.7 billion and a primary deficit of Rs. 72.1 billion in 2013. Both deficits were about 0.8 percent of GDP each.

The overall fiscal operations in 2013 continued to face several challenges. An imbalance was experienced in the early part of the year as a result of the revenue lags associated with erosion in the revenue from import based taxes, continued transitional adjustments towards lower rates, combined with broader base tax policy regime and challenges in tax administration to concentrate on the rapidly expanding services sector. Expenditure leads were in the form of bunching of debt services and front loaded personal emoluments in the first four months of the year due to wage increase and salary adjustments for new year. However, it was settled down towards the second half of the year with the improvement in the revenue and further improvement in public expenditure management.

The revenue performance of the government, although indicated an improvement, lagged behind the targeted amount of Rs. 1,257.6 billion due to the decline in imports and the slowdown in the domestic economic activities, continuing from last year, in the first half of 2013 as well as the impact of granting tax exemptions and tax concessions for selected sectors to encourage production. The revenue collection which declined during the first half of the year, turned around thereafter to record a positive growth towards the end of the year. The positive contribution from all main taxes, except Ports and Airports Development Levy (PAL), and Economic Service Charge (ESC), helped achieve 10.7 percent growth in the tax revenue in 2013, which is an encouraging development under the new tax regime introduced in 2011. The tax revenue as a percent of GDP accounted for 11.6 percent in 2013 in comparison to 12.0 percent recorded in 2012.

The revenue performance in 2013, particularly during the second half of the year, reflected a favorable consolidation of the impact of new tax reforms which are aimed at lower rates and broader base and has commenced to provide desired outcomes. The performance in the income tax is particularly encouraging and the VAT and NBT revenue are also picking up gradually with broadening of their bases. The lower performance which is still seen in the revenue from import based taxes, highlights the need for taking a concerted effort to enhance the revenue from domestic taxes, particularly the taxation of services sector, given the future direction of international trade related taxes are likely to moderate due to lower import and corresponding increase in domestic economic activities.

Meanwhile, the relatively low market interest rates and measures taken to reduce the share of short term debt in the total domestic debt stock helped maintain interest cost of the government to increase only by 8.7 percent to Rs. 444 billion from Rs. 408 billion in 2012. However, the non interest recurrent expenditure as a percent of GDP contained at 8.8 percent in 2013 compared to 9.5 percent in 2012 benefiting from a further moderation of the expenditure on national security from 3.9 percent of GDP in 2009 to 2.4 percent in 2013 due to the peaceful environment prevailing in the country and the decline in the expenditure on other goods and services to Rs. 119.4 billion (1.4 percent of GDP) from Rs. 140 billion (1.8 percent of GDP) in the previous year. This enabled to maintain recurrent expenditure at 13.9 percent of GDP in 2013 in comparison to 14.9 percent in the previous year. The revenue deficit of 0.8 percent of GDP in 2013 as against 1.0 percent in 2012 help managing public investment at Rs. 481.2 billion (5.5 percent of GDP) compared to a target of 529.3 billion (6.1 percent of GDP) in Budget 2013 while adhering to the planned deficit for the year.

Continued efforts to rationalize the recurrent expenditure have provided a significant space in the government budget to accommodate the revenue shortfalls experienced in the recent past. This has significantly lowered the pressure on the fiscal operations, particularly in the aftermath of tax reforms since 2011.

A number of policy changes were introduced during the year in deal with various imbalances in the macroeconomic outlook. The key measures include the revision of petroleum and electricity prices to reduce large financial deficits in the Ceylon Petroleum Corporation (CPC) and Ceylon Electricity Board (CEB) associated with high international oil prices, revision of Special Commodity Levy (SCL) and the revision of Cess on several imported commodities to improve the domestic value added production. During the year, the excise duties on hard liquor and malt liquor as well as the excise duty on cigarettes were also increased to keep revenue buoyancy for these taxes. In addition, the stamp duty on any affidavit was reduced and commercial-hub regulations were introduced under the Finance Act – Commercial

Hub Regulation No. 1 of 2013 to declare identified areas as free ports and bonded areas dedicated for offshore business activities to strengthen exports from Sri Lanka.

The current expenditure increased by 6.6 percent to Rs. 1,205 billion in 2013 in comparison to Rs. 1,131 billion in 2012. Interest expenditure amounted to Rs. 444 billion accounting for 37 percent of total recurrent expenditure compared to Rs. 408 billion in 2012. However, as a percentage of GDP, it declined to 5.1 percent from 5.4 percent in the previous year. The increase in the interest payments was driven by the 8 percent increase in the domestic interest payments and the foreign interest payments increased by 11.2 percent. Interest expenditure of which Rs. 343 billion was on account of domestic interest accounted for a third of recurrent expenditure.

Non-interest recurrent expenditure was Rs. 761 billion in comparison to Rs. 723 billion in 2012 only an increase of 5.3 percent and accounted to 8.8 percent of GDP. The salary bill increased by 13.1 percent to Rs 393 billion from 348 billion mainly due to the wage increased and further filling of vacancies in the public service. As a result of the increase in allowances paid to retired pensioners by Rs. 500 per month and the full impact of around 16,794 new retirees in 2012 and the partial impact of about 22,111 new retirees in 2013, the pension bill of the government increased by 10.4 percent to Rs 123 billion in 2013.

Meanwhile, the expenditure on key social welfare programs amounted to Rs. 52.3 billion in 2013, of which Rs. 16.2 billion was for payments to disabled soldiers, Rs. 15.3 billion for Samurdhi cash grants, Rs. 7.7 billion for providing free school uniforms, text books and nutrition programmes and Rs. 13.1 billion for assistance to needy people and other welfare programmes. Meanwhile, the transfers to public institutions amounted to Rs. 39.4 billion mainly to cover the payments due to increase in personal emoluments while transfers to Sri Lanka Railways, Department of Posts and Sri Lanka Transport Board amounted to Rs. 13.9 billion to cover their operational losses. Consequently, the current expenditure as a percentage of GDP declined to 13.9 percent in 2013 in comparison to 14.9 percent in the previous year as its growth was lower than the growth in nominal GDP reflecting the government's efforts in rationalization of expenditure to strengthen fiscal consolidation process.

With the view of facilitating the country's economic transition towards resource-driven growth in the economy, the government proactively involved in improving economic and social infrastructure. Accordingly, the government spent Rs. 481 billion on public investment in 2013 in comparisons to Rs. 444 billion in 2012. This accounted for 5.5 percent of GDP compared to 5.9 percent in the previous year and was achieved in keeping with the commitment of maintaining annual public investment at around 6.0 percent of GDP.

The average public investment during the period from 2005 to 2013 was 6.2 percent of GDP. The steady progress achieved in expansion in the capacity of power generation, seaports and airports, expressways, highways, railways, national irrigation system, water supply and sanitation, schools, vocational training institutions, universities, hospitals and service delivery facilities continued in 2013. The sustained expenditure on public investment has enable to enhance the country's capacity, thereby helping to be in an advantageous position in the future in achieving higher economic growth. As a result of the continues public investment expenditure, the country's power generation capacity improved from 2,231 MW in 2002 to 3,371 MW in 2013, capacity of seaports increased from 4.3 million TEU in 2002 to 6.9 million TEU in 2013, passenger capacity of international airports increased from 3 million in 2002 to 7 million in 2013 along with the expansion of domestic airports, road density increased from 1.68 km per square kilo meter in 2002 to 1.76 km per square kilo meter in 2013 and water production capacity increased from 350 million cubic meters in 2005 to 547 million cubic meters in 2013. This public investment has also helped increase the access of the people to electricity to 96 percent, safe drinking water to 88.7 percent and greater access to transport, education and health facilities. The primary net enrolment ratio of the general education sector has grown to 98.4 percent (2012) from 97.2 percent in 2002. Public health facilities have also improved recording increases in the number of hospital beds (per 1,000 persons) to 3.6 from 3.1 in 2004, and nurses (per 10,000 persons) to 15.1 from 8.9 and persons per doctor declined to 1,167 from 2,224 in 2004. These infrastructure developments projects were conducive for the reduction of poverty to 6.7 percent in 2013 from 22.7 percent in 2002.

In 2013, the revenue deficit, the gap between the total revenue and the total recurrent expenditure, was Rs. 67.7 billion in comparison to Rs. 79.6 billion in 2012. As a percentage of GDP, the revenue deficit declined to 0.8 percent from 1.0 percent in the previous year. This was attributed to the containment of the recurrent expenditure in line with the revenue shortfall. The deficit in the revenue account, foreign grants of Rs. 15.9 billion and the capital expenditure and net landings of Rs. 464.2 billion resulted in an overall budget deficit of Rs. 516 billion in 2013 as against Rs. 489 billion in 2012. Nevertheless, the budget deficit as a percentage of GDP declined to 5.9 percent from 6.5 percent in 2012 continuing the gradual reduction for the fourth consecutive year from a much higher deficit of 9.9 percent recorded in 2009.

In financing the budget deficit, Rs. 448 billion (86.8 percent of the total financing or 5.2 percent of GDP) was obtained as net borrowings from domestic sources. Net domestic financing included investments by non-residents in government securities of Rs. 55.8 billion in 2013 compared to Rs. 106 billion in 2012. Foreign sources contributed to the balance Rs. 68 billion (13.2 percent of the total financing or 0.8 percent of GDP) of the total net financing.

Of the total net domestic financing, the net borrowings from the banking system increased to Rs.297 billion from Rs. 131.5 billion in 2012. Net bank financing in 2013 accounted for 66.3 percent of the total net domestic financing in comparison to 42.7 percent recorded in the previous year. This increase entirely came from the net new borrowings of Rs. 461.8 billion from commercial banks as there was a repayment to the Central Bank amounting to Rs. 164.8 billion by way of reduction in Treasury bills held by the Central Bank and the provisional advances from the Central Bank. The increase in borrowings from commercial banks was mainly due to an increase in Treasury bills and bonds held by commercial banks. As a percentage of GDP, net bank financing increased to 3.4 percent in 2013 from 1.7 percent in 2012.

Total net borrowings from non- bank sector increased to Rs. 95.4 billion compared to Rs.71 billion in 2012. As a percentage of the total domestic financing, it accounted for 21.3 percent in 2013, compared to 23 percent in the previous year. Employees Provident Fund (EPF), National Savings Bank (NSB) and Employees' Trust Fund (ETF) were the main contributors to the non-bank financing in 2013 as in the previous years. Net non-bank financing as a percentage of GDP increased to 1.0 percent in 2013 from 0.9 percent in 2012. Despite the increased borrowings from the domestic sources, the interest rates on government securities remained broadly stable as a result of the high excess liquidity prevailed in the domestic money market. When making domestic borrowings, the government increasingly relied on medium to long term marketable debt instruments such as Treasury bonds and also commenced the issuance of 30 year Treasury bonds in 2013.

On a gross basis, total foreign loan proceeds in 2013 amounted to Rs. 179.3 billion which were the disbursements related to the project loans received for public investment activities. As the repayments of foreign loans were Rs.111.4 billion, total foreign financing on a net basis amounted to Rs. 67.9 billion or 0.8 percent of GDP in 2013.

The government debt at the end of 2013 amounted to Rs 6,793.2 billion. This consisted of Rs. 3,832.8 billion of domestic debt and Rs. 2,960.4 billion of foreign debt. As a percentage of GDP, total debt in 2013 accounted for a 78.3 percent in comparison to 79.2 percent recorded in 2012. The reduction of debt from 105.6 percent of GDP in 2002 to 78.3 percent in 2013, a decline of 27.6 percentage points, was a reflection of the containment of the budget deficit from 9.9 percent in 2009 to 5.9 percent of GDP in 2013 and relatively high average real GDP growth rate of 6.7 percent. Meanwhile, there was a decline in the foreign debt in rupee terms by Rs. 25.5 billion in 2013 due to the variations in exchange rates while the domestic debt was affected by the increase in the discount factor (the net difference in the book value and the face value of issues and maturities of Treasury bills and Treasury bonds) mainly due to increased issuance of longer tenure government securities to reduce rollover risk.

Total domestic debt in 2013 amounted to 56.4 percent of the total debt. Reflecting the more reliance on domestic financing in 2013, the domestic debt to GDP ratio increased to 44.2 percent from 42.7 percent recorded in 2012. Of the total domestic debt, Rs. 2,923 billion or about 76.3 percent was with the maturity periods from medium to long term in comparison to 74.8 percent recorded in the previous year. The balance Rs. 909 billion or 23.7 percent was with a short term maturity periods, a decline from 25.2 percent recorded in 2012.

## 1.1 Government Revenue

The government revenue reflected an improved performance in 2013 with a turnaround of its declining trend experienced until June 2013. The circumstances which led to a weak tax revenue collection as a result of the lagged effect of the policy package adopted by the government in early 2012 to ensure the macroeconomic stability while allowing greater flexibility in the exchange rate to contain domestic demand and curtail import of selected items from excessive levels through credit restriction to manage the widening trade deficit, waned with the acceleration in economic activities during the second half of the year, complemented by the impetus from the gradual recovery of the global economy. Consequently, the revenue from all major taxes recorded increases except that from Ports and Airports Development Levy (PAL) and Economic Service Charge (ESC).

Total revenue increased by 8.2 percent in 2013 to Rs. 1,137.4 billion in comparison to Rs. 1,051.5 billion recorded in 2012. Total revenue which reflected a declining trend in the first half of the year increased in the second half of the year. The overall revenue performance was a combined effect of 10.7 percent increase in tax revenue to Rs. 1,005.9 billion and a 7.7 percent decline in the non-tax revenue to Rs. 131.6 billion over that of 2012. As a percentage of GDP, total revenue accounted for 13.1 percent in 2013, reflecting in a shortfall in comparison to the budgetary target of 14.7 percent in the wake of depressed import demand and the slowdown in domestic economic activities in the first half of 2013.

There was a buoyant growth of 19.2 percent in the revenue from income taxes in 2013. This reflected the consolidation of the impact of 2011 tax reforms introduced with the view to lowering tax rates and broadening the tax base. Tax revenue from wage income (PAYE) increased by 25.7 percent due to higher wage income and employment liable to such taxes, collection of such tax at source as final tax and improved compliance from employers despite the lower rate structure and higher threshold inbuilt in the tax system introduced in 2011. Tax on interest, imposed at source as the final tax, also recorded a higher growth in of 30.7 percent in 2013. Higher turnover and issuance of longer term government securities and growth of the deposit base in the banking and the financial system were mainly attributable for this increase. Tax on corporate and non-corporate income and profit also reflected an encouraging performance with an increase of 23.1 percent due to a buoyant performance of banking and financial institutions, insurance, import and export trade, tobacco and food beverages, manufacturing, tourism and services despite the impact of continued slowdown in credit growth during the year. What is unique is the high growth in income based tax revenue than consumption based indirect taxes, which is vital to raise the share of income tax in the overall tax revenue. Meanwhile, the revenue from ESC declined by 55.6 percent mainly due to the impact of increase of ESC threshold to Rs. 50 million per quarter to provide relief to SMEs, removing the ESC liability on the turnover of any business of which the profits are subject to income tax and the moratorium on the extension of tax holidays.

The revenue from indirect taxes on domestic economic activities also showed an improvement in line with the improved economic performance towards the second half of the year. Reflecting the systemic improvement under the single rate VAT at 12 percent as against the dual rate structure of 12 and 20 percent prevailed prior to 2011, tax revenue from VAT on domestic economic activities increased by 13.6 percent in 2013. Similarly, the revenue from Nation Building Tax (NBT) on domestic activities also increased by 9.4 percent. The volume decline in cigarettes and liquor affected the revenue from these commodities despite the increase in tax values on these commodities.

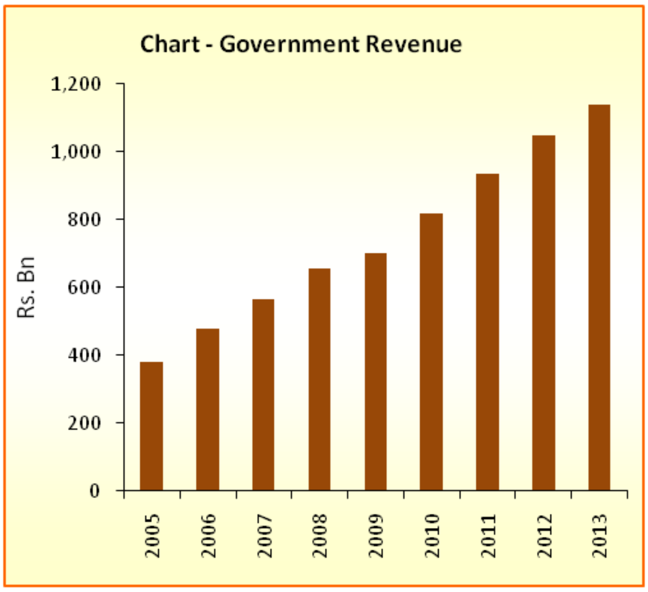


**Table 1.1 Variance Analysis of Government Revenue – 2013 (Rs. Mn)**

| Item | 2012 Actual | 2013 Prov. | Reason |
|---|---|---|---|
| Income Tax | 172,593 | 205,666 | There was a notable increase in revenue from Pay-As-You-Earn (PAVE) tax due to high wages, enhanced employment in high earning categories, improved compliance and expanded base with the inclusion of public sector employees. As a result of growing private sector activities, corporate income tax also increased. Issuance of Treasury Bonds and Treasury Bills in high volumes resulted in a tax on interest indicating a positive growth. However, the decline in the |

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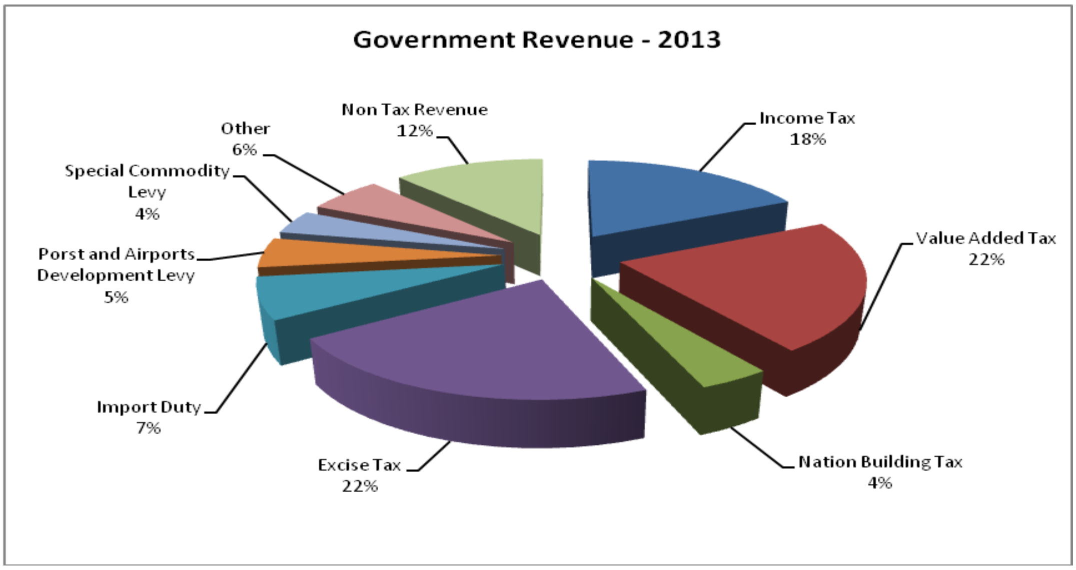
|---|---|---|---|
| | | | tax revenue from ESC mainly contributed to lower than expected revenue from income tax. |
| Value Added Tax (VAT) | 229,604 | 250,523 | Imposition of VAT on wholesale and retail trade and better performance in certain sectors such as hotels, restaurants and catering services and manufacturing sector coupled with the decline in VAT cash refunds with the introduction of SVAT system helped to increase the VAT revenue from domestic activities. However, decline in imports due to policy measures taken in early 2012 to address the BOP issues including higher excise tax, credit restrictions and exchange rate depreciation and the resulted decline in imports affected negatively on the growth in VAT on imports. |
| Excise Tax | 223,960 | 250,700 | The upward revision of excise duty on liquor, cigarettes & tobacco products and higher values of motor vehicle imports, helped improved revenue from this source. However, the decline in the excise duty from petroleum products and other sources had a negative impact. |
| Import Duty | 80,155 | 83,123 | Decline in the import of dutiable goods had a negative impact on the revenue from this source. However, the reduction of the duty waver on milk powder imports to promote the local dairy production and the increase of import duty on beer and alcohol spirits, cigarettes and tobacco products contributed positively to the revenue from import duty. |
| Ports and Airports Development Levy (PAL) | 70,711 | 61,987 | Decline in the overall imports mainly resulted in a drop in the revenue from PAL. |
| Nation Building Tax (NBT) | 38,736 | 40,937 | The improvement of activities related to manufacturing sector including food, beverages, metal products and services including hotels, restaurants and commercial banking activities and the boost in tourism industry of the country were the major factors attributable to the growth in NBT revenue from domestic sources compared to 2012 despite the negative impact due to the |

| | | | |
|---|---|---|---|
| | | | increase of NBT threshold of all the business. However, the overall decline in the imports and the provision of certain exemptions resulted in a drop in NBT revenue from imports thereby lowering the total revenue compared to the estimate. |
| Other Taxes | 93,749 | 112,958 | Increased revenue from Special Commodity Levy (SCL) due to the adding up of new commodities to the SCL list and the rate revisions carried out to encourage domestic production in selected commodities as well as the increase in the revenue from Telecommunications Levy mainly contributed to the increase compared to previous year. However, decline in total imports, resulted in a deviation in the actual revenue from SCL and CESS from the estimate. |
| Non Tax Revenue | 142,547 | 131,553 | Despite the increase in revenue from sales and charges, the decline in profit transfers from Central Bank of Sri Lanka and other SOBEs attributed mainly to the decline in the non tax revenue compared to previous year. |

## 2. Performance of Year 2013

### 2.1 Review of the progress of Government revenue while maintaining a proper co-ordination with all departments engaged in revenue collection

The government revenue in 2013 was Rs.1,137.4 billion which was an increase of 8.2 percent compared to Rs.1,015.5 billion in 2012. Out of the total government revenue, Rs.1,005.9 billion was tax revenue while the non-tax revenue amounted to Rs.131.6 billion.




## 2.2 Summary of Government Revenue

**Rs. Mn**

| Item | 2012 | 2013 |
|---|---|---|
| **Tax Revenue** | **908,913** | **1,005,895** |
| Income Tax | 172,593 | 205,666 |
| Value Added Tax | 229,604 | 250,523 |
| Nation Building Tax | 38,736 | 40,937 |
| Excise Tax | 223,960 | 250,700 |
| Import Duties | 80,155 | 83,123 |
| Ports & Airports Development Levy | 70,111 | 61,987 |
| Special Commodity Levy | 33,666 | 46,705 |
| Other | 60,088 | 66,255 |
| **Non Tax Revenue** | **142,547** | **131,552** |
| Interest / Rent | 11,686 | 11,955 |
| Profit and Dividends | 46,761 | 36,169 |
| Sales and Charges | 26,019 | 40,720 |
| Social Security Contributions | 11,738 | 15,145 |
| Central Bank Profit Transfers | 43,000 | 26,350 |
| Other | 3,343 | 2,173 |
| **Total Revenue** | **1,051,460** | **1,137,447** |

## 2.3 Amendments to the legislations as per the policy decisions taken by the government from time to time

### 2.3.1 Gazette Notifications published during the year 2013, by this department are as follows;

#### (i) Excise (Special Provisions) Act

- Excise (Special Provisions) Act, No. 13 of 1989 (Gazette Notification No. 1793/5 of 15.01.2013) – To amend the conditions granted to reduce the applicable taxes as per the 2012 budget proposal, on a motor vehicle imported as a replacement of a motor vehicle which is used to transport air passengers from and to airports by any Airport Taxi Operator who holds a valid permit issued by the Airport and Aviation Services (Sri Lanka) Ltd.

- Excise (Special Provisions) Act, No. 13 of 1989 (Gazette Notification No. 1821/1 of 29.07.2013) – To increase the excise duty on cigars, cheroots, cigarillos and cigarettes of tobacco or of tobacco substitutes and to increase excise duty to 27% from 12% for vehicles with separate bodies for cabin and cargo area (crew cabs), to 29% from 15% for vehicles exceeding 5 tons but not exceeding 20 tons and to 35% from 20% for vehicles exceeding 20 tons mainly to minimize the anomalies of tax rates of motor vehicles for transport of goods and to ensure more contribution from those vehicles to maintain the national road network.

- Excise (Special Provisions) Act, No. 13 of 1989 (Gazette Notification No. 1837/29 of 21.11.2013) - To implement budget proposals – 2014 with regards to introduce national sub headings and revise descriptions of identified HS Codes, revise excise duty rates of HS Codes, 2710.12.20, 2710.19.40, 8704.21.51, 8704.21.52, 8704.31.41 and 8704.31.42 and to adjust excise duty rates of chapter 87 to make revenue neutral with the downward revision of customs duty rates.

#### (ii) Cess

- Export Development Act, No. 40 of 1989 (Gazette Notification No. 1794/9 of 2013.01.22) - To reduce the Import Cess rates on unbleached cotton woven fabrics to Rs. 75 per kg and other fabrics to Rs. 100 per kg to encourage domestic processing in apparel industry using imported unprocessed raw material.

- Export Development Act, No. 40 of 1989 (Gazette Notification No. 1794/10 of 2013.01.22) - To revise Export Cess on bulk tea as Rs.10/= per kg or 2.5% of the Colombo tea Auction average price, whichever is higher. Colombo Tea Auction average price is determined for each month by the Director General of Customs in consultation with the Director General of Sri Lanka Tea Board and will come into effect from the first day of the month and is computed by taking the average prices of the Colombo Tea Auction during the immediately preceding consecutive two months prior to one month from the effective date.

- Export Development Act, No. 40 of 1989 (Gazette Notification No. 1837/30 of 2013.11.21) - To revise Cess on Dairy Products, Vegetables and Fruits, Food items, Steel Products, Furniture etc. to promote local value addition and to remove Cess on Designer Pens and ties and bows in order to promote branded items for international shopping.

- Export Development Act, No. 40 of 1989 (Gazette Notification No. 1837/31 of 2013.11.21) - To introduce a Cess on the export of Pepper, Cinnamon, Clove and Nutmeg in order to encourage local value added exports.

**(iii) Excise Ordinance**

- Excise Notification No. 957 (Gazette Notification No. 1804/16 of 2013.04.03) - To amend the Excise duty on import/local manufacturing of spirit (Ethyl Alcohol) to be used by Government approved research and Educational Institutions, Hospitals and Government Departments, Spirit (Ethyl Alcohol) to be used in the Production of Medicinal preparations and Industrial Products which are final products that do not subject to payment of Excise Duty, manufacturing of Alcohol and Impure Ethyl Alcohol spirits (Technical spirits/ weak spirits).

- Excise Notification No. 958 (Gazette Notification No. 1821/3 of 29.07.2013) - To increase the Excise Duty charged for the supply of locally manufactured or import of Spirits (Ethyl Alcohol) up to 20,000 liters per month to be used by Government approved research and educational institutions, hospitals and Government Departments and supply of locally manufactured or imported Spirit (Ethyl Alcohol) up to 20,000 liters per month to be used in the production of medical preparations and industrial products, which are final products that are not subject to payment of Excise Duty and the Excise Duty charged for the supply of locally manufactured or import of Impure Ethyl Alcohol Spirits (Technical Spirits/ Weak Spirits) for each liter as specified in the schedule to this gazette notification.

- Excise Notification No. 959, 960 and 961 (Gazette Notification No. 1821/4 of 29.07.2013) - To increase the Excise Duty charged for Molasses, Palmyra, Coconut and Processed Arrack from Rs, 1,043.00

to Rs, 1,110.00 per proof liter, to increase the Excise Duty on Country Made Foreign Spirits manufactured in Sri Lanka from Rs. 1,183.00 to Rs. 1,250.00 per proof liter, to increase the Excise Duty on Malt liquor of less than 5% of absolute strength from Rs. 100.00 to Rs. 110.00 per every liter and to increase the Excise Duty on Malt liquor of more than 5% of absolute strength from Rs. 116.00 to Rs. 130.00 per every liter with effect from 31.07.2013.

**(iv) Ports and Airports Development Levy**

- Ports and Airports Development Levy Act. No. 18 of 2011 (Gazette Notification No. 1837/46 of 2013.11.22) - To exempt the payment of Ports and Airports Development Levy on importation of Petroleum oils and obtained from bituminous minerals, goods under the specified HS Codes, other products including glands and other organ for organ therapeutic uses, dried, whether or not powdered; extracts of glands or other organs or of their secretions for organo-therapeutic uses, human blood: animal blood prepared for therapeutic, prophylactic or diagnostic uses, immunological products, medicaments (excluding goods of heading 30.02,30.05 or 30.06) and on importation of Pharmaceutical goods and exemption of Aircraft launching gear; deck arrestor or similar gear.

**(v) Notifications under the Finance Act**

- The Finance Act No. 12 of 2012 (Gazette Notification No. 1818/30 of 11.07.2013 (Commercial Hub Regulation No. 1 of 2013) - To provide the followings, in respect of the implementation of the proposal in Budget 2013.

  a) to publish regulations to form the basis in which the guideline and approval would be granted

  b) to determine the scope of the exemption to be granted and

  c) to declare the relevant areas to be brought under the Acts

  The main aim of this is to extend business activities in Free Ports and Bonded Areas and to promote foreign investments.

  Provisions relating to the agreements to be entered into by enterprises with the BOI, the approved business activities for such enterprises, the investment criterion and provisions to exempt the imposition of taxes as well as the provisions in respect of free port and designated bonded areas specified in this Gazette.

- Order under Section 15 of the Finance Act, No. 12 of 2013 (Gazette Notification No. 1824/23 of 23.08.2013) - To introduce one per centum of Crop Insurance Levy on profit after tax, of Banks, Financial Agencies and Insurance Agencies. The income of this fiscal levy is used for payment of compensation to farmers on damaged crops due to drought, floods and wild elephants.

**(vi) Stamp Duty**

- Order under Section 3, Stamp Duty (Special Provisions) Act, No. 12 of 2006 (Gazette Notification No. 1809/19 of 10.05.2013) - To reduce the Stamp Duty rate applicable on an Affidavit from Rs. 250/- to Rs. 50/-.

**(vii) Inland Revenue Act**

- The Inland Revenue Act No. 10 of 2006 (Gazette Notification No. 1823/5 of 12.08.2013) - To amend the regulations of Transfer Pricing Regulations on International Transactions and Transfer Pricing Regulations on Transactions other than International Transactions.

- The Inland Revenue Act No. 10 of 2006 (Gazette Notification No. 1828/9 of 17.09.2013) - To publish Agreement for Affording Relief from Double Taxation and Prevention of Fiscal Evasion between Sri Lanka and India.

- The Inland Revenue Act No. 10 of 2006 (Gazette Notification No. 1837/13 of 20.11.2013) - To publish Agreement for Affording Relief from Double Taxation and Prevention of Fiscal Evasion between Sri Lanka and Belarus.

- The Inland Revenue Act No. 10 of 2006 (Gazette Notification No. 1837/14 of 20.11.2013) - To publish Agreement for Affording Relief from Double Taxation and Prevention of Fiscal Evasion between Sri Lanka and Seychelles.

- The Inland Revenue Act No. 10 of 2006 (Gazette Notification No. 1838/8 of 26.11.2013) - To publish Agreement for Affording Relief from Double Taxation and Prevention of Fiscal Evasion between Sri Lanka and Palestine.

- The Inland Revenue Act No. 10 of 2006 (Gazette Notification No. 1838/19 of 26.11.2013) - To publish Agreement for Affording Relief from Double Taxation and Prevention of Fiscal Evasion between Sri Lanka and Luxembourg.

**(viii) 8 Gazette Notifications under Fiscal Management (Responsibility) Act No. 03 of 2003.**

- Fiscal Management (Responsibility) Act, No. 3 of 2003 (Gazette Notification No. 1812/28 of 31.05.2013) - To publish the Annual Report of Ministry of Finance and Planning - 2012.
- Fiscal Management (Responsibility) Act, No. 3 of 2003 (Gazette Notification No. 1817/27 of 02.07.2013) - To publish the Mid Year Fiscal Position Report - 2013.
- Fiscal Management (Responsibility) Act, No. 3 of 2003 (Gazette Notification No. 1837/32 of 21.11.2013) - To publish the Fiscal Management Report – 2014.

**2.3.2. Act amendments published in the year 2013 by this department are as follows;**

- Value Added Tax (Amendment) Act, No. 17 of 2013
- Inland Revenue (Amendment) Act, No 18 of 2013
- Finance (Amendment) Act, No. 12 of 2013
- Nation Building Tax (Amendment) Act, No. 11 of 2013
- Economic Service Charge (Amendment) Act, No. 6 of 2013
- Ports and Airports Development Levy (Amendment) Act, No. 5 of 2013
- Excise (Amendment) Act, No. 7 of 2013
- Telecommunication Levy (Amendment) Act, No. 8 of 2013
- Notaries (Amendment) Act, No. 13 of 2013
- Powers of Attorney (Amendment) Act, No. 14 of 2013
- Fiscal Management (Responsibility) (Amendment) Act, No. 15 of 2013
- Tax Appeals Commission (Amendment) Act, No. 20 of 2013
- Betting and Gamming Levy (Amendment) Act, No. 19 of 2013
- Strategic Development Projects (Amendment) Act, No. 16 of 2013
- Registration of Documents (Amendment) Act, No. 21 of 2013
- Marriage Registration (Amendment) Act, No. 22 of 2013

- Kandyan  Marriage and Divorce (Amendment) Act, No. 23 of 2013
- Muslim Marriage and Divorce (Amendment) Act, No. 24 of 2013
- Births and Deaths  Registration (Amendment) Act, No. 25 of 2013

**2.4** In year 2013, several Cabinet memorandums were submitted by the Hon. Minister of Finance and Planning in respect of fiscal policy matters. Further, observations were prepared by this Department with regard to the Cabinet Memorandums submitted by members of the Cabinet of Ministers in relation to the Fiscal Policy matters in which Hon. Minister of Finance and Planning has to submit observations.

**2.5 Submission of draft bills related to different taxes and gazette notifications to the Parliament and their follow up actions.**

- Co-ordination with the Department of Legal Affairs – Ministry of Finance & Planning, Legal Draftsman's Department, Hon. Attorney-General, Commissioner General of Inland Revenue, Government Printer and the Parliament in respect of amendments made to the tax legislations.

- Relevant gazette notifications related to the revision of different taxes charges were published in the year 2013.

**2.6 Review of all revenue sources, collection and preparation of revenue data, supervision of revenue estimates and cash flow position.**

- The revenue estimates for the year 2014 were prepared in consultation with the Revenue Departments.

- Four Fiscal Policy Committee meetings were held (on quarterly basis) with the participation of the Secretary to the Treasury, Deputy Secretaries to the Treasury, Department Heads of the Treasury / Heads of the Revenue Collecting Departments and other relevant institutions.

- The progress of the revenue collection was supervised through monthly revenue reports and collection of special information while analyses on the revenue performance required for various policy decisions were also conducted.

**2.7 Publication of relevant reports in terms of Fiscal Management (Responsibility) Act, No 03 of 2003.**

- **Annual Report - 2012**

  The Final Budget Position Report (Annual Report) is required to submit to the Parliament and issue for the general public before the expiry of five months from the end of the financial year. Accordingly, the Annual Report 2012 was published in May 2013.

- **Mid Year Fiscal Position Report – 2013**

  The report is required to be issued annually on the last day of June of the relevant year or before the expiry of 6 months of passing the Appropriations Bill whichever comes later. Accordingly, the Mid Year Fiscal Position Report for the year 2013 was published in June, 2013.

- **Fiscal Management Report – 2013**

  Fiscal Management Report 2013 consisted with Fiscal Strategy Statement under the Section 4,5 and 6; and Budget, Economic and Fiscal Position Report 2013 under the Section 7,8 and 9; of Fiscal Management (Responsibility) Act, No. 03 of 2003 was published in November, 2013.

# 3. Administration and Accounts

## 3.1 Organizational Structure

The Department of Fiscal Policy consists of an approved cadre of 65. Accordingly, the following staff serves in the Department.

**Details of the Staff – 2013 (As at 31.12.2013)**

| Designation | Approved Cadre | Existing Cadre | Vacant |
|---|---|---|---|
| Director General – SLAS | 01 | 01* | - |
| Additional Director General - SLAS | 01 | - | 01 |
| Director | | | |
| SLAS | 02 | 01 | 01 |
| SLPS | 01 | 01*** | - |
| Senior Economist | 01 | - | 01 |
| Deputy Dir. / Assistant Dir. - SLAS | 09 | 04 + 01**+ 01*** | 03 |
| Deputy Dir. /Assistant Dir. - SLPS | 04 | 04 | - |
| Deputy Dir. / Assistant Dir. - SLAcS | 01 | 01 | - |
| Economist | 01 | - | 01 |
| Statistician | 01 | - | 01 |

| | | | |
|---|---|---|---|
| Administrative Officer | 01 | 01 | - |
| Translator | 02 | 01 | 01 |
| Research Assistant | 06 | 03 | 03 |
| Development Assistant | 06 | 03 | 03 |
| Public Management Assistant | 13 | 07 | 06 |
| Driver | 06 | 03 | 03 |
| OES | 09 | 07 | 02 |
| **Total** | **65** | **39** | **26** |

* Within the existing cadre, an officer from the Central Bank of Sri Lanka is working in this Department as the Director General.

** Further, this department receives the service of Inland Revenue Service, Senior Assessor as a Deputy Director.

*** Presently on overseas study leave.

This Department also receives the service of a Tax Advisor who is from the Department of Inland Revenue.

### 3.2 Human Resource Development

The department staff has provided with the opportunity to improve their skills and abilities through the participation in both local and foreign training which will be useful in improving the efficiency and the productivity of the department. The local and overseas training provided to the staff in 2013 is as follows;

### 3.2.1 Local Training /Conferences

| Name | Designation | Programme & the Institute | Duration |
|---|---|---|---|
| J.M.S.N.Jayasingha | Director | Academy of Financial Studies - Seminar on Public Financial Management | 22nd to 24th April 2013 |
| Miss. K.A.Ramya Kanthi | Director | CBS - Treasury & Foreign Exchange Operations | 29th July to 01st August 2013 |
| Mr. S.P.Kiriwaththuduwage | Assistant Director | Fiscal Management Efficiency Project - Capacity Building Program on ITMIS | 26th February 2013 |

| | | | |
|---|---|---|---|
| Miss.H.D.A.Rukshini | Assistant Director | Academy of Financial Studies - Seminar on Public Financial Management | 22nd to 24th April 2013 |
| | | PRAG Institute - VAT & SVAT | 19th July 2013 |
| Mrs. W.H.A. Wimalajeewa | Assistant Director | Chartered Institute of Public Finance & Account (CIPFA/London) - Awareness Programme on Sri Lanka Pubic Sector Accounting Standards (SLPSAS) | 10th June 2013 |
| | | Institute of chartered Accountants of SL - National Conference of the Chartered Accountants | 24th to 26th October 2013 |
| Mr. A.W.M.A. Anuradha Thilakarathna | Assistant Director | Fiscal Management Efficiency Project - Capacity Building Program on ITMIS | 26th February 2013 |
| Mrs. M.A.N.C. Perera | Assistant Director | PRAG Institute - VAT & SVAT | 19th July 2013 |
| Mrs. H.F.P.Fonseka | Administrative Officer | NILS -Disciplinary Training Program | 22nd, 23rd & 24th April 2013 |
| Mrs.C.K.Vithana | Development Assistant | Certificate Course in English for Employment Purposes (CEEP) - 2013 | Two and half months from 12th May 2013 (every Thursday) |
| Mrs. W.M.M.P. Perera | Public Management Assistant | SLIDA - Certificate Course in English for Employment Purposes (CEEP) - 2013 | Two and half months from 12th May 2013 (every Thursday) |
| Mrs. T.P. Ariyathilaka | Public Management Assistant | SLIDA - Certificate Course in English for Employment Purposes (CEEP) - 2013 | Two and half months from 12th May 2013 (every Thursday) |
| Mrs. S.W.S.N. Dilanthika | Public Management Assistant | SLIDA - Certificate Course in English for Employment Purposes (CEEP) - 2013 | Two and half months from 12th May 2013 (every Thursday) |
| | | SDFL - Office Management & Office Procedures | 26th & 27th November 2013 |

| | | | |
|---|---|---|---|
| Mrs. A.D.Udagahapaththuwa | Public Management Assistant | SDFL - Office Management | 25th & 26th June 2013 |
| | | SDFL - Office Management & Office Procedures | 26th & 27th November 2013 |
| Mrs. N.A.Swarnalatha | Public Management Assistant | Department of State Accounts - Public Sector Accounting Software | 24th June 2013 |
| Mrs. W.N.D.Silva | public Management Assistant | SDFL - Annual Stock Verification and Disposal Procedures | 12th & 13th August 2013 |
| | | SDFL - Office Management & Office Procedures | 26th & 27th November 2013 |
| Mrs. C.Y. Ranasinghe | Public Management Assistant | SLIDA - Certificate Course in English for Employment Purposes (CEEP) - 2013 | Two and half months from 12th May 2013 (every Thursday) |

### 3.2.2 Foreign Training/Conferences

| Name | Designation | Programme & the Country | Duration |
|---|---|---|---|
| Mr.K.M.Mahinda Siriwardana | Director General | IMF - IMF/WB Spring Meetings in Washington DC, USA | From 16th to 23rd of April 2013 |
| | | SAARC Finance Group Meeting & Governors' Symposium, Islamabad, Pakistan | From 17th to 19th of June 2013 |
| | | National University of Singapore - Training Program on E-Governance and Change Management for Senior Level | From 17th to 25th of August 2013 |
| Miss.D.G.P.W. Gunathilaka | Tax Advisor | Kuala Lumpur, Malaysia - IRBM - OECD Tax Policy Analysis | From 18th to 22nd of February 2013 |

| | | | |
|---|---|---|---|
| | | National University of Singapore - Training Program on E-Governance and Change Management for Senior Level | From 20th to 28th of April 2013 |
| Miss. K. A. Ramya Kanthi | Director | National University of Singapore - Executive Training Program | 01st to 05th July 2013 |
| | | USA Treasury Department - International Visitor Leadership Program in USA on "Taxation : Granting Funds" | 09th to 13th September 2013 |
| Mr.H.S.S.Kumara | Deputy Director | IMF, Singapore Center - Macroeconomic Diagnostics | 03rd to 15th March 2013 |
| | | ADB HQ in Manila, Philippines - An International Forum on Skills for Inclusive and Sustainable Growth in Developing Asia Pacific | 09th to 13th December 2013 |
| Mr. M.K.C.Senanayake | Assistant Director | Ph.D. Programme in Economics at the University of New South Wales -Australia | from 2011 to 04th December 2014 |
| Mr. S.P.Kiriwaththuduwage | Assistant Director | Asian Development Bank - 46th Annual Meeting of the Board of Government - Delhi, India | 02nd to 05th of May 2013 |
| | | National University of Singapore - Executive Training Program | 01st to 05th July 2013 |
| Mr.A.W.M.A.A. Thilakarathna | Assistant Director | IMF - Forth High Level Tax Conference for Asian Countries in Tokyo, Japan | From 02nd to 04th April 2013 |
| | | National University of Singapore - Executive Training Program | 01st to 05th July 2013 |
| | | Minsk, Belarus - Proposed Negotiations | 05th to 09th August 2013 |

| | | | |
|---|---|---|---|
| | | on the Draft Agreement for Avoidance of Double Taxation and Prevention of Fiscal Evasion | |
| | | Singapore - Negotiations on Avoidance & Double Taxation | 21st to 25th October 2013 |
| Mrs.M.A.N.C. Senevirathne | Assistant Director | JDS, Japan - Macro Economics and Development Economics | 22nd August 2013 to October 2015 |
| Miss.H.D.A.Rukshini | Assistant Director | KOICA - Korea - Knowledge Sharing Program (KSP) of Korea Interim Report Workshop | 14th to 20th January 2013 |
| | | Warsaw, Poland - Negotiation for the revision of the Agreement on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion | 30thNovember to 08th December of 2013 |

**3.3 Financial Administration**

Provisions for 2013 have been made to this department under budget estimates Head 238 and the utilization of such provisions is as fallows.

**(i) Utilization of Budgetary Provisions 2013**

| Description of Expenditure | 2013 Estimate Rs. | 2013 Net Provisions Rs. | 2013 Actual Expenditure Rs. |
|---|---|---|---|
| **Recurrent expenditure** | **98,625,000** | **97,425,000** | **68,356,153.58** |
| Personal Emoluments | 25,600,000 | 26,250,000 | 20,764,926.17 |
| Traveling Expenses | 1,100,000 | 3,300,000 | 3,266,465.81 |
| Supplies | 2,475,000 | 2,475,000 | 1,806,287.05 |
| Maintenance Expenses | 2,400,000 | 2,430,000 | 1,791,829.14 |

| | | | |
|---|---|---|---|
| Contract Services | 66,700,000 | 62,620,000 | 40,400,979.28 |
| Transfers and Others | 350,000 | 350,000 | 325,666.13 |
| **Capital Expenditure** | **900,000** | **2,100,000** | **1,855,424.76** |
| Rehabilitation and Improvements | 100,000 | 200,000 | 127,395.00 |
| Acquisitions | 500,000 | 1,500,000 | 1,360,029.76 |
| Capital Transfers | - | - | - |
| Skill Development | 300,000 | 400,000 | 368,000.00 |
| **Total** | **99,525,000** | **99,525,000** | **70,211,578.34** |

**(ii) Advance Account of Public Servants**

The details of the advance account of the Public Servants of this department for the year 2013 are given below.

| Description | Approved Limit (Rs.) | Actual Limit (Rs.) |
|---|---|---|
| Maximum Expenditure Limit | 3,000,000.00 | 1,222,471.00 |
| Minimum Receipt Limit | 1,000,000.00 | 1,169,046.11 |
| Maximum Debt Balance Limit | 10,000,000.00 | 6,270,720.99 |

**(iii) Audit Queries**

04 audit queries from the Department of Management Audit of the Ministry of Finance & Planning and 03 audit queries from the Auditor Generals Department, received in 2013, were answered.